Inaugural Ceremony for the Launching of the Bank of Mauritius Museum

Address by Mr Rameswurlall Basant Roi, G.C.S.K., Governor, Bank of Mauritius,

November 3, 2017

Honourable Prime Minister

Honourable Madam Speaker of the National Assembly

Honourable Ministers

Excellencies, Members of the Diplomatic Corps

Members of the National Assembly

Royal Mint and de La Rue Representatives

Distinguished guests

Ladies and Gentlemen

Good afternoon

I welcome you all to the Bank of Mauritius on this special occasion marking its 50^{th} Anniversary celebrations.

I am particularly delighted to welcome you to this newly constructed auditorium. In the central banking community, the first Governor of any central bank occupies a seat apart in its institutional memory. Mr Aunauth Beejadhur, a journalist and politician, exceptionally known for his intellectual and journalistic skills, was the first Governor of the Bank. He was entrusted in 1966 with the extremely delicate and demanding task of starting and building a central banking institution for the country before independence in 1968. Assisted by two senior officials of the Bank of England, he set up the operational system of the Bank on a foundation, the strength of which is little known to those not familiar with the Bank. Mr Aunauth Beejadhur successfully set the Bank afoot. Those of us at the Bank, having had the privilege of working under his stewardship, reminiscently recall Mr Aunauth Beejadhur as someone who was gifted with an unusual clarity of mind. Although the business of central banking was then relatively unknown in Mauritius, he had clearly understood that it was a noble struggle that requires more self-command, judgment and inner toughness than one would ordinarily imagine. And the nobility lies in the struggle for preservation of what is best for our common life as a people.

On the occasion of the 50th Anniversary Celebrations of the Bank, the Board of Directors decided to dedicate this auditorium to late Aunauth Beejadhur in recognition of his pivotal contributions to the foundation of the Bank of Mauritius. It's more than fitting that after so long, the Bank is paying a long overdue tribute to its first Governor, Mr Aunauth Beejadhur. I am indeed very happy to welcome members of his family from overseas and from here in Mauritius to today's functions. On behalf of the Board of Directors of the Bank, myself included, I thank the Beejadhur family for having acceded to our request that this auditorium bears the name, Aunauth Beejadhur. Thank you so much.

It is expected of me to look back with you all into the 50 years of history of central banking in Mauritius on this very special occasion. It's beyond the scope of this address to cover so many years of achievements - and failures – in a few paragraphs. I will limit my address to some key institutional aspects of the Bank over its 50-year history. But before I do so, let me go back to the first half of the 19th century when Mauritius had entertained a regime of free banking, meaning that anybody could start a banking business with limited capital in an environment free of regulation. Each bank was allowed to issue its own banknote in the same way as private individuals are liberally issuing bitcoins and altcoins today. Because, amongst other things, banks used to issue banknotes and coins more than necessary, bank failures were a common feature. The concerns for financial stability were so pre-occupying that the then Government had decided to establish in Mauritius the Board of Commissioners of Currency in 1849 – the first in the world. A mild version of regulation of banking activities was introduced thereafter. By the way, this crisis and crisis resolution story of ours is similar to the one that had led to the establishment of the US Federal Reserve System in 1913. The rupee became our national currency in 1877. The exchange rate of the Mauritian rupee was set at Rs2.00 for US$1.00. Soon after the Second World War, Mr Fernand Leclézio, one of the richest man in Mauritius sold his sugar estate to settle down in Europe. The transfer of the sale proceeds was so large that it had worsened our balance of payments position and the foreign currency reserves of the country suffered a troublesome drain as a result. Expeditiously, the then Government had introduced exchange control which, after more than two centuries, brought to an end an era of unrestricted transfers and payments for international trade transactions and free capital convertibility. It was

1951. The Treasury Department of the Government was made in charge of the Exchange Control Office.

In the context of the Bank of Mauritius Ordinance 1966, some of these functions were hived off to the Bank of Mauritius. On July 1, 1967, Governor Aunauth Beejadhur assumed office. The functions of the Board of Commissioners of Currency were vested with the Bank, a month later, in August 1967. Equipped with an exchange control office, an office for the day-to-day basic banking operations and an administration department, the Bank became officially operational on September 2, 1967. Thus began central banking in Mauritius, just over six months before independence in March 1968.

