

Rundheersing Bheenick: 2010 – annus horribilis and coping strategies

Letter by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, to stakeholders, Bank of Mauritius, Port Louis, 27 January 2011.

The original speech, which contains various links to the documents mentioned, can be found on the Bank of Mauritius' website (<http://bom.intnet.mu>).

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Dear Stakeholders,

1. Labelling 2010 “*annus horribilis*” does not even begin to do justice to the range and depth of “nasties” that this fateful year unleashed on us. Impervious to the concerted battery of policies and measures – many unusual and unconventional – rolled out to combat it, the global economic crisis raged on and completed its 4th year. The sovereign debt crisis in the Eurozone periphery which hit the world in April 2010 gave still another dimension to the global crisis, adding to the woes generated by the US subprime mortgage crisis in 2007, the British Northern Rock fiasco in 2008, and the global Lehman Brothers debacle in 2009. Closer to home, the “considerable internal turbulence” that I wrote about in my last Letter to Stakeholders of 28 January 2010 emerged into a full-blown crisis before the ink was dry. Within a fortnight, I found myself, as ex-Governor, embattled and embroiled in a very public Fact Finding Committee while the Bank found itself without a substantive Governor for three months.

2. As things turned out, my good name was cleared by the Fact Finding Committee and I was entrusted a second mandate. My position was further comforted by a landmark judgment from the Supreme Court whose ruling augurs well for good governance at the Bank. I am therefore delighted to be able to share with you, just as I have been doing for the past three years, the highlights of the past year, and my own reflections on developments in the banking sector and the economy at large.

3. Terms like “exceptional” or “extraordinary” have been used to describe the times which the financial world has been going through. As new challenges keep coming up, the “extraordinary” seems set to become the “new normal”. During most of 2010, the Bank of Mauritius Tower continued to battle strong headwinds and stormy waves, struggled to keep the country’s financial and monetary affairs in order, and contributed its share to the national effort to keep the economy on an even keel. At the helm of the Bank, I could feel the weight of the responsibility and the immensity of the task of steering the institution through these rough seas to calmer waters. Governing is not an easy job and will never be – these days central bank Governors are all in it together or as the French would say: *Nous sommes tous logés à la même enseigne!* Fellow-Governors would no doubt understand my plight! The story goes that King Solomon had tasked a servant with the specific job of whispering to him constantly – irrespective of whether things were going well or badly – “This too will pass.” Challenging as the current situation may be, we can confidently say that this too will pass but, when it passes, it is extremely unlikely that we shall revert to the *status quo ante*.

4. The economy, global or domestic, did not improve much compared to last year. After some signs of recovery at the end of 2009, the global economy was hit by another outbreak – the euro debt crisis which brought with it a fresh wave of uncertainty and heightened risk aversion. Global economic recovery turned out to be slow and uneven. Unemployment stayed persistently high. Consumer demand in our main export markets stayed weak. Our small and vulnerable economy continued to suffer from the slowdown in our main markets; driven by foreign direct investment inflows, our currency appreciated; our export operators shouted their “misery” at the top of their voice, casting a pall of pessimism over the business community. Policymakers moved decisively and in concert to take steps to revitalize the economy.

5. The Bank embarked this year on an unconventional journey and was quite innovative. When exporters started complaining about exchange rate volatility, we introduced foreign currency swaps to help exporters mitigate their foreign exchange risk. When we suspected that the foreign exchange market was not functioning as it should have been, we initiated a forensic investigation and ended up supplying foreign exchange directly to the largest domestic buyer of foreign currency. We came up with measures such as Special Deposits and revised our approach to monetary operations; in addition to the usual short-term Bank of Mauritius Bills, we introduced Bank of Mauritius Notes of longer-term maturity to deal with the unprecedented level of excess liquidity in the system, itself accentuated by a mis-timed net redemption of Treasury paper. The Monetary Policy Committee boldly slashed the Key Repo Rate by a full percentage point at the first sign of further slackening of domestic economic activity expected in Q1 2011. The Bank took the parallel decision to raise the Cash Reserve Ratio from 5 per cent to 6 per cent. These policy actions were meant to complement the Economic Restructuring and Competitiveness Programme put in place by Government to foster and support long-term restructuring and deleveraging of firms in the export-oriented sectors. Towards the end of the year, the Finance (Miscellaneous Provisions) Act 2010 brought significant changes to the Banking Act 2004 and the Bank of Mauritius Act 2004, which gave the Bank more room for manoeuvre.

