Rundheersing Bheenick: Past Imperfect, Present Tense and Future Conditional

Speech by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the Annual Dinner in honour of Economic Operators, Pailles, 6 December 2012.

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Taking stock

I have been here nearly six years and I thought it opportune tonight to look back, take stock before the past is truly past, and then try to peer into our hazy economic future as we continue to battle through what certainly looks like an extended period of economic uncertainty.

The past six years

The most obvious change at the Bank in these past six years has been the new and, some might say, sumptuous building. I inherited that, and since moving in, I have been conscious of the necessity for the Bank to deliver even better value for money than in the past. For as Lord Kelvin has said:

> *Large increases in cost with questionable increases in performance can be tolerated only in race horses and fancy women.*

We had to pay greater attention to our performance. The Bank plays a supportive role in the economy. But the global financial crisis – which happened to coincide with my assuming the role of Governor; I trust not a case of *post hoc ergo propter hoc* – encouraged me to look a little beyond our traditional role to embrace that of promoting socio-development by giving new life to some of the little-used statutory powers of the Bank.

So I set out to improve governance by putting in place the Monetary Policy Committee (MPC). I called upon external talents and developed clear lines of communication with economic agents. The MPC has been worth its salt and I pressed for statutory changes to make it more transparent and accountable by publishing the minutes of its meetings and the individual voting pattern of MPC members.

I also embraced an open-door policy responding to the concerns of the various economic stakeholders going well beyond the banking industry, to include real sector operators, academia, opinion leaders, and consumer associations. We have regular public consultations through press conferences and public addresses. I initiated, amongst others, MERI − the Mauritius Exchange Rate Index −, PLIBOR – the Port Louis Interbank Offered Rate − and the Inflation Expectations Survey to focus more sharply on expectations to help us track changing market sentiment. We initiated two new regular reports, one on Financial Stability and the other on Inflation.

In addition, we have brought in some internal reorganisation endowing the institution with a flatter structure enabling more delegation, faster response, and greater flexibility in decision-making. New operating units were created to address new issues, such as financial stability and Islamic finance, or to give sharper focus to specific work areas such as financial markets and compliance. Banking supervision and regulation were strengthened; the payments system was modernised allowing for cheque truncation and bulk clearing; financial market infrastructure was spruced up with single-maturity auctions of Treasuries; financial literacy programmes were initiated. All these required strong emphasis on capacity-building and training, and continuous interaction with regional and global networks to keep up to the mark.

Above all, I have been steering affairs, guided by Rabindranath Tagore’s great prayer,

> *Give me the strength never to disown the poor, nor bend my knees before insolent might.*

We continue to prize our independence and we defend it in the best interests of the country. Often we remind the most powerful in the land that our concerns extend not least to pensioners and those constrained to live off their savings; for our task at the Central Bank extends to promoting a stable and growing economy for all. It is vital for the Bank to respond to the interests of all sectors, not just the most powerful, the best-connected, or the most vociferous.

Now if Paul Getty's formula for success was

> *…rise early, work late and strike oil*

I have had to adapt that to the circumstances of Mauritius where there is no black gold. Not finding oil here, the Bank has taken to buying gold; we bought two metric tonnes of it from the IMF in November 2009 for 2 billion rupees: that gold is now worth nearly 3½ billion rupees. The profit from this should pay for a few tower blocks or even a few new botanical gardens. And to ensure all Mauritians have easy access to a similar deal, we now offer for sale to the public solid gold bars; so do come by and make a mint while the stocks last.

This offer comes during the course of our 45th anniversary year as the central bank in Mauritius and we have had a series of international events in celebration. As a more lasting commemoration, we shall be issuing a souvenir book on central banking, the economy and Mauritian society.

Riding the storm

Now, many theorists have speculated on the causes of the continuing international financial crisis − perhaps as many as those whose speculation promoted it! Some here have contributed to this mountain of analysis.

On these occasions, I usually offer a new Law to illuminate the issue of concern. We've had Maradona's law of interest rates; Einstein's law of success; Newton's laws on physical response; and now I offer you Poul Andersen's law. This is the obverse of the law of Occam's razor for simplicity of explanatory hypotheses. So I offer you tonight Andersen's law of the shaving brush, in which he declared:

> *I have yet to see any problem, however complicated, which, when looked at in the right way, did not become still more complicated.*

This law underpins much of the writing about the recent crisis. But for my own part I prefer to go straight to the point, as Liaquat Ahmed has done in his brilliant analysis of the Great Depression, when he wrote:

> *More than anything else…the Great Depression (1929–31) was caused by the failure of intellectual will and a lack of understanding about how the economy operated.*

Similarly, I put down the lingering crisis to the dual impact of market failure in the capital market and supervisory and policy failure at the level of financial boards and the regulators. Incredibly, other banking Boards did not see the demise of Barings as prime evidence of a fatal flaw that could engulf the banking world and much beyond, as it did. To correct this flaw required just a little imagination and courage. Unfortunately, this turned out to be beyond the grasp of every western bank board, every regulator and supervising agency, every Minister of Finance and every Government. Thus the poor tax payer has had to pick up the tab for the gross failure of top financial management, leaving the banksters' bonuses and golden parachutes largely intact. Those in charge just lacked the courage to ensure that if banks went bust so must the bankers.