Barely two months through the business of central banking the Bank faced its first tough challenge – a kind of challenge that any central banker used to feel extremely uncomfortable in the days of the Bretton Woods fixed exchange rate regime. Great Britain, under the then Prime Minister, Harold Wilson, devalued the Pound sterling, to which the rupee was pegged at Rs13.33 by 14 per cent in November 1967. It was the first significant price shock to the Mauritian economy after the establishment of the Bank of Mauritius. The Bank had steered through successfully. Governor Aunauth Beejadhur was tested right at the very beginning of his tenure of office.

In 1971, major amendments to the Bank of Mauritius Act were carried out. Pressingly, a Research Department was created the purpose and objective of which was to conduct research and economic analyses and policy recommendations to the management. In 1974, Herstatt Bank, a privately owned German bank, went bankrupt in a famous incident that serves to explain settlement risks to students of banking and finance. As a result, the Bank of England then decided to focus a lot more on regulation and supervision of financial institutions. That incident had paved the way for the Basel Committee on Banking Regulation and Supervisory Practices. At around that time, the Bank of Mauritius, one among the very few central banks in sub-Saharan Africa, having observed how the fringe crises in the early 1970s and the serious disturbances triggered by the collapse of Herstatt Bank, had set up an Inspection Division that eventually evolved into what is currently our Supervision Department. In 1979, because of a balance of payments crisis, Mauritius adopted a Stabilisation Programme under a Stand-by arrangement with the IMF that lasted until August 1986. Financial sector liberalisation, properly sequenced by the Bank, initiated in 1983 was underway. Once the Stand-by arrangement with the IMF was over an old paper on offshore banking (written by me in 1980) that had been shelved was dusted off. The Bank of Mauritius Act and the Banking Act were recast in 1988 with a view to accommodating the development of the first leg of an offshore financial sector. Offshore banking, a project led almost entirely by the Bank, was launched in August 1989 by the then Prime Minister, Sir Anerood Jugnauth at the Chancery House, Port Louis. In September 1993, Mauritius adopted Article VIII of the Articles of Agreement of the IMF and all restrictions on transfers and payment of international trade transactions were eliminated. By July 1994, the Exchange Control Act was suspended. Mauritius thus moved to a regime of full capital convertibility. Since nowhere has it ever been mentioned, let me underline that the Bank made vitally important contributions to the setting up of the Port Louis Stock Exchange and to the introduction of leasing activities in the country around the mid-1980s.

In the first half of the 1990s, the Bank re-constructed its organisational structure to include an IT Department. By the end of the last century, the Bank decidedly changed the regulatory and supervisory framework with a view to making our banking industry sound and robust. Having introduced the Real Time Gross Settlement system and the Mauritius Credit Information Bureau, the Bank created a new Division, the Payment Systems Division.

In the light of constantly emerging challenges, the Bank of Mauritius Act and the Banking Act 1988 were completely overhauled. It's an exercise that took the Bank 8 years of work diligently done. In 2004, a thoroughly updated version of the Bank of Mauritius bill and a banking bill were put forward for enactment. Whereas in the previous Act, the Minister of Finance could give directives to the Bank, in the new Act, this power to issue directives to the Bank was done away with. The Bank of Mauritius was given full independence. A major review of the Bank of Mauritius Act and the Banking Act 2004, aligned to the Deposit Insurance Scheme bill and the National

Payments System bill, is practically over. The draft bills are being given final touches.

In the last two years, the organisational structure of the Bank has been reconstructed once again to include a Reserve Management Division led by a group of highly competent professionals responsible for managing about US$5 billion. A lot more could be mentioned here and a lot more has yet to be accomplished.

You might be wondering why I have chosen to focus on the evolution of the organisational structure of the Bank and the regular amendments of the Bank of Mauritius Act and the Banking Act. The foregoing brief survey tells one important story. The organisation and re-organisations of the Bank's structure and the high frequency of amendments to the two Acts are reflective of the fact that the Bank has never stopped from re-engineering and re-inventing itself since 1967. Having myself gone through the thick and thin of things during part of the history of the Bank, I may venture to say that the Bank is probably the only institution in Mauritius whose legal framework has been so frequently amended and that its organisational structure has been so often re-cast, re-shaped and re-oriented to meet constantly emerging challenges. The Bank has never been a dormant institution in its first 50 years.

