

Yandraduth Googoolye: Payment and settlement systems in Mauritius

Address by Mr Yandraduth Googoolye, First Deputy Governor of the Bank of Mauritius, at the Opening Ceremony of the COMESA Regional Payment and Settlement System (REPSS), Bank of Mauritius, Port Louis, 14 April 2008.

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It is a great pleasure and privilege for me to welcome you all to the Bank of Mauritius on this opening ceremony of the COMESA Regional Payment and Settlement System (REPSS) Pilot Training Workshop which the Bank is indeed very pleased to host. This training programme is a joint effort of the COMESA Clearing House and the Bank of Mauritius, in conjunction with CMA Small Systems AB, the service provider selected by the COMESA Council of Ministers for the delivery of a turnkey operation for REPSS, and Fin-X, COMESA's SWIFT Service Bureau and responsible for the Regional Payment and Settlement System Operations Centre at Orange in Johannesburg and the SWIFT Representative.

The Governor would have very much wished to be here but he had to attend the IMF Spring Meetings which is attended by Governors around the world. In that context, the Governor met the Chairman of the SADC Central Banks Governors, Governor Tito Mboweni and in the light of the political problems which the Comoros is now facing, it has been decided in common accord with the Governor of the Central Bank of Comoros and other Governors that the next meeting of the AACB will be held in Mauritius in June this year.

May I also extend a very warm welcome to participants from member states of the COMESA who are all concerned and committed to bring about improvements in cross-border retail payments in the COMESA region. A special welcome to Mr Alexey Nazarov – Managing Director of CMA Small Systems AB; Mr Willie Stoman – Managing Director of Fin-X and Mr Ekkehard Starck – Senior Business Manager, Market Infrastructures & Payments at SWIFT Brussels. Our distinguished visitors will also address you during this ceremony.

We should recall that in its efforts to modernise the financial infrastructure for the benefits of free trade to flow in the region, this project, originally named as the COMESA Payment and Settlement Systems – COMPASS was initiated in 1999 and saw the active participation of Mr Ali Mansoor, the present Financial Secretary who was seconded by the World Bank to the COMESA Clearing House for two years. During his tenure at the COMESA and in the context of the restructuring of the Clearing House, Mr Mansoor designed and moved forward the process of setting up three main facilities that would greatly assist in the promotion of intra-regional trade and included a cross-border payment system to replace the COMESA Clearing House System that no longer met the needs of the region, as a result of the liberalization of most of our economies. After having moved back to the World Bank in August 1999, Mr Mamood Mansoor took over the responsibility of coordinating the regional efforts towards implementation of this project.

Payment systems play a pivotal role in the soundness of all economies and as such the safety and efficiency of payment and settlement systems have always been a major concern for central banks around the world as one of their principal functions is to be the guardian of public confidence in money. This confidence depends crucially on the ability of economic agents to transmit money and financial instruments smoothly and securely through payment and settlement systems.

Cross-border trade is growing rapidly as more companies source goods and services globally. International trade has doubled over the past decade. Most crossborder trade payments are handled through correspondent banking relationships, whereby a series of banks and domestic payment systems are typically linked together to move funds. While volume continues to grow pressure is being exerted on both banks and payment systems to improve the cross-border payment process.

Today, cross-border payments are time-inefficient and costly for banks and businesses. Increase in global trade and improvements in physical supply chain efficiencies are creating demand for process improvements. Improvement in the efficiency and effectiveness of cross-border payments is likely but all stakeholders are being required to increase investments to change the processes and systems of corporates, banks and payment systems.

International experience suggests that even in a liberalised environment, a regional payments system can facilitate trade and payments by lowering risk, reducing costs and expediting payments. In that respect, the COMESA Clearing House has been mandated to implement a system to facilitate cross-border payment and settlement between Central Banks in the COMESA region. This system, named "Regional Payment and Settlement System – REPSS" will provide a single gateway for Central Banks within the Region to effect payment and settlement of trades. It will be a complete real-time online system with an open, published interface based on S.W.I.F.T standards. The COMESA Clearing House acts as the agent of the Central Banks and bilateral limits would be set by each Central Bank at the Clearing House. Bilateral agreements between Central Banks would be formulated to further ensure that settlement would be a successful event each day.

The cornerstone of the REPSS operational model is a settlement agent which will hold accounts of participants and carry out end of day procedures. REPSS is expected to stimulate and increase intra-regional trade by enabling importers to pay for goods and services in their local currencies, whilst exporters will be able to be invoiced for their products in their local currency. Local banks will access the payment system through their central banks. Any participating bank will, therefore, be able to make payments to, and receive payments from, any other participating bank. The linkages through central banks will avoid the payment chains that can sometimes occur in correspondent bank arrangements. The system will be operational through the use of the infrastructure of each member country's central bank and commercial banking payment system. Each country will, however, need to put in place adequate enabling legislation. It is further intended to establish a Trust Fund to assure daily settlements in the event of an inability to settle by one or more participating banks. REPSS is expected to bring about multiple benefits namely a reduction in (i) settlement transactions; (ii) liquidity requirements to secure settlement; (iii) exposure to foreign counter-parties; (iv) foreign correspondent banking charges; and (v) transactional and operational costs. These benefits would immediately be passed on to traders and other stakeholders and give everyone the needed comfort to expand their trade within the region.