6. In the press and among other economic commentators, much scepticism was expressed about the merits of some of our initiatives. Doubts were cast on the likely effectiveness of our policies. There was unrelenting pressure, beyond the business lobby, to rejig our exchange rate regime and depreciate the rupee. We maintained a firm and principled stand, focusing on price stability and its corollary, distributional neutrality. In the circumstances, our exchange rate regime proved robust – our rupee showed relative stability in the second half of the year, in contrast with the currency manipulation going on in other parts of the world. The historically-low inflation rates recorded during the year are another success story. Our banking sector remained one of the drivers of growth in the economy and, except for the tenacious excess liquidity, there were no signs of instability in the financial system. These contributed to lift business sentiment in the country in H2 2010.

7. Let me give a brief overview of the main developments of the past year. As in previous Letters to Stakeholders, some of the issues are explored in greater detail in the links at the end of the relevant paragraphs.

8. **Economy** The Mauritian economy maintained a commendable growth path despite a challenging external and internal environment. In 2010, the economy grew by 4.2 per cent, not much below the trend rate and significantly higher than the 3.1 per cent of 2009. The “Construction”, “Hotels and Restaurants”, “Transport, Storage and Communications” and “Financial Intermediation” sectors remained the main drivers of growth. The unemployment rate barely moved, rising from 7.3 per cent in 2009 to 7.5 per cent in 2010, in sharp contrast with rising joblessness in many advanced economies. We expect a growth rate of 4.2 per cent in 2011. This would depend on recovery in our main trading partners but could be faster if we succeed in reducing our export-dependence on slow-growing traditional partners. The time is ripe to develop a new economic model for Mauritius, more resilient to future shocks, and able to provide a firmer foundation for sustainable growth.

9. **Monetary Policy** Over the past year or so, the Monetary Policy Committee (MPC) attained its cruising speed. The inclusion of two distinguished foreigners as members of the MPC brought an international perspective and provided additional insights to enrich the deliberations of the Committee. Decisions were taken most of the time either by consensus or by unanimity, reflecting the growing maturity of the MPC while avoiding group-think. MPC members are functioning as one entity. This enabled the MPC to maintain a stable monetary policy stance for 18 months. Thus the Bank achieved with success its mandate of maintaining price stability. We brought down the headline inflation rate from 8.5 per cent in March 2009 to 2.3 per cent in January 2010, the period over which the Key Repo Rate (KRR) had been kept on hold at 5.75 per cent. We succeeded in containing inflation below 3 per

cent until November 2010, with an expected surge in December in the wake of rising commodity prices.

10. At its September 2010 meeting, after weighing the risks to the growth and inflation outlook over the policy-relevant horizon, the MPC decided unanimously to cut the KRR by 100 basis points to support domestic recovery. We were swimming against the tide as many emerging country Central Banks had already started monetary tightening while others were on hold. The MPC left the policy rate unchanged at its last meeting of the year in December. The significant monetary easing provided additional support to the on-going economic restructuring and gave exporters of goods and services breathing space to embark on a major drive to improve productivity, diversify products and markets, and enhance national competitiveness.

11. Monetary policy formulation is a task that requires constant upgrading of skills and knowledge to stay ahead of the curve. This year, with technical assistance from the IMF, we embarked on the development of a macroeconomic model to provide greater consistency in policy advice and risk analysis, and help in the process of monetary policy decision-making. After three years of operating experience, the MPC is ripe for a review of its composition, methods and procedures. As the year ended, we were finalising details for hiring an independent consultant to carry out this exercise. I have no doubt that the review would lead to a stronger and more transparent MPC, with greater focus on the real economy and its intricacies, and clarify the role of the central bank in preserving macroeconomic and financial stability.

