

## Rundheersing Bheenick: Interview with Mauritius Times

Interview with Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, and Mauritius Times, published on 10 April 2009.

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**\* The Minister of Finance has expressed his apprehensions regarding the budget deficit, which he says is going to be manageable this year but likely to worsen in 2010. Are we really in for bad times?**

These are very abnormal times of a kind not witnessed in living memory, so whatever we have inherited as the acceptable norm in terms of the level of fiscal deficit for a country like ours should not be a constraint right now. The major priority today is to get out of the present crisis afflicting the world economy, where our major markets are disappearing, which implies that the economic model that we have been applying is being redefined under our very noses. We should not be prisoners of outmoded ways of thinking whereby the fiscal deficit should stay around or less than 3%. That is the norm in normal times! Even in Europe, where they have all signed up to this, they are happily giving themselves exemptions from these commitments because the priority right now is to get the economy going again.

**\* Even at the cost of a higher deficit?**

Absolutely, because that has become a categorical imperative. Yes, even at the cost of a higher deficit in the short term so long as that deficit is sustainable and can be financed. There is no point to have a very low level of deficit at the price of a collapsing economy. Our notion of the acceptable norm for the fiscal deficit arises from the need not to crowd out the private sector; it also derives from the capacity to finance the deficit either from taxpayers or from capital markets. Neither is the private sector investing right now, nor are capital markets functioning. So, temporarily while all the rules of the game are being changed, we have to give up this mode of thinking, do whatever it takes to get the economy started again, and make sure that once the global recovery starts we are well-positioned to be able to capitalise on that recovery.

**\* What does it take to kickstart the economy?**

The answer to this question does not depend very much on what we do or don't do in the tiny economy of Mauritius, a large part of it depends on what happens at the global level. The G20 meeting has in that respect exceeded my expectations. I was involved in the preparations for it at the African level; we went to meetings with African ministers and Governors in Tunis, Abidjan and Dar Es Salaam, organised by the ADB, African Union, Economic Commission for Africa, and others and I can tell you that few of us were expecting this kind of highly positive outcome and coherent vision; we can say that this has been one of the best summits in recent memory. The global community at the level of the G20, which accounts for three-quarters of global GDP, has shown what are the possible avenues to explore to find a speedy solution out of the current crisis. That's happening and it's going to go beyond rhetoric. There is a commitment to review progress on these undertakings by the end of this year, there is a change happening here, and the US hegemony in these matters is frittering away before our very eyes to usher in the new world economic order that we have been talking about for as far as I can remember. Responsibility for the surveillance of the global financial system and for extending that surveillance to non-banks, and commitment to keep trade flows open and to keep capital markets working – all these are acquired. That is part of what it takes to get the global economy going again and prevent it from slipping back into protectionism and monetary/financial mercantilism, which is its new avatar. For us it vital that we do not compound the problem by having the wrong policies domestically.

**\* Namely?**

Basically the types of policy reforms that we have been engaged in for quite some time through successive governments have turned the country into what it is today. We are quite respected for having the right policies in place: we do not have the heavy hand of government interfering everywhere; we have policy predictability and the absence of arbitrariness in economic decision-making; we have plenty of space for the private sector to operate – these are things which not very common in Africa. We should safeguard all this because our underlying policy stance is basically correct so long as we do not yield to short-term temptations which will create problems for us down the line. The G20 leaders have said that they are going to monitor progress themselves to make sure that there, the prospect of recovery which they hold out becomes a reality which is going to be with us very quickly. While the global economic problems are being addressed by global leaders, we in our tiny part of the world should make sure that we keep the Mauritian economy on an even keel. There are voices clamouring for special attention for their particular sector but we must not allow ourselves to go overboard. We must be prudent, we must make sure that the entire economic apparatus of Mauritius, which has served us so well over the years, survives this crisis.

**\* But we have not felt the full impact of the storm as yet. Is there much that we can do to weather the impending storm?**

We are a completely open economy; it was never on the cards for us to be completely immune from what is happening in the major economies, whether they are source markets for tourists or capital flows or destination markets for our exports. There was no question about our being immune... it was just a question of the leads and lags in the system catching up with us. If it seemed as if we had weathered it very well in the first round, it was only because the effects of the storm in our major markets had not yet worked themselves out in ways that matter to us: export orders or tourist flows or capital flows. As the slowdown became a recession elsewhere, the effects are beginning to be felt here. We feel that there is probably worse to come... the same drag in the system which immunised us on the way down will delay the transmission of the recovery on the way up.