We are here primarily for the inauguration of the Bank of Mauritius Museum for banknotes and coins. In the online Wild West where the sheriffs are mostly absent, there has been a wild rush of noise in respect of cryptocurrencies, a form of virtual currencies that goes unregulated. And, lately, a few curveballs have been thrown at the Bank of Mauritius in respect of cryptocurrencies. There is a tendency to over-react to illusory attractions and under-react to realities. It's an equal opportunity disease. Following the release of Panama Papers through wikileaks, bitcoins evangelists have mushroomed. Cryptocurrencies are found to be attractive to those seeking anonymity. It means what it means. This is rightly an occasion for me to clear the cloud surrounding the Bank of Mauritius stand with regard to cryptocurrencies. But before I proceed any further, let me stress that the Bank does endorse and has already envisaged to go for blockchain technology in some specific areas of its operations. But with regard to bitcoins and altcoins in the manner they are being currently issued, there is a very big question mark in the central banking community.

Those of us who are conversant with the evolution of capitalism as an economic system and with the monetary history of the world must be aware that there always have been anarchists aggressively seeking to undermine the sovereignty of the state. Why governments should impose taxes? Why should we pay taxes? Why governments, through central banks, should be the sole issuer of banknotes and coins? And why not the private sector be allowed to issue them? These are examples of questions that are often asked by anarchists even today. The politics of bitcoin reflects this attitude, to some extent.

Much of the economic and political thought on which bitcoin is based stems from ideas that travel all the way from the Chicago School economics of Milton Friedman to the Federal Reserve System conspiracy theorists. Bitcoin enthusiasts may not be subscribing to these theories. It just happens that the assumptions and concepts stem from the very far right. In bitcoin literature as much as in central bank conspiracy writings, the Fed is said to hide "its real purpose; that it steals money from some private citizens and put it in the hands of the 'elites' that control the Fed; that the Fed itself is covertly run by a shadowy group of elites, often made up of Jews and members of the English banking families such as the Rothschilds". They also put forward more subtle arguments 'that inflation and deflation are caused by monetary policy rather than by more conventional aspects of economies like commodity and assets prices, productivity and other aspects of labour and so on.'

Whilst the argument that cryptocurrencies eliminate fees, charges and other cost of intermediation is no doubt valid, the argument that they are a very convenient means of laundering money is equally valid. Some observers say bitcoins and altcoins are not currencies but commodities that are being traded like any other commodity on the exchanges. They are currently serving as speculative investment instruments playing almost no role as a means of payment. In terms of economic significance, they are said to have minor importance. Some others say it's just a scam. It does not physically exist. It is invisible. But a golden coin on posters is used for purposes of advertisement. It is also said that the word ‘mining’ in the digital creation of the bitcoin and altcoins is used to give the impression that it’s gold that is being mined. Still some others argue that it’s a convenient means to avoid income tax and VAT payments.

Central bankers have been seeing this game differently from afar since 2009. What is money? What’s the definition of money? How broad is the definition of money? If cryptocurrencies are money, anything else can, of course, be construed as money. Take for example the banknotes and coins in your wallet. They are an asset owned and held by you. The same banknotes and coins appear on the liabilities side of the balance sheet of the legally constituted issuing authority which is the Bank of Mauritius. It necessarily means that the Bank has an obligation of the stated amount vis-à-vis you, and is accountable to you. At any point in time, anyone of you can examine the balance sheet of the Bank of Mauritius to see the quality and the value of assets held against the currency in your wallets. In the case of cryptocurrencies, the question of liabilities does not arise at all. They are your assets if you acquire them but they are liabilities of nobody in this world. Nobody has an obligation to the holders of cryptocurrencies in the manner a central bank does have for the currency it has issued. I do not wish to burden the audience this afternoon with technicalities and arguments that might sound academic to disbelievers but which are indeed of fundamental importance to central bankers having financial stability as one of its mandates.