12. **Financial and Money Market** Excess liquidity continued to plague the banking system during the year. The resulting aggressive bidding for Treasuries drove short-term yields to all time-lows, accentuating the disconnect with the KRR. Two reasons can account for this unprecedented level of excess liquidity: (i) the substantial net redemption of Government securities and (ii) the slowdown in the pace of credit growth in the wake of slackening economic activity.

13. To contain the growing level of excess reserves, we revisited our approach to monetary operations with the introduction of new longer-term Bank of Mauritius instruments. In August and September 2010, we issued Bank of Mauritius Bills with maturities of 91-Day, 182-Day and 364-Day and Bank of Mauritius Notes of 2-Year, 3-Year and 4-Year maturities. Furthermore, we increased the Cash Reserve Ratio on two occasions, from 4.50 per cent to 5.00 per cent in mid-June 2010, and to 6.00 per cent in October 2010. With the implementation of these measures, banks' excess reserves briefly returned to normal levels. They started increasing again in December.

14. **Domestic Foreign Exchange Market** Towards the end of 2009, the volume of transactions on the domestic spot foreign exchange market declined, causing some volatility in the market. We viewed the situation as being exceptional enough to warrant our intervention to maintain orderly conditions in the market. This led the Bank to devise foreign currency swaps facilities tailor-made for the needs of the export-oriented sectors, to inject liquidity in the market, thereby avoiding the build-up of uncertainty in the system and hampering economic activity.

15. With the introduction of the foreign currency swaps facility, activities in the foreign exchange market rapidly returned to normal and liquidity conditions remained comfortable throughout the year. The notable exception was the unwarranted volatility and nervousness observed in May 2010. Suspecting currency manipulation on transactions during the period 14 to 26 May 2010, we considered it vital to thoroughly investigate the matter. We retained the services of a forensic expert to probe into potential foreign exchange market irregularities and manipulation that could have taken place in the domestic foreign exchange market.

16. **Euro weakness** The Euro crisis was in full swing when I started my second mandate in late May 2010 and, as mentioned earlier, export sector operators and business lobbies shrieked about the threats of a weak euro to their business. I immediately set about

calming the market and held a series of meetings with businesses and their associations as well as with consumer representatives, including the Mauritius Export Association, the Joint Economic Council, the Mauritius Chamber of Commerce and Industry, the Association des Consommateurs de l'Île Maurice and the Institute for Consumer Protection. There were strong calls, relayed by the media, for the Bank to engineer an immediate depreciation of the rupee "before it was too late" – in the words of an influential leader-writer – or, worse to peg our rupee to the euro, failing which, it was claimed, there would be massive layoffs accompanied by a hollowing-out of our industrial fabric. Never before has vested interest masqueraded so brazenly as the public interest. We stood firm on our stand that a Central-Bank-engineered fall in the value of the rupee could provide some immediate benefit to certain sectors but this would be at the detriment of the wider economy and against the country's longer-term interest. We were severely criticised in many quarters, especially the business press, but, with hindsight, it is easier to appreciate the stand that we took.

17. A corollary to the rupee appreciation against the euro and depreciation against the US dollar in the early months of 2010 was the worsening of the excess demand for foreign currencies – importers, looking for dollars, were keen to purchase foreign currency and exporters, with export earnings mostly in euros, more inclined to stay on the sideline. At the request of the State Trading Corporation which encountered difficulties to obtain foreign currency from the market to meet the import bill for food staples and fuel, the Bank agreed to meet its foreign exchange requirements as from June 2010 through direct sales. In parallel, we purchased the foreign exchange from the market itself with a view to retaining a neutral position and preventing a build-up of supply pressures. Faced with unprecedented currency volatility, we began intervening in the forex market in mid-July 2010, after an unbroken spell of 85 weeks since November 2008 when prevailing conditions did not warrant intervention. We ended the year with a net purchase of foreign currency of USD315.6 million.

18. Throughout 2010, we maintained the foreign currency swaps facility that we had introduced in December 2009 but its range was extended to include swaps of shorter periods from one to three months. We continued to make available to banks the Special Foreign Currency Line of Credit, aggregating USD125 million, which we had introduced in December 2008 for the financing of the country's trade when domestic banks faced unusual conditions and could not rely on traditional trade lines from their correspondent banks overseas.

