Debate No. 19 of 23.06.09

ORAL ANSWERS TO QUESTIONS

BANK OF MAURITIUS – ANNUAL REPORT & AUDITED ACCOUNTS,
INTEREST EARNED, TOTAL REVENUE & EXPENDITURE ETC.

The Leader of the Opposition (Mr P. Bérenger) (By Private
Notice) asked the Vice-Prime Minister, Minister of Finance and
Economic Empowerment whether, in regard to the Bank of
Mauritius, he will state -

(a) why its annual report and audited accounts for 2007-2008
have not been laid before the National Assembly;

(b) the average rate of interest earned on invested reserves as
compared to that paid on foreign loans, indicating total
revenue and expenditure for 2007-2008 and 2008-2009 to date;

(c) the profits transferred to Government by the Bank in 2008-2009,
and

(d) if he is aware of cases of abuse thereat and of conflicting
situation prevailing at the level of the Board.

The Vice-Prime Minister, Minister of Finance and Economic
Empowerment (Dr. R. Sithanen): Mr Speaker, Sir, with your permission, I shall
also reply to PQ No. B/588 addressed to the hon. Prime Minister.

It is important to stress that the Bank of Mauritius Act provides under Sub-
Section 3(3) that the Bank is independent in the pursuit of its objects and therefore
performs its functions independently. It does not report to the Minister of Finance
on its operations and its management.
As regards part (a) of the question, the Bank of Mauritius, Section 32 (3) of the Bank of Mauritius Act 2004, stipulates clearly that the Bank shall, not later than four months after the close of its financial year, cause to be made and submit to the Minister a copy of the annual accounts certified by the auditors together with the report on its operations during the year to be submitted to the National Assembly. However, the annual report and audited accounts for 2007-2008 have not been submitted to me and, therefore, I cannot lay it before the National Assembly.

It must be pointed out that this is not the first time that there have been delays in the submission of annual accounts. In 2004, 2005, 2006 and 2007 there were delays. For instance for 2004, the report was submitted in November 2004, for 2005 in March 2006 and for 2007 in August 2008. The Bank of Mauritius has posted on its website a long communiqué dated 17 June 2009 giving the reasons for the delay in submitting these reports. I am tabling a copy of that communiqué Mr Speaker, Sir, in order not to take the time of the House. I am informed by the Bank of Mauritius that the annual report would be submitted to me in the third week of July 2009.

As regards part (b) of the question, it should be made very clear, Mr Speaker, Sir, that the management of the foreign exchange reserves of our country and the payment of Government foreign loans are by law two very distinct and separate functions of the Central Bank. The exchange reserves management decisions must be kept totally independent of the debt management decision. The foreign exchange reserves of the country are kept essentially as a security to guarantee a safe level of imports to meet the needs of the population and the economy. Security, liquidity and rewards are key criteria that underpin reserves
management. This should at no time be put at risk by using reserves to meet the financing needs of Government.

The average rate of return on invested reserves for 2007/08 and 2008/09 are 5.39 percent and 4.35 percent, respectively. The amounts earned were Rs2.564 billion and Rs1.181 billion. Government has been contracting external loans from various institutions for periods ranging between 4 to 40 years. The average rates on these loans are 2.97 percent for 2007/08 and 2.66 percent for 2008/09. Total interest paid by Government on the external loans amounted Rs320.7 m. and Rs390 m. respectively. Mr Speaker, Sir, even if the maturity profiles of invested reserves of the Central Bank and the external loans contracted by Government are significantly different, the returns earned on invested reserves are significantly higher than the cost of external loans of Government in both 2007/2008 and 2008/2009.

As regards part (c) of the question, the profits transferred to Government by the Bank in 2008/2009 amounted to Rs1.885 billion. This includes Rs1.325 billion in respect of profits of 2007/08 and Rs559.8 m. as arrears in respect of profits of 2006/07 transferable to Government statutorily. Both transfers, Mr Speaker, Sir, are in accordance with the statutory requirement in the Bank of Mauritius Act. I wish to add that the Estimates provided for an amount of Rs1.61 billion.