Reportedly, there are more than 1,300 cryptocurrencies registered on different exchanges worldwide. It necessarily goes to say that there are more cryptocurrencies than national currencies. How do we recognize them and who is who in this vast jungle? And how do we effectively regulate them? Since 2011, there have been at least three dozen heists of cryptocurrency exchanges. Nearly one million bitcoins equivalent to over US$4 billion at current prices have been found missing between October, 2011 and April, 2017. Legions of investors and speculators have been left holding their bags empty; they are at the mercy of the exchanges for any possible compensation. Would you as a money-lender accept cryptocurrencies as collaterals? Does it augur well for financial stability? Anyone of us sufficiently conversant with digital technology, must be aware that clever algorithms churn through a massive history of everyone's behaviour in the internet to predict your own behaviour. And those who have a compulsive gambling behaviour needs to bear in mind that cryptocurrency exchanges are not manned by professors of ethics and morality.

May I however seize this opportunity to state that in discussions about cryptocurrencies one crucial aspect in the digital evolution of the means of payments and settlements is often overlooked: a vast majority of money in a modern economy is already electronic money. In Mauritius, nearly Rs3 trillion of transactions are settled electronically on an annual basis. This figure represents 6 times the GDP of Mauritius implying that our payments and settlements by electronic means are quite intensive and are ever growing. We expect the value of transactions settled electronically to shoot up with the introduction our National Payment Switch.

Honourable Prime Minister, Ladies and gentlemen, I have to reassure you that the Bank is very digital minded. The Bank was one of the first, along with South Africa, in sub-Saharan Africa to go for real time electronic payments and settlements in 2000. The Mauritius Credit Information Bureau established in 2005, the first electronic platform for sharing borrowers' information established in sub-Saharan Africa has been ranked first by the World Bank doing business indicator for several years in succession. All returns from our regulatees are electronically submitted and automatically processed as from this year. The National Payment Switch which will be launched next year will become a pillar of the Mauritian digital economy. This will bring about a kind of revolutionary change in the Mauritian economy that many of us still fail to take cognizance of. It will be a giant leap forward for the Mauritian economy. This is a Bank that performs noiselessly and without chest-beating – in the quietness of an insulated and well-guarded building. The Bank does realize that at the centre of every significant change taking place in our lives today, there is indeed some technology of some sort involved. Every kind of thing that is made is becoming something else. We do realize that nothing is done yet. Nothing is finished for good. And all is flux – constant flux, meaning that this never-ending change is the pivotal axis around which the modern world rotates.

Central bankers in general have thoughtfully taken a few steps back from the cryptocurrencies debates in the past several years. Increasingly more and more researched and in-depth studies conducted by responsible organisations are being published on the subject. Digital currencies like bitcoins and altcoins are being viewed by central bankers as having the potential to make future financial crises even more devastating. There is now a slowly emerging acceptance that if digital currencies have to be issued, central banks should necessarily be the issuer. But it's also being recognized that the risks associated with digital currencies are far from minimal. In a world characterised by a dense traffic of post-truths and fake news, policy makers need to consult research studies produced by responsible organisations. Truths are turning out to be underpowered antibiotics. Let's exercise prudence.

This brings me to the Knowledge Centre the Bank of Mauritius has decided to host in this very premise. It's an idea that I had romanced with since my days I was Director of Research here at the Bank of Mauritius.

In the past, the power of the priesthood was demolished by the circulation of the Bible to all those who wanted and needed it. The power of priesthood in Hinduism was demolished by the circulation of Hindu scriptures to all those who wanted and needed them. The religion that once belonged to the priesthood finally belonged to the people. Unless we make our professional world a better world, a fairer world, many of our younger ones will continue to fade out silently -

saddened and embittered. Opportunities for a fuller intellectual and professional life would only become available if our workplaces are emptied of all the barriers that frustrate the roaming and capricious possibilities of the human spirit.

Openness frees up organisations. The emerging future is very demanding but very exciting as well. We have no excuse for ignorance in the age of information. Organisations that thrive in this age of information are those that have successfully evolved into what is termed as Learning Organisations. When information is open to all, power is re-distributed. When power is re-distributed, hierarchies in organisations are replaced by networks. In the process, it converts employees into free agents. Until today, one often hears stories about how information is curtained off and made available to only the licensed ones in many organisations. Filing cabinets are sometimes said to be more knowledgeable that the officer in control of the cabinets. Where information is not curtained off, power and authority dissolve. Only the bests are filtered in. The decision to host a Knowledge Centre, on the occasion of the 50th anniversary celebrations, in this newly designed building is expected to go a long way towards making precious reading materials freely available to bankers and to the relevant faculties of the University of Mauritius and other similar institutions.