19. As a result of our actions and initiatives during the year to ensure orderly conditions on the market, we observed some normalisation in the Domestic Foreign Exchange Market which recorded a total turnover of foreign exchange transactions that was slightly higher than that of last year. More importantly, we have been able to contain the volatility of the rupee exchange rate with the nominal effective exchange rate indices, MERI1 and MERI2, remaining quite stable and moving rather close to their trend level throughout the year.

20. **Reserves Management** Despite the turbulent times, the Bank has succeeded against all odds in maintaining a comfortable level of reserves. Our earlier fears that we might find ourselves in the grip of the sudden stop syndrome, and begin to lose reserves, proved unfounded. In December 2010, the gross external reserves of the Bank exceeded Rs78 billion while net international reserves crossed the Rs106-billion mark, representing around 44 weeks of imports. Our gold holdings amounted to around Rs4.9 billion as at 31 December 2010.

21. In my previous Letters to Stakeholders, I had mentioned the consultations which I had initiated with the Sovereign Investments Partnership (SIP) Department of the World Bank, and the Bank for International Settlements (BIS), since 2008. We were driven by the need to enhance the returns on our foreign exchange reserves which had witnessed a drastic fall in the low-interest-rate environment. We successfully concluded these consultations and, on behalf of the Bank, I signed an Investment Management and Consulting Agreement with the Vice President and Treasurer of the International Bank for Reconstruction and Development in Washington DC in October 2010, with the objective of

diversifying our portfolio into new asset classes. We thus joined the nearly three dozen central banks and a dozen other international financial institutions that have chosen to entrust the management of some of their reserves to SIP, which currently manages around 90 billion dollars of assets. A second reserve manager, and one which is so big in terms of its placing power and reserves under management, will ensure competition in the management of our growing reserves which, until then, had been entrusted to the BIS only. We also signed an Agreement with the BIS for the management of a euro portfolio in addition to our existing US dollar and Pound Sterling portfolios.

22. As far back as 2007, when we were faced with significant Foreign Direct Investment inflows, I had mooted the idea of setting up a Sovereign Wealth Fund (SWF). Then, as now, we also had to grapple with the excessive focus of the National Pension Fund (NPF) on rupee instruments, with a consequential negative pressure on domestic rates. The SWF was envisaged as a vehicle to harness the resources of the NPF together with the “excess” reserves of the Central Bank – for which the Bank could have a bigger risk appetite than for its core reserves that it must manage conservatively – , supported by some investments from Government-linked institutions and the central Government itself. The whole fund would be managed under the aegis of the Central Bank and would still qualify as reserves in the IMF definition. That was our vision of a SWF through which we hoped to achieve several favourable outcomes simultaneously – to enhance our returns on our foreign exchange reserves, diversify the portfolio of partner institutions, and relieve pressure on Treasury rupee instruments. We welcome the announcement of the creation of the SWF in the 2011 Budget Speech. Prior to the setting up of the fund, there would be consultations with experts in the field to advise us on the model that would best suit our needs.

23. **Stimulus Package** Following consultations with Government and other stakeholders, the Bank made available to Small and Medium Hotels, and Small and Medium Planters two Special Lines of Credit of Rs1.5 billion and Rs0.5 billion respectively, to support these sectors in the wake of the euro crisis. This measure was announced as the Bank’s contribution to the Economic Restructuring and Competitiveness Programme.

24. **Debt Management** Our priority over the recent years has been the lengthening of the maturity profile of Government debt and the development of an active secondary market for Government securities. The latter would enable price discovery and the development of a yield curve which could be used as a reference for pricing other fixed-income securities, thus paving the way for the development of corporate bonds. Our ultimate objective is to broaden and deepen our financial markets. We thus came up with a series of measures ranging from auctions of single-maturity instruments and the issue of 10-year and 15-year benchmark bonds. We also issued an index-linked bond to diversify the Government debt portfolio and to extend the range of investment opportunities for investors.

25. We continued work on modernising the conduct of auctions of public paper. The process of on-line auctioning of Treasury Bills, which now relies on a web-based solution, will switch to live mode in 2011. This will result in reduced time for submission, processing and settlement of bids. We shall extend this to the auctions of Treasury Notes and Government Bonds at a later stage.