As regards part (d) of the question, the Bank of Mauritius is independent and I am not informed, Mr Speaker, Sir, of the proceedings of its Board however I am not aware of any case of abuse. However, some Board Members have written both to the Prime Minister and to myself to inform us of conflicting views on some issues.
Mr Bérenger: Mr Speaker, Sir, I am sure that the hon. Minister will agree with me that the present Bank of Mauritius Act was passed in September 2004 and proclaimed in November 2004. The law is now clear, as the hon. Minister has said, the Bank of Mauritius is by law required to submit its annual report and its audited accounts within four months of the closing of its financial year. Will he, therefore, agree with me that, in fact, as things stand, we are more than one year after the closing date? *C’est sans précédent* - 12 months - the financial year ended June and the report is still not available. Does he agree with me that this is unacceptable and outside the law?

Dr. Sithanen: I agree that it is outside the law. This is very clear as the hon. Leader of the Opposition has said and as I indicated in my initial reply, Mr Speaker, Sir. Unfortunately, it is not the first time that this has happened. In 2004, it was late, not by many months; in 2005, it was submitted on 31 March 2006, Mr Speaker, Sir.

(Interruptions)

I was not the Minister of Finance in 2005.

(Interruptions)

Yes, but this is the report for 2005. The Leader of Opposition knows very well that the report is always submitted one year after the event and, in 2006, it was submitted later. Mr Speaker, Sir, I must confess that I am not happy about it. However, the Central Bank is independent; they have posted a long communiqué to explain why it has taken a longer time to publish the annual report. I spoke to the Governor this morning and he assured me that the report will be submitted to me on the third week of July and I will lay it on on the Table forthwith, Mr Speaker, Sir.
Mr Bérenger: The Bank of Mauritius clearly *naïve le poisson dans l’eau* and the hon. Minister of Finance is trying to do the same today by laying a copy of a *communiqué* that was clearly designed to be as lengthy so that no one would read it. Will the hon. Minister agree with me that what took place is the following: the Bank of Mauritius tendered out for the printing of the annual report, chose one company, then decided that it was too long, cut a few pages, retendered, chose a second company, then found that because the report is shorter one can change the binding procedure, the glue was changed, and, therefore, a third tender was made, three companies involved. Then, within a few days after a third company was chosen, the Bank of Mauritius was informed by that company that they are subcontracting outside the country and the Bank of Mauritius has accepted that. Does the hon. Minister tell me that this is acceptable?

Dr. Sithanen: I have said it. There is no need for the hon. member to raise his voice. I agree with him that this is unacceptable …

(Laughter)

….but this is outside my purview. The hon. Leader of the Opposition has said it very often. I find myself in a situation replying for things for which I am not responsible. So, I will try to be very fair in answering this question. I am also not happy about it. I was away from Mauritius, Mr Speaker, Sir, when there was an interpretation that the report was given to me. I said very clearly that the report has never been given to me. I agree with the hon. Leader of the Opposition that this should not happen. It has happened before. It has happened again and it is not acceptable.
Mr Bérenger: This has never happened, tendering three times and ending up with a company that subcontracts to overseas this has never happened! This is sans precedent, I am sure the Minister will agree. Now when we look at what has taken place, this is in the communiqué mais noyer dans l’eau boueuse de la banque centrale. Will the Minister agree with me that either this is gross incompetence or there is corruption into that? It must be one of the two. What is it?

Dr. Sithanen: It can be neither, Mr Speaker, Sir. I know what the Leader of the Opposition is trying to do. But I am not going to fall into this trap. If the hon. Leader of Opposition believes in what he is saying, especially the second possibility he knows what he should do. I am not happy with the communiqué myself. I have said it to the Prime Minister. But this is outside my control and, Mr Speaker, Sir, it is a long communiqué. But I have to report to the House what statutorily I am supposed to do. I have not received the report. I have not been able to lay it on the Table of the Assembly. I sincerely hope that this will not happen next year.

Mr Bérenger: After what has happened, as I said, it is either gross incompetence, tendering three times and ending up with a company that subcontracts outside Mauritius in 2009. It is either gross incompetence or corruption! To see clearer things, can the hon. Minister give me the names of the three companies that got the tender one after the other and the name of the foreign company to which the printing has been subcontracted and the sums in each case?