The setting up of a COMESA Clearing House Closed User Group and the admission of all Participating Central Banks and commercial banks into the Closed User Group will greatly facilitate interactions amongst all members of the group and get all our commercial banks to have their cross-border transactions carried out securely through their respective Central Banks, without having to go through third parties outside our region.

At the Twelfth Meeting of the COMESA Committee of Governors of Central Banks held in Tripoli on 8 and 9 November 2007, it was decided that a REPSS participating Central Bank acts as the Settlement Agent for the COMESA Clearing House and opens a US Dollar and a EURO account for the COMESA Clearing House at its Central Bank.

Ladies and Gentlemen, the Bank of Mauritius is committed to mark its presence in the Region and the REPSS is yet another step in the commitment of the Bank towards regional cooperation, in our commitment to consolidate our relationship with the COMESA, I am pleased to announce, that the Bank of Mauritius has, on an initiative of the Governor of the Bank, decided to act as Settlement Agent for the COMESA Clearing House. We have, in this context opened a US Dollar and a EURO account at the Bank of Mauritius for the COMESA CLEARING HOUSE, pending the opening of these Accounts at the Federal Reserve Bank of New York and the European Central Bank respectively. We shall also, for settlement purposes, request all participating Central Banks to open a EURO and a US Dollar Account

with us at the Bank. In order to familiarise our stakeholders with the System, we have organised a brief Information Session on REPSS just before the tea break.

In an increasingly global marketplace, the COMESA Clearing House's REPSS was a bold initiative to fulfil the funds transfer requirements of corporates, the financial institutions that serve them, and the payment systems that enable the payments. The project will also require a regional approach to structural reforms in such key areas as reducing and harmonising tariffs legal and regulatory reform, modernising and rationalising domestic payment systems, harmonising tax systems and labour market reforms.

This project is the result of collective efforts from all our Central Banks in coming up with a cross border payment and settlement system appropriate for our region and possibly for the African continent. We are indeed pleased to see that our hard work is now bearing fruit and the system, which will contribute immensely towards the expansion of intra-regional trade and towards COMESA's Regional Integration Agenda, will soon be operational in all COMESA countries, as per decisions of the COMESA Authority of Heads of State and Government. Allow me, Ladies and Gentlemen, to briefly comment on a couple of issues that are on the minds of everybody these days.

In one of his recent speeches, US Federal Governor Frederic Mishkin said, and I quote, "The ultimate purpose of a central bank should be to promote the public good through policies that foster economic prosperity". Unquote. This is specifically what is also required for the Bank of Mauritius. The primary objective of the Bank of Mauritius as laid down in the Bank of Mauritius Act is to maintain price stability and to promote orderly and balanced economic development.

These two objectives are obviously connected since preserving price stability encourages stronger economic activity in the long run. This obviously implies that we do need to keep an eye on inflation. However, I rather view that the fight against inflation should be a cause of concern not only for the central bank but also for all economic players and each individual in the society.

The ongoing global financial market turmoil as well as the rising global commodity prices is reminiscent of the fact that nowadays, no economy is sheltered from shocks stemming from outside its territory. While we all recognise that globalisation has provided for great opportunities, well, it has also brought with it challenges. Right now, as you are all aware and as being widely broadcast, food and other commodity-driven pressures which also include the high oil prices are impacting on headline inflation across the world. Mauritius does not stand immune to these developments.

Being a net food importer, the high food bill is already impacting on our current account. In addition, over half of the domestic inflation rate results from food inflation. The situation which we are facing is not unique to Mauritius. Other economies are also witnessing this phenomenon. In such an environment, it is vital that all economic players in our economy tune in their concerted efforts and it is expected that the gains from the recent appreciation of the Mauritian Rupee be fully passed on to consumers.

As you are aware, we have since November 2007 been purchasing a large amount of foreign currencies on the domestic foreign exchange market. Simultaneously we have been issuing our own instruments, BoM Bills, to sterilise the Rupee counterparts. You will realise that these foreign currencies are invested abroad at interest rates currently prevailing on international markets. The BoM Bills are issued at a much higher rate.

Recently some enterprises have been complaining of lesser profits being realised. We, at the Bank of Mauritius, are very much concerned about the performance of the enterprises operating in the real sector. You will recollect our first meeting with Mauritius Export Association (MEXA) in the first week of January 2008 where in an attempt to help those enterprises, we offered to buy foreign exchange from them. We had a second meeting with them in the first week of April 2008 and we reiterated our support. Our decision to reduce the

key Repo Rate at our last MPC meeting was also, to some extent, to alleviate the costs of funds of exporting enterprises. It may be reminded that all our foreign transactions are not denominated in one currency only. We also gain when we deal in a currency which is depreciating vis-à-vis the Rupee.

With the restructure and re-engineering which has taken place at the Bank, the Bank is now more apt to meet those challenges.

We thank you very much indeed for your presence this morning and wish you a very pleasant stay in Mauritius. May I now request Dr Moyana, Executive Secretary of the COMESA Clearing House, to say a few words.