26. **Market Development** Since I first joined the Bank as Governor, I have endeavoured to create conditions conducive to the development of a liquid and vibrant money and foreign exchange market. Although we recognise that this is no easy task, given the small size of our market and the limited number of players, we have taken a number of steps in that direction. We worked closely with a Sub-Committee of the Mauritius Bankers Association on Capital Market Development to review the current setup of the Primary Dealer System and identify measures to boost secondary market trading. We have developed a reference money market rate, to be known as the PLIBOR – Port Louis Inter Bank Offered Rate – which will be used as a benchmark for both money and foreign exchange transactions, including derivatives transactions.

27. We welcomed a new player in our financial markets, the Global Board of Trade (GBOT), which was launched in October 2010. GBOT is the first international multiasset class tech-centric exchange that offers a basket of commodity and currency derivative products as well as currency pairs. GBOT started with brisk business in its very first days of trading. We expect that the launch of GBOT will stimulate the forward markets in currencies. One word of caution to those who might be tempted to use this platform for rupee speculation – the Bank is closely monitoring developments in this area.

28. **Bank's Balance Sheet** The capacity of the Bank to conduct open-market operations to absorb excess liquidity is constrained by the low return on our foreign assets resulting from the successive cuts in interest rates by major central banks where our reserves are mainly invested. The significant decrease in income on our foreign assets impacted negatively on the Bank's profitability. Thus during FY 2009/10, the Bank's operating profit decreased to Rs72 million from Rs1.4 billion in the previous year.

29. Although profitability and profit-maximisation *per se* do not figure among the Bank's objectives and, rightly, are not the focus of our attention, we need a central bank with a strong balance sheet at the apex of our financial system so that we are always in a position to play our role in safeguarding and upholding the public interest. Central banks are increasingly perceived as independent guardians of stability – we are conscious of the heightened expectation and trust that central banks inspire in the public. In addition to the search for yield via portfolio diversification and re-visiting our risk-return stance which I mentioned before, we need to envisage other measures to strengthen our balance sheet.

30. **Banking Sector Performance** Our banking sector continued to be resilient and strong. In year-on-year terms, total assets of banks registered a growth of 13.4 per cent and credit to the private sector increased by 10.9 per cent as at end Q3 2010. Segment A (domestic) assets grew by 7.5 per cent while Segment B (offshore) assets grew by 17.3 per cent. Domestic credit expanded by 11.2 per cent while Segment B credit facilities grew by 19.6 per cent. Deposits remained the major source of funding for banks, accounting for 73 per cent of total resources. Between September 2009 and September 2010, their total deposits grew by 14 per cent. Our banks recorded a slight decline in their level of profits but nonetheless remained quite profitable, with a Return on Assets of 1.2 per cent as at end Q3 2010, compared to 1.7 per cent for the corresponding period in the previous year.

31. The performance of Non-Bank Deposit Taking Institutions (NBDTIs) did not evolve much. A notional decline of one per cent in total assets was registered over the 12-month period ending September 2010 as a result of the migration of assets held by two leasing companies to the banking sector. To achieve regulatory convergence, there is now a requirement for NBDTIs to move over to a system of Capital Adequacy Ratio as the indicator of financial strength. In line with the provisions of the Banking Act 2004, ABC Leasing Company Ltd was the first NBDTI to graduate to a full bank – ABC Banking Corporation was licensed on 1 June 2010. With the coming into operation of this bank, there are now 19 banks operating in Mauritius.

32. **Regulation and Supervision** We sharpened and streamlined our approach to the supervision of banks and other financial institutions falling under our purview and remained vigilant throughout 2010. We followed closely developments in international accounting and supervisory standards and issued new guidelines to the industry to ensure that our banking industry follows international best practices.

33. Our onsite and offsite monitoring was strengthened further. We made our CAMEL rating more dynamic and broad-based. In consultation with the banking sector, we finalised plans to make the CAMEL rating of banks public as from Q1 2011. Given that many of our domestic banks are not rated, we take the view that the publication of the CAMEL rating will help to plug a vital information gap. In this area also, we are taking an unconventional step – it is not common for such ratings to be placed in the public domain. I must compliment our bankers for their sagacity in agreeing to go along with us on this front.