Which rather reminds me of Lord Salisbury's observation on the political scene:

> *You will find as you grow older that courage is the rarest of qualities to be found in public life.*

So, where are we now in Mauritius in the lingering crisis?

We've done rather well in fact. In the last six years the total assets of banks have expanded by 70 per cent; our 21 banks have almost 35,000 shareholders and employ over 7,000 staff. I have granted five new banking licences, the public now has access to 216 branches with 2.5 million accounts – or 2 accounts per head of population. More than half of the bankable population are internet-banking users. The footprints of our banks stretch from the Indian Ocean islands, to Malawi, Mozambique and Zimbabwe on the continent, and across to Maldives and India. The list of the Top 80 Banks in Africa in terms of assets includes three of our banks. We have consistently logged positive economic growth, and enjoyed social peace with low inflation and moderate unemployment.

Despite the lingering global economic crisis, our banking and financial system has remained robust, resilient and well-managed. Strong supervision and prudent management have earned us a coveted place on the short list of countries that actually had a rating upgrade this year when the likes of the United States, France and, more recently, the European Stability Mechanism, have been stripped of their coveted triple-A ratings. Banks in Mauritius have continued to make extraordinary profits, beyond those of even our top six companies in the real economy! Let's hope our top bankers will share this wealth judiciously with all stakeholders to the benefit of all the people of this land. A fair deal for bank customers is very much at the top of our agenda.

It is not exactly a secret although it may not be very widely known in financial circles but we do have very fishy banks in Mauritius – and large ones too. It is also an area where there are many sharks. Worse, these fishy banks are all under water. Now, before you look suspiciously at the banker sitting at your table, let me give you the names of these fishy banks. Do I feel a chill running through our bankers? Out with the names then! They are Sudan bank, Nazareth bank, and Saya de Malha bank. These banks, which do not require a bank licence, are within our territorial waters of 2 million km2 and are very fishy indeed. They provide us with our white fish for the dinner table and occasionally, like now, with a fishy tale for dinner table chat as well. We have here a clear case of fishy banks without fishy bankers. If any of our scoop-hungry press is ruminating over a catchy headline: "Very Fishy Banks in Mauritius, Governor says". let me gently remind them of the benchmark for this kind of mis-reporting set by a cub-reporter covering the visit of the Archbishop of Canterbury to the US, landing in New York.

The Archbishop had been advised to be cautious with the scandal-mongering press. "Be discreet: be very discreet; but with a smile". On arrival he was hijacked by a bevy of press men clamouring for a story.

One reporter asked "What do you think of the night clubs in New York?" Remembering to be discreet, with a smile, the Archbishop ironically responded "Are there any night clubs in New York?"

Headlines next day: Archbishop's first question on landing in New York "Are there any night clubs here?"

Some people have continued to express dismay that we are not continuing to achieve the 5% growth that they had come to feel was our birth-right. May I say, this is just unrealistic. It arises from a failure to understand the dynamics of economic growth. These dynamics change as you emerge from the developing to the developed stage. To move into the higher income bracket, escaping the middle-income trap is a long haul. It requires quite different capacities and is not done at the sprint of 5% but more at the pace of a long-distance runner. It is good to remind ourselves − especially if we are inclined to agonise over the estimated 3.4% GDP growth rate this year − that 1% on our national income now is far greater than 5%

was twenty years ago. Why? Simply because the national cake is much bigger! Just the annual *incremental* output in 2012 – at an estimated nominal Rs21 billion – is greater than the entire GDP of the country was as recently as 1987.

"Growth at any cost" has never been our credo. Equitable growth, inclusive growth, sustainable growth is what we have been pursuing with, as even the most carping critic must concede, impressive results in terms of rising national income, a stable multi-ethnic society, and a democratic polity. Our track record may not be perfect; our present may be tense; and our future may look conditional – that may in fact well serve as an apt diagnosis of our predicament at any point in our recent history. What we should avoid is the risk of blowing it all by pursuing an unrealistic agenda of higher growth by monetary fixes. Instead of growing at a brisk sprint, galoping inflation is the more likely outcome if we rush down this route.

We must adapt to the "new normal" of reduced growth in the western economies on whose coattails our export-driven economy has been riding. What we need to power future growth is not cheap labour but increasing productivity, greater competitiveness, more innovation and a more agile, cerebral management in both the public and the private sectors.

But if we have indeed weathered the storm, some of our sails are looking rather shabby, and badly in need of a refit. But what sort of refit do we need? And what sort of strategy must we devise to continue to face up to the turbulent world?

Lessons we have learned

We should be wise to acknowledge another of oilman Paul Getty's maxims, this time on banking:

> *If you owe the bank $100, that is your problem. If you owe the bank $100 million, that's the bank's problem.*

Which reminds me of the story of the very distinguished banker, if there are any left standing. Our banker was attending a grand international conference of bankers. The sessions that day had been long, with detailed workshops and breakout sessions. After a formal dinner he paused for a night-cap in a quiet bar in the hotel. As he was relaxing over a screwdriver, his favourite cocktail, a fashionably-dressed lady, slid into the seat beside him, flashed a smile and engaged him in conversation. He could not remember her in the conference sessions, so he explained he was a banker at the conference of international bankers taking place at the hotel.

