Rundheersing Bheenick: A testing time

Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the Annual Dinner of the Bank's Annual Dinner in honour of Economic Operators, Pailles, 1 December 2011.

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It is an immense pleasure to welcome you all to the Bank's Annual Dinner in honour of Economic Operators. This full house speaks volumes for the excellent relations that we enjoy with our economic operators in Mauritius.

And now let me add my special welcome to our distinguished guest His Excellency Mallam Sanusi Lamido Sanusi, Governor of the Central Bank of Nigeria, and his charming spouse, Maryam. Sanusi Lamido Sanusi – or Sanusi^2 – never does things by halves. He is the Central Bank Governor of the Year for Sub-Saharan Africa for the second consecutive year due, no doubt, to his reforms in Nigeria, where he cleaned up the banking scene, in the process firing several CEO's and actually locking up a few of them.

As many of you know, Abuja will host the African Central Bank when it is set up; but that is far in the distant future. Maybe, more immediately, I could draw on his expertise to advise me on how to deal with any recalcitrant bank CEO's and errant directors. But, let me assure our bank CEO's present here tonight that we don't have any current plans to make jailbirds out of them. Mallam Sanusi is much admired in the central banking world, as is the leadership role of Nigeria in all things African. The strength of the Nigerian economy which has defied the crisis and posted GDP growth rates of 8% and 7% respectively in the last two years, is an inspiration to the rest of us.

You are both most welcome.

Now, I am glad to see that you look as if you are all eating well. For, as it is my custom on these occasions, I wish to make a few, just a few, short, very short, points. As Lord Reith, of BBC fame, remarked:

> *"You can't think rationally on an empty stomach…*
> *and a whole lot of people can't do it on a full stomach either."*

This event is important in the Bank's calendar of activities. The first of its kind was held in 1999 when it was called "the Annual Private Sector Dinner". The makeover as "Annual Dinner for Economic Operators" came under my governorship. It now forms part of the Bank's ongoing dialogue with its stakeholders. We are happy to welcome here tonight the Entrepreneurs of the Year – this new breed of young entrepreneurs augurs well for the future of the SME sector in Mauritius. They are seated at *Musgrave* table. Let us give them a hand.

You will notice that tonight we are also celebrating the economics profession. We decided to pay tribute to the leading economists who have made a signal contribution to the discipline. Each one of you, honoured Guests, is seated at a table named after a famous economist.

As coincidence will have it, this Annual Dinner comes almost on the eve of the last Monetary Policy Committee Meeting for this year when you can expect some significant developments. No, I am not giving you a preview of the likely interest rate decision. Some of the recommendations of Sir Alan Budd to come into effect. This means that, henceforth, you will all be able to see the minutes of the meeting and the individual voting pattern published on our website. It may have taken us nearly two years to get to this stage. But there's no denying that this is a major step forward. The dawn of a more transparent MPC is upon us.

May I underline three points for the benefit of our distinguished Guest of Honour: first, our MPC is just over 4 years old; second, Bank management is outnumbered by outsiders; and third, – *fait rarissime* – two foreigners sit on our MPC as full members.

But this evening I want to touch on some deeper underlying and worrying issues for the whole economy namely: the impact of the on-going global crisis and our economic prospects.

First, the economic crisis

We all observe with rising dismay how the crisis in the US and Europe has metastasised from sub-prime to sovereign debt, moving from recession to slowdown, aided and abetted by political ineptitude and economic incoherence. It seems to many that the leaders in the West keep being caught wrong-footed by the unfolding chaotic scene. They lack the boldness and the drive required to put the global economy back on a safe course. The West looks to be heading for the double dip recession whose spectre has been haunting us ever since the crisis struck.

There was a time when sovereign debt was deemed to be risk-free. An exception was made for developing countries, whose debt had always been a bit dicey, with many of them becoming serial defaulters. The West could lecture the South on getting their economic policies straightened out before they could grudgingly extend some much-needed debt-relief.

"It's the economy, stupid!" as US President Bill Clinton famously put it.