34. The reforms undertaken by the Basel Committee on Banking Supervision (BCBS), which were agreed by the Governors and Heads of Supervision and endorsed by the G20 leaders, culminated in the issue of new global regulatory standards, the Basel III framework. According to Nout Wellink, Chairman of the BCBS, Basel III, which prescribes higher levels of capital adequacy and incorporates a global liquidity framework, will reduce significantly the probability and severity of banking crises in future, protect financial stability and promote sustainable economic growth. The overall capital adequacy ratio of our banks was around 16 per cent on average under Basel II – higher than the minimum required. We do not foresee any major problem for our banks to attain the revised capital adequacy requirements of Basel III.

35. **Islamic Banking** As indicated previously, we granted our first Islamic banking licence in the Mauritian jurisdiction in October 2009 which was a major step in translating the vision of the Authorities to provide an alternative mode of financial intermediation, thus enhancing the options available to bank customers. We expect the bank to be operational by the end of Q1 2011.

36. We have taken some decisive steps forward in our quest to make Mauritius a centre of high quality *Sharia*-compliant financial services. First, building on our membership of the Islamic Financial Services Board, we participated actively in the preparatory work and became a founder member of the International Islamic Liquidity Management Corporation (IILM) – a Supranational body created to issue bench mark Islamic liquidity instruments – launched during the year and headquartered in Kuala Lumpur, Malaysia. This gives us membership on the Governing Board of IILM for a period of ten years and access to *Sharia*-compliant financial instruments for better liquidity management. Second, the Bank entered into a Memorandum of Understanding with Bank Negara Malaysia, the central bank of Malaysia, which *inter alia* envisages support for building skills. We intend to use this support to sharpen our regulatory and supervisory oversight of Islamic banks in Mauritius.

37. **Payments Systems** The modernisation of the payments system has been on the cards since 2007 but, like many other significant projects at the Bank, got unfortunately entangled with protracted procurement difficulties arising from the Boardroom squabble referred to earlier. With these hurdles cleared, the Bank will soon be equipped with a state-of-the-art payments system, a model for the region, which would serve as a platform to implement a series of innovative projects such as the Bulk Clearing System and the Cheque Truncation System. Already, the new software for the Mauritius Automated Clearing and Settlement System, which we commissioned during the year, allows us to provide extended multi currency services – a *première* in Africa.

38. **Central Bank Statistics** We directed our efforts towards improving the quality, coverage and timeliness of banking statistics as part of our contribution to the IMF's Special Data Dissemination Standards. We made ourselves more visible in the international statistical community by our admission to full institutional membership in the prestigious Irving Fisher Committee on Central Bank Statistics in February 2010 and by participating, along with the Central Statistics Office, in marking the 1st World Statistics Day. The World Statistics Day is celebrated across the globe in recognition of the importance of official statistics and of the core values of service, integrity and professionalism in providing those statistics. As providers of data on banking, money, finance and international trade, we subscribe fully to these values.

39. **Mauritius Credit Information Bureau** The Mauritius Credit Information Bureau (MCIB) has proved to be an efficient platform for critical information-sharing to enhance borrower discipline and proper risk management by lenders. We extended the scope of the MCIB to other credit providers outside the banking sector and we are currently envisaging the inclusion of new products in the MCIB database.

40. **Deposit Insurance Scheme** The Bank is considering the establishment of a Deposit Insurance Scheme (DIS) as an additional safety-net for the banking sector. Two

factors would facilitate the implementation of the DIS in Mauritius: first the Banking Act 2004 already provides for the establishment of the DIS and, second, the local financial environment is dominated by banks. A working group has been set up at the Bank to look into the development of a DIS framework for Mauritius. The Bank is endeavouring to secure participation in the International Association of Deposit Insurers as an Associate in order to be able to draw on professional advice and capacity-building technical assistance in this area.

41. **Regional and International Presence** We continued to mark our presence on the regional and international front. My Deputy Governors and I attended various meetings both in the region and further, and we ensured that the Bank was duly represented in regional and international fora when our own commitments did not allow us to be away from the Bank. In addition, we hosted and facilitated a number of regional and international meetings which improved the Bank's visibility further. A sure sign of the growing interest of global financial players in our jurisdiction was the visit of a delegation from the Industrial and Commercial Bank of China – the largest commercial bank in China. This was the second time that a delegation of bankers from China visited the Bank – the first delegation came from China Development Bank.