**\* When is that going to happen?**

That will depend on the time it is going to take for the measures adopted by the G20 to work themselves out and to begin to show up in rising investor and consumer sentiment in the major markets. Till then, there won't be any change in consumer spending or in capital flows which affect us, and we will not as a result see any improvement in our underlying conditions. That will only come when the consumers in western markets start buying our export products. Or when the traveller starts travelling again to distant tourist destinations. Or when the investor starts investing again in far-away markets. When is this going to happen? It's anybody's guess! There is at present very poor visibility a few months ahead; forecasting right now has become a very dangerous thing. Your paper last week quoted JK Galbraith's quip about economic forecasting being an activity invented to make astrology look respectable. How true this is today!

What we can say for sure is that the crisis is going to be over before long. Exactly when... we don't know. No crisis has lasted forever in the past because things cannot keep getting much, much worse forever. But for things to show the first sustainable signs of improvement, consumers must start consuming, investors must start investing, and banks must start lending. None of these conditions apply at this point in time at the global level. Until these three things happen, nothing much will change in the underlying economic conditions. The best forecast as of now: it won't happen for the next four quarters at the earliest. A few knowledgeable observers called the bottom of the market months ago. Others have seen the green shoots of recovery. Let us by all means look at the bright side of things but let's not hallucinate. The recovery is not for tomorrow, and this in spite of the best efforts of the G-20. We'll probably see the first signs of a recovery same time next year. We will have to survive

until then and make sure that economic conditions in terms of employment, social stability, financing our yawning balance of payments deficit, reserve level, indebtedness etc. do not become worse pending the recovery. And we must not in the meantime take wrong policy measures in response to short-term pressures. Whatever policy measures we take right now should be temporary, reversible, flexible and affordable; and there must be a clear exit strategy especially if we are moving away from market-determined measures.

**\* No need for redefining or revisiting the economic model then?**

We have been revisiting our economic model constantly. For example, when the *Cotonou Convention* with the EU did away with the Sugar Protocol, we carried out some re-engineering of the industry, and it is still going on – the sugar sector reform package is part of it. When the **Multi-Fibre Agreement** was dismantled, we had to go and fight for ourselves on open markets with no quota protection. When AGOA provided us with a small, temporary respite, we knew it was not to last forever. There is thus some reengineering going on constantly; “Alterations-as-usual-during-business” – should be put up on the door of Mauritius Inc. We keep altering things and we have to continue doing that. The global crisis has thrown up a new set of challenges for us; for us the good thing about it is that many of them are temporary challenges. But no crisis leads to a situation where, at the end of it, it's back to square one in the pre-crisis mode of operation. The world will be different whether in terms of regulating the banking sector, market access or whatever. There are some lessons to be drawn from this crisis which should lead us to make some changes. The government, private sector operators and employees cannot do as if the crisis did not happen. The crisis has happened, it has highlighted some structural weaknesses in some parts of the economic apparatus, and we have to draw the lessons that are required because everybody else in the world is doing precisely that. You have to adjust to the brave new post-crisis world.

**\* Is all the talk about regulating more firmly the financial sector and taking action against “tax havens” merely a screen to deal with a situation that even the West and its economists may not have fully understood?**

There is an element of scapegoating in picking on the tax havens. It is not an essential part of what brought the world to the crisis we are living through presently. It may be quite important for some countries that lose tax revenues in these havens; it is quite normal that people should pay their taxes and the way you pay your taxes must be linked to the place where you have your normal operations or where you derive your revenue from. We should by all means discourage harmful tax competition or regulatory arbitrage. But this is nothing new. If you go back historically the whole talk about transfer pricing, especially by multinationals as they were then called, started from this. If we go even further back, we had the likes of Luxembourg, Liechtenstein and others of this world, that were harbouring these very opaque and murky entities. It was there, as far as I remember before the Second World War. What is new now is that you have many other jurisdictions that have joined in this exercise so that you have many more of these offshore financial centres some of which are tax havens. I must here dispute any allegation about Mauritius being a tax haven. We are not one, we have never been one and we have always rejected this kind of charge. We have never rolled out the welcome mat for money launderers and tax dodgers. We have a transparent and cooperating jurisdiction, and we are proud of it.