She took up his offer of a drink and settled down with a screwdriver, too.

"Much obliged", she said, sipping appreciatively, and giving him her best come-hither look. As our banker just looked into his glass, wondering who he was dealing with, she added, "I also oblige – for a fee of course."

"I oblige my clients anytime", she went on.

Our banker was trying to puzzle this out.

She vaguely reminded him of a Churchillian wartime speech as she continued:

"I oblige them in the train; I oblige in the car; I oblige in the office, I oblige in the lift, I oblige on the golf course…"

"Oh, blow me!" interrupted our banker, as the penny finally dropped, "why − you are a banker, like the rest of us! Tell me, which bank are you with?"

Now, I have sanitised the story considerably for sensitive ears, but you get the gist of it!

So, be on your guard when you come across an obliging banker! If there is one thing we must learn, it is how to bring banking and accountancy back in from the righteous wind of public anger, for a refit with refreshed ethics, a new sense of corporate probity and a bolder capacity for corporate governance. That is exactly what we seek to achieve by the new Guidelines on Corporate Governance that we introduced in August this year. Not to be outdone, the Banker's Association has announced that it is coming up with a new Code of Ethics and Banking Practice. Not a minute too soon, one might be tempted to say!

So I must say that I am very pleased to hear that after the Diamond era of super bonuses and the alleged massaging of the figures in rampant rate-rigging, one of the largest banks concerned is to refocus on the retail trade. Good news indeed!

For here we are initiating the separation of domestic banking from international banking business, as a sound precaution against any further global infection. Let's just hope that bankers everywhere remember whose money they are speculating on − not their own money but yours!

So what can we learn from the past few years? To be sure, we should be more vigilant in identifying the first tell-tale signs of bubbles. We should be wary of unsustainable credit levels and fat profit margins. Banks must again pursue the function of promoting the optimum allocation of capital, and not just sit on it. We must also remember that real estate is just houses, buildings and land that have fundamental economic, social and environmental functions, only some of whose value appears in the accountants' books. We need to account for all these functions more clearly.

We may also draw lessons for the future as we approach key decisions on advancing the regional integration agenda with Common Market for Eastern and Southern Africa, Southern Africa Development Community, Association of African Central Banks and the rest. For we need forms of management in business and political governance that rise above the self-interest of the nation-state.

When 90% of the people of the south western Indian Ocean are living in poverty − I speak principally of Madagascar and the Comoros − we might ask ourselves, not how we can continue to be in the lead at the top of the Mo Ibrahim Index for Africa, but what have we done with that leadership to secure development in our region to relieve poverty, and to promote growth. What we lack now is a clear vision for our future, a long-term picture of where we want to be in 2030 based on greater intra-regional cooperation and reinvigorated trade, amongst others. To turn round the famous Clinton adage on political priorities, it seems to me that on the regional integration issue:

> *It's all about trade, stupid!*

A future prospectus

We have been promoting greater financial integration and facilitating regional banking initiatives. The IOC is promoting new regional ventures in air and sea transport and in communications; many businesses are extending their regional links. But we would do well to think ahead about combining regional fiscal and monetary management and the development of regional governance through some sharing of sovereignty.

But if intra-regional trade is where the EU, and indeed the USA, began, we have yet to reach the starting blocks. We need free movement of capital and labour; we need social union with common frameworks for labour law, portable pensions and social security; we must foster greater international competitiveness and probity; we need fewer cartels and more competition. We need to nurture greater savings and investment with a regional fund for development and less reliance on external aid programmes. Banking union is a very distant prospect; and dare I even mention that far-off dream of a common currency? For our dreams need to keep in touch with reality and not turn into debilitating daydreams.

If our dreams are to be, then as Tagore has declared:

> *We have no time to lose, and having no time we must*

Scramble for our chances. We are too poor to be late…

Or as Ovid remarked, for those who still have some Latin:

Tempus edax rerum.

And for those who don't have the Latin, I might broadly translate that as

Time [is] the devourer of all things.

That is why I have put so much effort in recent years into the tasks of getting banking ready for regional lift-off. For I am doing nothing less than banking on the future of Mauritius as a regional leader in this field. We must avoid the pitfalls that are testing the EU, seeing the task not to enrich ourselves but to enrich all the peoples of these beautiful African lands.

As I close, let me say that last year some of you were kind enough to say they liked my speech. Others suffered a mild bout of indigestion and were less kind. A few are still smarting from the mere recollection. But words, whether meant in earnest, or spoken half in jest, are just precursors of greater things. I trust that, over my six years as Governor, I have adequately demonstrated that I go well beyond word-smithing. In these matters, I am a disciple of the Athenian Statesman, still celebrated for his rhetorical prowess, Demosthenes, who declared (and here I will save you from the original Attic Greek):

First in oratory is action; second is action; and again third is action!