The Bank subscribes to several economic journals like the American Economic Review, American Economic Literature, Cambridge Law Journal and many other treasured publications, not yet accessible to students and professionals outside the Bank. We are seeking to electronically connect to US and UK University libraries in such areas as economics, banking and finance, law and Information Technology. Commercial banks have all agreed to contribute to the financing of the Knowledge centre.

I requested bankers in 2015 to re-invent the Mauritius Bankers' Association (MBA). I understand its Chairman appointed a Consultant to find out how best to re-invent the MBA and raise it to the same level as in advanced jurisdictions. Once the MBA is ready, the financial industry will be authorised to make use of this very auditorium, jointly with the Bank of Mauritius, for purposes of professional training to young bankers. We are overwhelmingly reliant on quality human capital. There is clearly a shortage of professionals in the industry with higher kills. There is no way we can move to higher income levels without a good stock of quality human capital. The Bank is glad to provide these facilities to the jurisdiction on the occasion of its 50th Anniversary Celebrations.

Finally, the Bank of Mauritius Museum. Walk studiously amidst the displays of banknotes and coins in the museum and you will make out that Mauritius was about three centuries ago a regional financial centre.

I do not wish to be overly presumptuous. The museum is of a class apart. It is interactive, reflecting that the Bank is, in practice, digitalising its operations. The Board of Directors of the Bank, myself included, is pleased to gift the museum to the people of Mauritius on the occasion of the golden jubilee celebrations of the Bank.

We have in our midst Mr Paul Van Bodegraven, from Holland, a numismatic expert who is recognized as an unquestioned authority on early Indian Ocean region currencies. The Bank enlisted his services to assess the genuineness of each and every coin and banknote displayed in the museum. I was thrilled to learn from Mr Van Bodegraven that the Museum has in its collection a Dutch Jakarta Tael (pronounced TA-EEL) of the early 17th century. It is a coin so rare that even coin reference books do not have a real photograph of it but just a drawing. I have even been given to understand that just a handful of living persons may have ever laid their eyes on such a coin across the last century! It's a very precious coin owned by the Bank of Mauritius. You will also have the privileged to actually see the origin of the US dollar sign.

The museum is only the first leg of the project. It will soon be made much more interactive. The second leg of the project will be the incorporation of financial literacy in central banking. As I speak to you here at this very hour, the Bank of Mauritius has become a full-fledged member of the International Federation of Financial Museum based in New York.

About 50 per cent of the rarities displayed in the museum are the property of the MCB Group Ltd. I, in fact all of us, must be thankful to the MCB Group Ltd for having so generously agreed to display its collections. I extend to Mr Pierre Guy Noel, CEO of MCB Group Ltd, my warmest thanks for having so graciously accepted to take up my request to his Board of Directors for consent and approval for the display of MCB's highly valuable artefacts. Mr Christopher Murray, CEO, of HSBC (Mauritius) Ltd also kindly agreed to offer precious rarities for display in the museum. Without their invaluable contributions, the museum would have been far less telling of our history. Thank you, Mr Pierre Guy Noel. Thank you Mr Christopher Murray. We have a very long relationship with both the Royal Mint and de La Rue. May I extend my warm thanks to Royal Mint and de La Rue for having agreed to display in the museum a number of highly valuable items.

We have in our midst Messrs Owen Griffiths, Ms Marina Carter and Mr Jean-Marie Huron. In 2015, I met with Mr Owen Griffiths and we agreed on the publication of a book that bears the title, "From Piastres to Polymer". It's a comprehensively researched work on the history of banknotes of Mauritius. The book is under print and before this year is out, we will have the pleasure of reading it with enthusiasm.

I thank the Honourable Madam Speaker of the National Assembly for having granted the permission to re-print the 1966 Sessional Paper on the Bank of Mauritius. I also thank the Prime Minister's Office for having granted the permission to use the updated Coates of Arms of Mauritius on the cover of the Sessional Paper.

I thank the Honourable Prime Minister for having so kindly accepted to grace the inaugural ceremony of The Bank of Mauritius Museum.

On behalf of the Board of Directors of the Bank, myself included, I wish to thank you all for your presence.

Thank you.