**\* Are you saying that our level of financial regulation and international commitment have been beyond reproach for years? So, why was it an issue at all to go and persuade OECD about the obvious?**

We never had any difficulty with the people who come to supervise our compliance with international rules and regulations. The IMF and the Financial Action Task Force and, subsequently the FSAP, have jointly with the IMF have been monitoring our jurisdictions for more than 15 years now. We also always pass through with flying colours with respect to the Report on Standards and Codes, which deals with compliance with all international norms, specially with regard to tax compliance. We are a clean, reliable and trustworthy jurisdiction.

And since the list of tax havens has been produced by the OECD the day after the G20 meeting, I think it was worthwhile for us to make our case known just in case there was a danger that somebody somewhere might include us in the wrong list. For me personally this risk was very remote in the sense that we have always been aboveboard in this matter. The Financial Services Commission, our sister regulator, is doing a great job since we set it up a long time ago as MOBAA. We have no reason at all to reproach ourselves. The FSC and all the management companies and others involved in this business have a shared responsibility for keeping this good image for Mauritius.

To come back to your question, I think the attempt to pin the blame for part of the crisis on tax havens was very much a case of scapegoating. The real issue was a critical failure of supervision and regulation in some key markets. There was also a real failure in global surveillance, in the lack of an early warning system, in ensuring that the right incentives systems were in place in crucial areas of the banking, especially the shadow-banking and finance sector. A system which allowed people to get bonuses based on bad risks that they were accumulating for their enterprises, or which closed its eyes to rating agencies getting paid by the very people they were rating or which provided for walk-in loans at loan-to-value ratios which would make a prudent banker shudder, just could not last. So there was a total failure all along the line and if you add in that picture things like hedge funds, hot money flows, securitisation, credit-default swaps etc., you have the perfect recipe for disaster. Why pick on tax havens?

**\* You were speaking earlier about the wrong policies that we should not adopt in the wake of the financial crisis. What is your view of the Stimulus Package proposed here? Are we not simply aping countries in the West that have a completely different dynamic compared to Mauritius?**

You must go beyond the title of the reform package that we have announced; they can be called stimulus packages because that is what the IMF has called all countries, which have the fiscal space to do so, to launch to be able to shore up the economy while waiting for the global recovery. I have no difficulty that we embarked on that because we did have the necessary fiscal and monetary space. That's what we did, last September, when we started working, that is the Central Bank together with the Treasury, to launch the Stimulus Package. And I would like to bring out here something which many people in Mauritius have not quite appreciated: the G20 communiqué makes mention of a quarter billion dollars being made available for trade financing. There is no better way to emphasise the importance of this instrument to keep trade flowing. Here, in Mauritius, we did precisely the same thing, a full four months earlier in the context of our Additional Stimulus Package, whereby the Central Bank has made available a package of \$100 million for the purpose of trade financing. We blazed a new trail. This is the first time in our history that the Central Bank has come up with such a package. We had to go for it because we depend critically on open trade channels and we resorted to it at a very critical time to keep trade flows going, both inward and outward, when credit lines had been called off. This is an example of one measure tailor-made for our own specific requirements.

Now where the Stimulus Package differs from that of other countries in two crucial respects: first, the latter have a liquidity problem, so that they have to inject liquidity across the board, or second, they have a banking crisis, so that they have to recapitalise banks. We are not recapitalising banks, and we are not injecting liquidity – we have excess liquidity, we are doing the reverse, in fact. Our problem relates to our exporters' order books – orders have disappeared or the order flow is disrupted. That will have a knock-on effect on their employment, which will in turn have a knock-on effect on our balance of payments. We are coming to their help right now to prevent them from going under. The export manufacturing enterprises must keep their whole chain of production going because if you allow them to collapse now they will not be able to resume production at the same level of efficiency when the recovery is here. We do not want to compromise the export sector, and that is why our Stimulus Package contains a large element of burden-sharing between government,

commercial banks and the operators themselves based on a viable, sustainable business model.

**\* Aren't we throwing good public money after bad money just to save a few industries?**

We could have been accused of doing that if we had not put not extra conditions in place to be able to access public money. I must add that the Central Bank is actually participating in the Working Committee because we need to make sure that our economic operators who can survive the crisis are not driven into bankruptcy because of cash flow problems arising from temporary export difficulties. We know the world economy is going to recover; the western consumer is going to start consuming again, and we want to make sure that our exporters are there with the right products at the right price when that happens. It is a transitional device, a shared burden. We are not providing public money free, it is not a grant. We are either taking over assets of the private sector, asking them to inject new capital and asking their own regular commercial bankers to provide some money as well. So this is very much a shared responsibility. One should expect no less from a responsible, caring, and concerned government, acting as a good *paterfamilias*.