That was then. Now that the US itself is drowning in debt, and runaway sovereign debt is raising the spectre of a Eurozone break-up, it suddenly looks as if Clinton should revise his stand:

"It's the politics, stupid!" would be closer to the truth.

Silvio Berlusconi and George Papandreou have already paid the price to placate the bond *vigilantes*. Others may follow if they fail to navigate the treacherous waters between citizen and taxpayer revolt, on the one hand, and investor rebellion, on the other. France faces a threat of downgrade. Even fiscally-upright Germany failed to place nearly half the amount of ten-year paper on offer at a recent auction. Moody's is now threatening a generalized derating of Eurozone debt. The US has lost its triple-A rating, as Standard & Poors derated it. To rub in the point, the agency berated Washington politics and the fiscal brinkmanship characterising the US response to the crisis. In the words of Standard & Poors, the politicians have become

"less stable, less effective, and less predictable."

And where's Mauritius in all that? We can count ourselves lucky that we are not hooked on foreign commercial debt. We do not face any rollover risk. We are not at the mercy of unforgiving markets. And all of us, and not just our politicians, can sleep easy on this score. How many of us know that, in their monumental work on economic and financial crises, *This time it's Different*, Kenneth Rogoff and Carmen Reinhart, paid Mauritius – and a handful of other countries – an ultimate accolade when they called us "debt default virgins"?

And, while we are on this subject, may I invite you, when you get the time, to cast a glance at the shape of the yield curve for Government rupee debt? You may be surprised to discover how we have actually smoothed the curve and reduced volatility – and that, too, during a crisis.

We do not know how the crisis will play out. The fog of uncertainty casts a pall over global growth prospects. Whatever happens, we must remain agile and alert to ride the slightest favourable wave even as the European and US economies flounder in its wake. This scene is all the more curious for the West does not lack advice on such matters. As George Burns has remarked:

> "*it's just a pity that those who really know how to run the country are just too busy driving taxi-cabs or cutting hair."*

So let me add my two-pennyworth to the great debate on the financial and economic crisis and how well we have fared.

I believe it was Talleyrand, Napoleon's aristocratic Minister of Foreign Affairs, who on being asked what he did during the Revolution, gave a pithy reply:

"I survived."

And we have survived, too, with scarcely an African country falling into recession, no banks going bust, and the African economy on the up and up. In Mauritius we have certainly done better this year than in the previous two years. In Africa, the impact of the crisis was felt mainly through the trade channel and the falloff of FDI flows. This was exacerbated by loose monetary policy in some countries where, not surprisingly, double-digit inflation was back in 2011.

Your Bank was under constant pressure to loosen our monetary policy, to depreciate the currency just a little, to accept a little more inflation, allegedly to save jobs and stimulate growth. Let me ask you this. Do you really think we were wrong to resist those siren calls? Would you really really have preferred inflation in the high twenties to finish off the year?

Mauritius fared well among middle-income countries, with GDP growth above 4% this year, or slightly below the trend rate of the pre-crisis decades. We reinforced our regional and international positions in a number of global rankings which I would have happily walked you through, but for the pressure of time.

We are, of course, not insulated from the problems affecting the rest of the world and inflationary pressures have increased; but, with well-timed monetary steps, we have succeeded in containing inflation to an expected 5.1% in 2011. Let's keep on course, steady as she goes.

Now let me turn to our economic prospects and our high aspirations

We are living in troubled and testing times. Several questions arise. Will we be agile enough to meet the severe tests ahead? What kind of growth should we seek? Should it not be more inclusive? And more equitable? We are trying hard to move into niche markets but is this enough? What else must we do to escape the middle-income trap, to be amongst the best small economies, not just in Africa, but in the wider world where our main competitors are to be found?

We have seen the likes of Malta, Singapore, Hong Kong, Ireland and others raising the bar to achieve GDP per capita, adjusted for purchasing power, more than twice the levels we have achieved despite our continued economic growth. Can we make the breakthrough? Are we prepared to do what it takes to do so?