Dr. Sithanen: I do not have the name of the three companies. Let me admit, Mr Speaker, Sir, I do not think it was an exercise in competence. Let me be very honest about the way it has been done. I do not know the name of the companies. I read the communiqué. I respect the independence of the Central Bank. I have not even asked them who is A, who is B and who is C company? The only thing that I
have asked, Mr Speaker, Sir, is what is the sum involved. They have told me that the amount is indeed low.

**Mr Bérenger:** The hon. Minister of Finance can ask the sums and give us when supposedly it is very low, but not the details thereof, but he cannot ask the names! What kind of independence is that honestly? Now, after this has been made clear, on the second point, the hon. Minister just said that he is not impressed by the competence in these tendering procedures, in this illegal lateness of laying the copy of the report of the bank. The hon. Minister has given figures, if I heard him correctly, of return on reserves invested in foreign currency and, if I heard him right, 5% and 4% return. Is he aware that on 10 of June supposedly le sommeil du gouverneur s’est cassé à l’occasion d’une visite du Bank for International Settlement and he went public to say that the return which the Bank of Mauritius is getting on invested reserves in foreign currencies is unacceptable because 0.5% and 1%? How does he reconcile what the Governor say publicly and it was reported and the figures we have today?

**Dr. Sithanen:** Mr Speaker, Sir, let me reassure the hon. Leader of the Opposition, I would ask the name of the three and I would submit them this afternoon. I did not ask for them and I realise that he was likely to ask the question on the amount, but not on the companies. But I will give the information Mr Speaker, Sir. I have no reason to hide anything. I will operate in full transparency with respect to the Bank of Mauritius. The hon. Leader of Opposition has asked a specific question on 2007/2008 and 2008/2009. The financial year runs from July to June. We have the cumulative figures for that two period and the figures that I have given, Mr Speaker, Sir, is with respect to the return on the amount invested on our reserves for 2007/2008 and 2008/2009 until 31 May 2009, which is eleven months. What the Governor was referring to - and which I am sure the Leader of
Opposition knows about - is what will happen in the future. Everybody knows that return on dollars and on euros, and also on Swiss francs and on UK pound are coming down. But, concurrently, the loan that you take also in these currencies are coming down. That is why I have given the two figures. Even though, Mr Speaker, Sir, I have to inform the House, we cannot compare the two. In one case, we are borrowing for up to 30-40 years and, in the other one, the key criteria for investing our reserve is basically liquidity, because we need to have access to this money in order to pay for the import of the country. I think what the Governor was stating, namely that when you invest in dollars, returns will come down. This is why they are discussing with the BIS; with the World Bank to see how, under these difficult circumstances, they can still improve returns while keeping the liquidity aspect of our reserves.

Mr Bérenger: But the problem is that the hon. Minister was not in the country. But I am sure that he read on the Internet or as soon as he was back. He found time to phone me the next morning after he was back. So, he must have read the press and so on. What did the Governor say? He said that the present return is between 0.5 and 1%, and that this is unacceptable. We have that kind of Governor. And he added that the Bank of Mauritius should take more risks. The greatest risk is the Governor himself! Is Government happy that the Governor is issuing statements like that? 0.5 to 1% return, which is negligible, as he said, and that he is going to take more risks now - the Bank of Mauritius; our central bank?

Dr. Sithanen: Mr Speaker, Sir, I rung the Leader of the Opposition - let me clarify this - because he had made a statement in the press, that I was responsible for not laying the report in the House. I spoke to hon. Cuttaree and to the hon. Leader of the Opposition and I told him that it has nothing to do with me. I was attacked unfairly, because I cannot lay on the Table a report that has not been
submitted to me. So, that was the conversation that I had with both hon. Cuttaree and the Leader of the Opposition.

With respect to the point made by the Leader of the Opposition, Mr Speaker, Sir, these are the figures that we have. The same people who are telling us that we should not take risk are the same who are telling us to put 50% of our reserves in gold.