**\* Private sector spokespersons are saying that you can't save jobs and industries at the same time. Are these two considerations mutually exclusive?**

I would not wish to get involved in a narrow sectoral squabble; a two-cornered fight between *le patronat* and the trade unions, or a classic tri-partite debate. I understand the concern with lightening their wage bill which I suspect is what this argument is all about. For the country's interest, we must make sure that once the crisis is behind us, Mauritius is in a position to pay its way internationally. To do that, we need to have exporters and investors and workers. Our exporters must be able to export at internationally competitive prices. Now if to be internationally competitive, they have to get rid of some of their labour, that is a business decision that the exporter must take. It's not possible for us, at our level, to say to exporters that they must get rid of X% or Y% of their staff. Exporters must themselves decide what kind of staff and productivity level they require just as they decide what export markets to target, what specific niches or products or product ranges to zero in on .... As a general approach, I do not think that any government which is providing public money to shore up any sector in the face of a crisis will agree to provide a financial lifeline without asking further questions regarding staff being laid off and so forth. It will seem too much like coming to the help of the fat cats while the small fry are being laid off. We have to provide support across the board in an equitable manner, for what is sauce for the goose is sauce for the gander.

**\* What you are saying is that government must make sure that it not only supports the fat cats but also shelters the vulnerable members of the population from the adverse effects of the crisis?**

There is one crucial dimension which we very often tend to forget when we discuss such issues of social support. In Mauritius we have a very extensive Welfare State, which we have preserved in the face of sustained attacks from the Bretton Woods institutions at different points in time when they have tried to get the public sector to back down on provision of universal healthcare or to restrict itself to primary health care only and to give up other parts of the health care system. They have also tried to get us to give up on our free education system, on universal old-age pension and all this because it was not in keeping with one essential tenet of the Washington Consensus: *Moins d'Etat, Mieux d'Etat*. We have maintained all these social support measures, which are lacking right now in the West. Today we are a tremendous increase in poverty levels in the United States and in those parts of Europe where they do not have much welfare support. So whenever we address social support issues, bear in mind that we have a huge social transfer budget. We tend to take this for granted. There is now an extra effort to be done in terms of trying to help the families that may be affected by job losses. I do not think anybody can guarantee that there will be no job losses. I think that there is no way for us to expect realistically that there will be no job losses

in Mauritius when our target markets are breaking new records of joblessness with each new batch of data releases. We must resign ourselves to the prospect of job losses, especially in the tourism sector and in the EPZ sector where orders are getting few. I hope that job losses will be limited in both numbers and duration and that they will be very much a measure of last resort. But if that were to happen, the Workfare Scheme, that is tailor-made for this kind of situation, will be of tremendous help for workers laid off during this transitional period. But we must also bear in mind that some of the people who are likely to be put on shorter working weeks or laid off may have other commitments. For example, they may themselves be indebted to banks, and we must also try to persuade the same commercial banks that are coming to the help of the big operators to try to apply a moratorium or standstill on loans given to the “ti-dimounes” in a spirit of solidarity. And this to ensure that the “ti-dimounes” as well may be able to survive until the end of the crisis.

**\* We do not need to legislate for that to be possible?**

I think it is very difficult to legislate to tell somebody to love his neighbour – either you are disposed to do it and you don’t need any law to encourage you, or you are not disposed to do any such thing and it’s difficult to force you to do it by law. This is an area where the spirit of social solidarity beats the law hands down. We have been hearing a lot about corporate social responsibility ..... it’s in the eating that we’ll see the proof of this particular pudding! Banks have a symbiotic relationship with their clients, whether big or large; they have no interest in driving their clients bankrupt. We have to find a way of surviving this crisis jointly so that banks can resume lending. An appeal to the bankers’ solidarity especially when their profit margins are still comfortable should do.

**\* You expect banks to love their neighbours especially that they are making supernormal profits?**

Our banks have made good profits and we have good reason to be happy about it. If the banks were not making profits, then we will be involved as taxpayers in recapitalising the banks and possibly taking them over in the process. But what we ask right now is for the banks not to allow the real economy and real sector operators to collapse. So prop up the real economy without departing too much from market-based lending principles. It is a temporary problem, it is a transitional difficulty and we must find flexible approaches that are reversible once the recovery is here – and, believe me, the recovery is coming. And all of us, government, employers, workers, and yes, bankers and your central bank, we have shared interest in ensuring that this incoming tide lifts our boat somewhat higher than others. How else can we preserve our lead on our competitors on the African continent and elsewhere.