I believe it is absolutely vital for the future of Mauritius that not only government but business as well give greater weight to innovation, quality, inclusiveness and equity. We could perhaps borrow a leaf from the book of Bhutan. How does Bhutan come in the picture, some of you may well ask? This small Himalayan Kingdom leads the world in the index of Gross National Happiness.

And, while we are about it, we must also introduce a fresh dimension in our assessment of progress: the protection of our environmental capital must be included in the equation for measuring development, and not zero-valued as in the past. This is essential to ensure that any fresh spurt of economic growth is channeled into a sustainable path and does not end in further land and human degradation.

Otherwise, we shall hand over to our children a country whose famed natural beauty has been sadly overwhelmed by infrastructure and blighted by urbanisation. Do we hear the silent cries of those lovely "flamboyant trees" – planted by our forefathers, now coming into full flaming bloom, and adding to the season's festive cheer – as they are brought down by chain-saws to make way for road-widening schemes? Or do we really wish to become like Malta, developed most certainly, but to our mind, featureless, waterless, soulless and nothing but concrete from shore to shore?

We shall never tire of saying that our people is our greatest asset. We must nurture an entrepreneurial culture. We have not fully capitalized on skills enhancement in our human resource. And we have failed to encourage R&D to turn it into a platform for creativity and innovation. We largely bring home what is fashion overseas. In sum, we are missing some of the critical ingredients of the recipe to add greater value and to move to the next stage of development. We certainly have the doers. But do we have the forward thinkers, the visionaries, the dreamers? We are in danger of falling in a pedestrian rut. We have just not dreamt big enough.

It is a scene reminiscent of Einstein's definition of insanity, which he saw as

"doing the same thing over and over again and expecting different results".

I am afraid that if we stick to the beaten path, we would soon be writing our global epitaph:

Mauritius –The Home of the Dodo

Three major ideas spring to mind here: the regional service hub, innovation and excellence. The service centre or hub notion has been bandied around for years: indeed we have so many hubs thrown at us that I am beginning to lose count of the number of wheels on the wagon. The other two are vital ingredients which we largely lack: innovation and excellence. But what is really missing is an overarching vision of where we want to go and how we are to get there. Now the vision does not have to come from Government: there is a great opportunity for the private sector and the NGOs to pick up where we left off with Vision 2020 some fifteen years ago.

I am sure I am not the only one here tonight who is looking askance at the progressive financialisation of the economy. The "Occupy Wall Street" movement, which grabbed the headlines this year, and its equally confused copycats elsewhere, seem to speak to the same concern. Citizens are in revolt at the excesses of the Lords of Finance paying themselves fat bonuses on the back of recent public sector bailouts while the real economy has tanked, spawning retrenchment, bankruptcies and unemployment. The most egregious example is that of a famous bank CEO whose pre-crisis take-home pay was 75 times higher than the average wage: with the crisis, it is a staggering 169 times the average wage. He has had a good crisis. He must be a very rare diamond indeed.

But the situation is not all that rare. The same scenario is being played out on the home front. With the crisis now in its fourth year and placing severe strain on our economic operators, you would have thought that it was in the self-interest of our banks to reduce finance costs for their clients to help them adjust to depressed market conditions and declining profit margins. But you would have been wide of the mark. Oh, our real our sector operators, especially exporters, are hurting just as much as their competitors elsewhere, and indeed their customers as well. Our banks have also had a good crisis. Some of them have raised their fees and charges. Bank sector profits are running at Rs65 million a day. Unlike bankers elsewhere, our bankers are sitting pretty ...laughing all the way to the bank, you might say! We do want our banks to be profitable but we do draw the line at supernormal profits. Especially at times like these. When the lion's share still goes to the lions, we may be asking ourselves a question or two. I hope we never see in our island the bank rage which has created such mayhem in the streets of Manhattan and by St Paul's in the city of London. Bank bosses, recently bailed out at taxpayers' expense, are increasingly seen as arrogant, greedy, and unrepentant.