(Interjections)

I have to laugh, because I am in a good mood today; I am going to cross fire with the Leader of the Opposition twice today; once now, and second in the afternoon. But, Mr Speaker, Sir, the other one is more risky. Let me explain to the House the way the reserves are invested. Part of it is in a current account, because we need to have access to liquidity; part of it is short-term money market, and we do that with the Central Banks only because of security and confidence. The third one, they invest in medium-term and there they invest only in securities that are triple 'A', but with banks also that are triple 'A'.

There are people who tell us that it is possible to increase slightly your reward and not to invest in triple 'A' securities. They have asked the BIS to advise them and they have also requested the World Bank to give them advice on how they can do it. But they will certainly, Mr Speaker, Sir, not invest 50% of the reserves of the country in gold. That would be the summit of stupidity and of risk also.

Mr Bérenger: I am sure that the hon. Minister will be keen to learn why I mentioned his name. He stated what he told me. Is he agreeable to learn that I named him after receiving a letter from the same Governor, binding him, saying that he has done his part, and, therefore, induisant le leader de l’opposition en
erreur? This is the kind of Governor that we still have with us these days, and I am sure that the Minister is happy to learn that, and I told him that on the phone as well.

If I can move on to the next point, the Minister confirmed - from what I heard - that the amount of profits received from the Bank of Mauritius in 2008-2009 was Rs1,885,000,000. The hon. Minister is aware that the law says that the Bank of Mauritius cannot transfer to Government, as profit, more than 85% of its total profit. That sum is more than 85%. It includes something else, but it is presented as profits for that year 2008-2009. Again, will the Minister agree with me that the Bank is travelling outside the strict provisions of the law?

**Dr. Sithanen:** Mr Speaker, Sir, in the summing up that I made last year on the Budget, I did respond to a similar point made by the hon. Leader of the Opposition. When the hon. Leader of the Opposition was Minister of Finance, he took even the reserves from the Central Bank in one year. He knows that very well. In one year, more than 100% of the profit was transferred to the Ministry of Finance. When hon. Jugnauth became Minister, the transfer was zero. I must credit him that he changed the law and reinstated that a maximum of 85% of profit has to be transferred. But, in one year, Mr Speaker, Sir, *ine devalise tout.*

*(Interruptions)*

**Mr Speaker:** Order now!

**Mr Sithanen:** Mr Speaker, Sir, the hon. Leader of the Opposition is obviously referring to page 5 of the accounts where there was Rs559,823 m. What has happened, is that, for 2006-2007, the Bank of Mauritius had created a reserve for its open market operations and, according to the Ministry of Finance and also to the SLO, this is not in conformity with the 85% provision. There was a
disagreement on whether, in addition to the 15% that should be put in a reserve, the Bank of Mauritius could create another reserve for open market operations. The law is very clear; they cannot do it. While we were seeking advice from the SLO, the year had been completed. In fact if the hon. Leader of the Opposition takes the same figure Rs1.763 b. x 85%, he will get exactly the figure that we have this year, Mr Speaker, Sir. So, it is a prior year adjustment for a difference in a reserve that was made by the Bank of Mauritius over and above the 15% provision for open market operations which does not exist in the law. Maybe, we have to provide for this in the law. But, as the law exists today, it is very clear that they have to transfer 85% of the profit to the shareholder, which is the Government of Mauritius.

Mr Bérenger: The hon. Minister tells us that he is not aware of any abuses at the Bank of Mauritius. Does he find it normal that, according to letters which he has received and which I have received also, the Governor is not abiding by the decisions of the Board? The Board takes decisions, and he does not apply the decisions. On the other hand, he insults the Board. This week, he accused members of his Board, appointed by the hon. Prime Minister, of treating the Bank comme la boutique du coin. This is not acceptable! Who is going to take us, as a country, as a central bank, seriously, with that kind of thing?