42. The office of AFRITAC (South), one of the two new African Technical Assistance Centres which the IMF is establishing in Africa, will be temporarily located on the 15th Floor of the Bank of Mauritius Tower until we manage to complete the renovation of the old building – this was another project that fell victim in the prolonged Boardroom battle – where AFRITAC will have a dedicated floor. This office will also increase our visibility at both the regional and international front.

43. **Overseas Missions** As in the preceding years, I am providing details of the overseas engagements of the Governor and the Deputy Governors.

44. **COMESA Committee of Central Bank Governors** We had the pleasure to host the 31st Meeting of the Bureau of the COMESA Committee of Governors of Central Banks in August 2010. At the regular meeting of the COMESA Committee of Central Bank Governors held in Mauritius, it was decided that central banks should aggressively promote REPSS – the Regional Payment and Settlement System – in their country with all major stakeholders. The Bank accordingly launched a REPSS sensitisation campaign to present the system to the Mauritius Bankers Association, commercial banks, and to the Mauritius Export Association.

45. At the 15th meeting of the COMESA Committee of Governors held in Khartoum in November, I handed over the chairmanship to the Governor of the Central Bank of Sudan but continue as first Vice-Chairman. The Bank's participation in these and other regional fora at the level of SADC, AACB, and ADB, translates the Bank's willingness, involvement and commitment to take regional integration further.

46. **Memorandum of Understanding** The Bank continued to expand its network of Memoranda of Understanding (MoU) with other regulatory bodies and agencies. We signed an MoU with the Competition Commission of Mauritius relating to mutual consultation regarding competition in the financial system and to enhance cooperation and coordination in cases of anti-competitive behavior where both institutions may have overlapping powers. We signed an MoU with Bank Negara Malaysia to establish a collaborative framework aimed at enhancing mutual cooperation on capacity-building and human capital development in the financial services sector. The Bank also entered into an MoU with the Agricultural Research and Extension Unit of the Ministry of Agro Industry Food Production & Security for the development of a Bamboo Garden in Midlands.

47. **Dialogue with Stakeholders** We intensified our dialogue with our stakeholders during the course of the year. This dialogue process, that I have endeavoured to reinforce, has been able to build up a synergy among different economic actors rendering our policymaking more effective. As the Mauritian economy got buffeted by the turmoil in

international markets, this exercise allowed us to feel the pulse of the economy and to come up with the most appropriate measures.

48. We closed our dialogue with our stakeholders by the traditional end-of-year Annual Dinner in honour of Economic Operators which saw a record attendance. This occasion was graced by the presence of the Managing Director of De La Rue, today the world's largest commercial printer of banknotes, which obtained its first banknote printing contract 150 years ago to supply Mauritius with banknotes of three denominations. This was also the occasion for the Bank to launch the second platinum commemorative coin of the "Father of the Nation Platinum Series." The third coin of the series will be issued in 2011. The second and third coins bear on their obverse Mauritian National Heritage Sites, namely the *Aapravasi Ghat* and *Le Morne Brabant* respectively, and on their reverse, the effigy of the Father of the Nation, Sir Seewoosagur Ramgoolam. After the third year, all three coins will be issued in a collector's set.

49. **Human Resources and Capacity Building** During the course of the year, 15 staff members retired from the Bank under the Voluntary Retirement Scheme. We recruited two analysts while two left the Bank on 31 December 2010. Over the last three years, the size of the Bank's workforce has declined from 261 in December 2008 to 241 in December 2010, and we are endeavouring to change the skills set and knowledge base of our staff to reflect the changing nature of the Central Bank's functions. The challenges facing the Central Bank are becoming more daunting. Our staff benefited from a wide range of training courses in their respective areas of work, underscoring our ever-increasing need to keep abreast with the latest developments in the banking and finance world. The issues that central banks the world over have to deal with have drastically changed and we need to have very diverse and specialized skills within the Bank to meet the challenges. In the course of the coming year I intend to supplement our training calendar with an executive training program on leadership, team-building and management skills.