This is now emerging as the staple diet for stand-up comedians like Andy Borowitz, who has fantasized on a letter that might have been sent from the boss of Goldman Sachs to his investors:

> *"We have taken note of the protests and have asked ourselves 'how we can make money out of them?' The answer is the newly launched Goldman Sachs Rage Fund. This will invest in firms likely to benefit from social unrest, such as window repairers and makers of police batons. For at Goldman we recognize that the capitalist system, as we know it, is circling down the drain, but there's plenty of money to be made on the way down."*

This may be a far cry from the situation here in Mauritius, yet. I am sure our bankers are not as insensitive as the profit figures would imply. The corporate board-rooms concerned should be reminded of their social role and urged to reconnect with reality unless they are keen to stoke discontent: How can we overcome this apparent disconnect?

To begin with, we must all work to explode the notion that more money, by itself, is the true target of growth. It was a wise man who said:

"Money is a good servant but a bad master."

And there is some serious re-thinking to be done

- Let us see remuneration relate more to ethics, with greater attention to shareholders, entrepreneurs and high street customers
- Let us break the current nexus between managers and their boards
- Let us move towards a new vision and diversify the composition of boards, so that profits and high returns do not become an obsession
- Let us move towards a vision of banking where financial return is not the only goal and the business and social role of banks is revived
- Let us move towards a vision where the interests of banks are more aligned with those of the wider population
- Let us together embrace a vision where the business of banking is the business of serving a thriving and just society. That is the real test of development

Government has a role in mediating, to try to ease the problems of various stakeholders of the economy, to make it easier for them to co-ordinate their actions, and to act as an important arbitrator and facilitator to support the optimal course of action for the economy as a whole. But Government only acts on the information available. Therefore we need a wide-ranging process engaging the best people and best ideas in the land to develop the vision for all stakeholders. And banks are part of the system; they should not stand apart, turning a blind eye to financial stability and the impact they are having on the real economy.

If we compare ourselves with Singapore and Hong Kong, the top performers in the small economies, we suffer from structural flaws that are inhibiting our progress. I have not seen any positive reaction to the wake-up call from the Global Economic Forum this year and last year. Wake-up Mauritius and grasp your future with vision and vigour.

But now, if I may be permitted a little digression on the demographic time bomb. Its fuse is burning steadily, largely un-noticed, with dire consequences if we neglect its import. The population in Mauritius over pension age is expected to more than double over the next 15 years, and more than triple over the next 35 years. The ratio of people of working age for each person over pension age is expected to fall continuously over the next 35 years from about 7 now, to 2.5 by 2045. This demographic time-bomb, which is ticking away relentlessly, has deep significance for our economy, our pension schemes, and our society. Dealing with it must be one of the key elements of our future visioning exercise.

And now to close, I will share with you another of those whimsical laws of nature that define our frailty. In the past, for some light diversion, I have taken you in the world of the premier league with the Maradonna law of interest rates. Then we moved into the domain of advanced science with Einstein's law of success. We came down to the nitty-gritty business of banking with Sutton's Law on why he robbed banks. "Because that's where the money is", he explained with irrefutable logic.

Tonight, we make a foray in the world of linguistics. There are very important developments there which can change forever our view of bankers. For a profession that has done so much for the world as we know it, both good and bad – and perhaps also very bad, the view is gaining ground that the orthography of the word "banker" does not do full justice to the complexity of the profession. To prevent "banker" from being confused with a four-letter word, I understand that a proposal has been made simultaneously to the editors of Webster's and the Oxford English Dictionary in the UK, the guardians of linguistic orthodoxy, to accept an alternative spelling. Henceforth, "banker" will be spelt "b-a-n-k-s-t-e-r"… to rime with gangster. Maybe the CEO's which our distinguished visitor, Governor Sanusi, had locked up were this new breed of bankers, spelt with eight letters.

This inspires me to move an amendment to Sutton's Law to update it to fit the times: if you want to rob banks, make sure you do it before they rob you.

And so I ask you all to be upstanding, as I propose a toast to Vision 2030, to our distinguished visitor, and to all of you, the economic operators of Mauritius.