Dr. Sithanen: Mr Speaker, Sir, this is a tricky one. There is a confusion, I must admit, in the law itself, when it was changed. I don't want to go into the details. The operating word is basically that, prior to the enactment of the 2004 Act, the Board was responsible for general policy and administration whereas, subsequent to the newBank of Mauritius Act, the general policy and affairs and business of the Bank shall be subject to a Board of Directors. So, there is a difference in interpretation.
Having said that, Mr Speaker, Sir, I think there is room for improvement by the Governor in the administration of the Bank, and in the way Board decisions are implemented. There is an IMF team that is coming to Mauritius, that will try to iron out this difference between what should be the responsibility of the Board and that of Management. The Governor is the Head of the Management at the Bank. There is some confusion, but I will certainly admit that there is significant room for improvement in the administration and in the day to day management of Bank.

Having said that, Mr Speaker, Sir, let me be very fair. On substance, that is, interest rate policy, exchange rate policy, monetary policy and not investing 50% of the reserve of our country in gold, I am in total agreement with the Governor of the Bank. I must be very fair on that, Mr Speaker, Sir. On the substance of monetary policy, we don’t have disagreement, whatever the press might say and whatever other people might say. We fine-tune our decision Mr Speaker, Sir. I was happy yesterday, even though I did not intervene, on keeping constant the interest rate. So, on interest rate policy, on exchange rate policy and on how to manage the reserve, I do not think there is any disagreement. Obviously, I think he can improve his bedside manners in terms of administration and management on a day to day basis.

**Mr Bérenger:** The hon. Minister has told us where he agreed with the Governor. Will he care to tell us whether he agrees with the Governor, when Rs25 m. are spent on the 40th anniversary when hundreds of thousand of rupees are spent on flowers, supplied by somebody close to the Governor, when people are taken on contracts without the approval of the Board, when lots of money are spent on lunches and dinners, we are not taking about bedside manners, restaurants manners? Does the hon. Minister agree also with the Governor on such issues?
Dr. Sithanen: Mr Speaker, Sir, I have said very clearly that on substance of monetary policy, interest rate policy, I agreed. I have never gone to wine and dine with the Governor. Some people who belong to the party on the other side have been. So, I do not go to wine and dine, Mr Speaker, Sir with the Governor. So, I do not agree on some of abuses, if there are abuses. But, as I have said, Mr Speaker, Sir, I have to be very clear on substance of the monetary policy, on interest rate policy, there is convergence between the Ministry of Finance and the Bank of Mauritius. On the abuse, if there are abuses and they are proven, I obviously regret them, and I condemn them. But, Mr Speaker, Sir, there are people in the party of the MMM, that go and wine and dine, Mr Speaker, Sir, with the Governor.

(Interruptions)

Dr. Sithanen: Yes…

Mr Bérenger: Then, go to hell! He should go to hell! This is a lie!

(Interruptions)

Mr Speaker: Order! Order!

Mr Bérenger: This is a lie! I challenge the Minister to give names. Give names!

(Interruptions)

Mr Speaker: The question was whether there were abuses at the bank. I do not know why the hon. Minister had to refer to the Members going to wine and dine. It has been on both side of the House. Order! Now, hon. Leader of the Opposition you have use the word lie, I will ask you…..

(Interruptions)

Mr Speaker: No, I am sorry. I would request …. 
(Interruptions)

Mr Speaker: No, the MMM, you have said. It was not relevant. Can you please withdraw the word?

Mr Bérenger: He has to withdraw first the insinuation

(Interruptions)

Dr. Sithanen: Mr Speaker, Sir, I have not said an MP. I repeat it, someone from his Bureau Politique, has dined and wined with the Governor.

Mr Speaker: This has nothing to do with answer, please

Mr Bérenger: Can I, also among the abuses, in the letter which he has received and the Prime Minister received. Two various serious things, two serious allegations are made -

1) That contrary to the provision of the law, the Governor is refusing to give details of expenditure on trips overseas. This used to appear on the report and as per the law it has to appear in the report. He refuses to give to his Board details. Has this being inquired into?

2) The allegation is also made that 30 money changers licenses have been granted by the Governor without again going through the board. Such various serious allegations have been investigated into, or not?

