

R Basant Roi: Introduction of government securities at the stock exchange of Mauritius

Address by Mr R Basant Roi, Governor of the Bank of Mauritius, at the official launching ceremony for introduction of government securities at the stock exchange of Mauritius, Port Louis, 12 December 2003.

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Ladies and Gentlemen

Good afternoon

It is a great pleasure to address you this afternoon on the occasion of the Official Launching Ceremony for the introduction of Government securities at the Stock Exchange of Mauritius. It is a greater pleasure still to see that Government securities have finally found their way to the Stock Exchange after several timid attempts made in the past.

Indeed the Bank of Mauritius has been striving for more than a decade to develop a secondary market for Government papers. In November 1992 when the Bank started with the weekly auctioning of Treasury bills a strategy for the development of a secondary market was devised. It remained a paper-strategy and did not find its way through. In February 1994, the Bank made a second attempt. A Secondary Market Cell was set up in-house with a view to kicking-off, with some determination, the development of a secondary market for Government papers. This in-house Cell was initially expected to play a market-making role. Commercial banks did not respond positively to the initiative. The market did not take off. Brokers were eventually invited as participants to play a decisive role in the endeavour. The then strategy of the Bank was not well received. It was not appealing to brokers. As a result of miscarriages, the in-house Secondary Market Cell laboured in routine operations.

In December 1998, the Bank of Mauritius started with the sale of Treasury bills over-the-counter to individuals and non-financial corporations. One of the important objectives of this initiative was to let individuals from all strata of the population familiarize themselves with Treasury bills as an investment instrument. This initiative triggered competition for deposit resources in the banking industry. Individual investors derived some experience with Treasury bills as an investment instrument. The sale of bills over-the-counter by the Bank was a success. Investment in the bills reached a peak of over Rs4 billion. Some 11,000 individuals and financial corporations invested in the bills.

Pursuing its objective to eventually take Government papers for trading on the Stock Exchange of Mauritius, the Bank of Mauritius established, effective 1 February 2002, a Primary Dealer System. At the weekly auctions for Treasury bills four banks, the Mauritius Commercial Bank Ltd., State Bank of Mauritius Ltd, HSBC, and Barclays Bank Plc., were appointed primary dealers. The Bank of Mauritius had decided that traditional bidders for bills at the weekly auctions would be gradually cropped out. Between February 2002 and November 2003 transactions by Primary Dealers with banks amounted to Rs1.9 billion. Their transactions with Corporate bodies amounted Rs10.8 billion. With individuals their transactions amounted to Rs1.6 billion. These give a total amount of over Rs14 billion worth of bills transacted by Primary Dealers. This value of transactions in bills reflects the potential that exists for the trading of Government papers on the Stock Exchange.

So far the number of eligible bidders at the weekly auctions held at the Bank of Mauritius that are not primary dealers has been reduced from around 250 to 11. Over time only the Primary dealers will be eligible to bid at the weekly auctions. Institutional investors like the National Pension Fund, the National Savings Fund and all the remaining banks and other financial institutions will be required to purchase Government papers on the secondary market. This would definitely require major changes in the investment decision-making process within these organizations. They would stand to gain in the medium-term.

Sometime in May last I initiated discussions with Mr. Sunil Benimadhu, Mr. Vipin Mahabeersingh and Mr. Chota Moollan at the Bank of Mauritius on our intention to sell Treasury bills through brokers on the Stock Exchange. Several meetings were since held with myself, the Managing Director and the staff of the Financial Markets Department of the Bank of Mauritius. Discussions were held with stock brokers also. A set of rules and procedures has been defined and was submitted for approval by the Financial Services Commission.

Some six weeks back I had a stimulative exchange of views with the Honourable Minister Sushil Khusiram on this project. The swiftness with which the Honourable Minister made Regulations to that effect reflects his personal commitment and determination for the development of the market for Government papers. I am thankful to him for having supported this initiative.

With hindsight the decision to sell Treasury bills over-the-counter at the Bank of Mauritius was a decision taken in the right direction. I am happy to see that finally the trading of bills will soon take-off on solid foundation. The Stock Exchange of Mauritius, the Central Depository & Settlement Co. and the brokers have put in lots of efforts in the project and I am confident that it will not suffer the miscarriages of the past. Should the Stock Exchange and the brokers require any further assistance from the Bank of Mauritius we will be glad to do so. May I wish all the stakeholders the very best of success.