50. **Corporate Social Responsibility** I launched the Bank of Mauritius National Inter Club Youth Championship in 2007 in the context of the Bank's 40th Anniversary celebrations. Today the Championship has become a regular fixture in the Bank's calendar of activities and constitutes an essential part of our corporate social responsibility to the Nation. Our objective in organising this event is to give the opportunity to our youth, in Mauritius and Rodrigues, to show their talents in sports. We are proud to note that this event has been a very fertile ground for the establishment of National records. It is equally rewarding that 12 athletes, who first came to national attention at the Bank-sponsored championship, have been selected to represent the country in the "*Jeux des Iles 2011*" in Seychelles.

51. **Overall Assessment of the Year 2010** In the preceding paragraphs, I have endeavoured to give you some of the highlights of the year that has just gone by. Against the backdrop of the continuing global crisis, complicated by a governance crisis at the Bank, the job of the Central Bank Governor has proved to be still more challenging than usual. The year started on a very uncertain note but ended on a quite different tone. It began with dark mutterings and a back-handed compliment from a local newspaper crowning the Governor "*L'Homme (Controversé) de L'Année*" – The "Controversial" Man of the Year. This was followed by deafening cries from various quarters that the Governor of the Central Bank had made abusive use of his powers. Ironically, the year ended on an altogether different note, with a newspaper headlining "Super Bheenick", and claiming that the Governor was set to become a super Governor with wide-ranging powers. Such statements were prompted by some measures announced in the Budget Speech and by changes that the Finance (Miscellaneous Provisions) Act 2010 brought to the relevant banking and central bank legislation. I am sad to see that there has been a wrong reading of many of those measures in some quarters and this has distorted the debate somewhat.

52. The fact of the matter is that, with the amendments to the banking legislation and the measures announced in the Budget Speech, the Bank has been endowed with additional

responsibilities. The amendments to the Bank of Mauritius Act 2004 are intended to give greater flexibility to the Bank and give us the means to operate expeditiously. We want to develop the foreign exchange and derivatives market, which is part of our financial market development and financial deepening agenda. We already have operations on derivatives – the foreign currency swaps. We will be able to promote the development of the Islamic money market and the issuance of *Sharia*-compliant instruments, and instruments other than the Bank of Mauritius Bills, for the management of liquidity in the market. The amendments to the Act will also allow us to grant loans to non-financial institutions in emergency situations to minimise costs to both the final borrower and the taxpayer. That is the logic behind all these changes – to allow the Central Bank to operate more efficiently as well as preemptively. We may also be looking at a revamping of the financial regulatory landscape with the potential merger of the Financial Services Commission and the Bank of Mauritius and we shall be guided by the expert advice of consultants in the field.

53. Let me summarise about how we have fulfilled our mandate this year. On the inflation front, we achieved a signal success – we have witnessed historically-low rates of inflation in the past two years. Our country has witnessed an annual pre-crisis growth rate of 5 percent on average – our biggest challenge would be to achieve higher growth rates. Our banks are healthy, profitable and well-capitalised, and we are ready to move to Basel III. On the financial stability side, we do not face much vulnerability as we keep enhancing our regulatory and supervisory framework. We have even been commended by international institutions for the appropriateness of our policies, especially our exchange rate policy. So I have a number of reasons to feel satisfied and happy. Most of all, I feel a sense of accomplishment with regard to my mandate. Having said that, we are perfectly aware of the challenges that 2011 will bring with it and we have no intention of resting on our laurels.

54. Dear Stakeholders, at the beginning of a new year, when the world economy is on a two-speed recovery path – with advanced economies, our main partners, still recovering slowly, and the emerging economies bubbling along to the point of overheating, in some cases – , the global economic environment still remains very uncertain. Our small and vulnerable economy is likely to suffer new strains and stresses. But I look at the future with cautious optimism. We have been able to stay the course at the height of the crisis and I am confident that we will be able to come out of it in pretty good shape. Let us therefore harness all our resources and efforts to make things better for all of our fellow-citizens.

I wish you all a very happy and prosperous New Year.

Rundheersing Bheerick