Dr. Sithanen: Mr Speaker, Sir, let me apologies if I have given the impression that it is one of the Member. It is not one of the Member, but it is one of the member of his Bureau Politique. Mr Speaker, Sir, I have said it very clearly I am not here to defend abuses. We will look into these abuses and I have demarcated very clearly my line, Mr Speaker, Sir, on the substance of monetary policy, on interest rate policy, on exchange rate, there is no difference. On some of
these issues, you know, obviously, I disagree with what is happening. We try to do our best to make sure that there is no repetition of these alleged abuses.

Mr Jugnauth: Thank you, Mr Speaker, Sir. With regard to the annual accounts, I see that the communiqué of the Bank of Mauritius mentions that for the financial year ended 30 June 2008 duly certified by the auditors were forwarded to the Minister on 31 October 2008, that is, within the statutory limit. There is something very confusing here, because we are talking about the two most important institutions of this country, the Bank of Mauritius and the Ministry of Finance. Can the hon. Minister say to this House what action has been taken in order to clarify this situation, because it is not healthy, for example, has the hon. Minister talked to the Governor about the situation and what actions have been taken to remedy this situation?

Dr. Sithanen: I have spoken to the Governor and he has given me the same explanation which he posted on the web. Unfortunately, the law does not give me the power to remedy. In many cases, when something does not happen, there is something that happens. The way the law is written does not allow me any remedial measures, Mr Speaker, Sir.

Mr Bérenger: He can be sacked.

Mr Speaker: Hon. Lesjongard, and then hon. Leader of the Opposition.

Mr Lesjongard: Thank you Mr Speaker, Sir. Can the Vice-Prime Minister confirm whether with regard to lunches and dinners, the Bank of Mauritius has spent some Rs2.5 m. in a year and, if this is true, doesn’t he find it shocking that this amount to some Rs10,000 per day over a period of 250 days when we know that some people from the region of Roche Bois are lunching from waste in a transfer station. Mr Speaker, Sir?
**Dr. Sithanen:** Mr Speaker, Sir, I have read the figures in the press just like the hon. Member has. I do not know, Mr Speaker, Sir, so we will ask the information and I would provide it to the House.

**Mr Speaker:** Hon. Bhagwan, because you have set a question in writing, yes!

**Mr Bhagwan:** Of course, Sir…

**Mr Speaker:** I am sorry, I forgot that.

**Mr Bhagwan:** Thank you, Mr Speaker, Sir. I will come back to the excès of the Governor, because my question. Can I ask the hon. Minister because here again in Parliament, during Budget time outside, he has made an appeal to the population to “faire des economies, serre ceinture.”

**Dr Sithanen:** No, we have not said “serre ceinture”.

*(Interruptions)*

**Mr Speaker:** Yes!

**Mr Bhagwan:** Can I know from the hon. Minister whether he been made aware of the dinners which are being held at the Bank of Mauritius up to three in the morning, the happy hours which are being held at the Bank of Mauritius up to three or four in the morning and whether he is aware and he agrees with the expenditure as far as overseas missions are concerned by the Governor and whether he has been aware that the Governor says everywhere that is a parallel Government, he does not have to give answer anybody, only the Prime Minister, so he is not afraid of anybody.

*(Interruptions)*
Dr Sithanen: Mr Speaker, Sir, I do not have any Member on this Board. There is no representative of the Ministry of Finance. I read also in the press just like my hon. friend, hon. Bhagwan, what has happened. So, I shall ask the questions. We will send a series of questions to the Governor and to ask for replies.

Mr Bérenger: My last question will be: what is taking place at the Bank of Mauritius is illegal, shocking, but also dangerous for the country. Will the hon. Minister agree with me - I know it’s not him who appoints the Governor or revokes him, it’s the Prime Minister, but will he, the Minister of Finance, agree with me that enough is enough. The guy must go and if he agrees with me, will he advise the Prime Minister to that effect?

(Interruptions)

Dr Sithanen: Mr Speaker, Sir, I knew he was going to ask - this would be his parting shot, Mr Speaker, Sir. He knows very well what I think, and he wants me to say what I don’t want to say, Mr Speaker, Sir.

(Interruptions)

Mr Speaker: Time is over! The table has been advised that PQ B/581 and PQ B/582 addressed to the hon. Prime Minister have been withdrawn. Question addressed to the hon. Prime Minister, hon. Jhugroo!