

Yandraduth Googoolye: Importance of financial markets to growth as Barclays launches Africa Index

Speech by Mr Yandraduth Googoolye, Governor of the Bank of Mauritius, at the Launch of the Barclays Africa Financial Markets Index in Mauritius, Port Louis, 22 November 2018.

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Members of the Board of the Bank of Mauritius
Chairman of the Mauritius Bankers Association
Head of Barclays Africa Trading, Mr George Asante
Chief Economist and Head of Research of OMFIF, Ms Danae Kyriakopoulou
Chief Executive Officers of Financial Institutions
Ladies and Gentlemen

Good Afternoon and Welcome to the Bank of Mauritius

We are pleased to welcome ABSA and OMFIF at the Bank today.

The Bank and the Financial Services Commission were admitted as members of OMFIF June last. OMFIF regroups diverse players from the public and private sector, central banks, sovereign wealth funds, and academia who meet to exchange views and share experience. We look forward as member of OMFIF in the future.

Finance has been compared to being the lubricant of the process of economic growth such that the role of financial markets in the economic development of any country cannot be underplayed. According to Robert Merton, the primary function of any financial system is to facilitate the allocation and deployment of economic resources. The interactions of these functions work to influence saving and investment decisions, which ultimately translate into the efficient allocation of funds in an economy.

The Bank of Mauritius has long recognized the role of financial markets in Mauritius and set up a Financial Markets Department as far back as in 2000. The Bank has also established a Financial Markets Committee that meets under its Chairmanship and comprises Heads of Treasury from all banks. The Financial Markets Committee acts as a forum for discussions on developments in the domestic markets and also on existing and future market practices and instruments. Through this forum, banks and the central bank endeavor to foster the development of money and foreign exchange markets in Mauritius.

The Bank has been contributing to the development of financial markets from various perspectives. With a view to improving market efficiency, all information, pertaining to the financial markets are disseminated on our website in a timely and transparent manner. On 29 March 2018, the bank in collaboration with Bloomberg launched an E-Bond trading and market surveillance system, which is a new electronic trading system for Mauritian government bonds. The implementation of E-Bond has brought more efficiency and greater depth to the secondary market in Mauritius. It has allowed the development of a benchmark yield curve, which will go live to-day at noon London time. The yield curve will enhance price discovery for a range of money market instruments and other corporate bonds.

Measuring financial development is quite challenging and we recognize the effort required to put up an index to gauge the impact of financial intermediation on real economic activity. We welcome the initiative and effort of both ABSA and OMFIF. The Africa Financial Markets Index provides a toolkit for countries seeking to strengthen their financial markets infrastructure. It tracks progress on financial market developments annually across a range of countries and indicators. It will serve as a platform to build resilient and dynamic financial markets within the

African continent. As an independent think- tank, OMFIF provides the seal for good governance and unbiased analysis.

The Africa Financial Markets Index, now in its second edition, ranks and compares the depth of financial markets in twenty African countries which are assessed against six broad pillars:

- ♦ financial markets depth;
- ♦ access to foreign exchange;
- ♦ market transparency and regulatory environment;
- ♦ macroeconomic opportunity;
- ♦ enforceability of agreements; and
- ♦ capacity of local investors.

This recent index for Africa is a window on the potential of the continent. Despite some episodic challenges in the shape of developmental, social or political issues, Africa has grown into a mature, strong and forward-looking continent, much in line with the vision of the African Renaissance so dear to one of Africa's most illustrious sons, Nelson Mandela. It is, therefore, not surprising that Africa has turned into a geo-political centrepiece. Such is the continent's potential that developed economies are literally racing against one another to tap the opportunities of this new Eldorado. And what makes Africa's CV all the more noteworthy is the fact that it has made remarkable progress on the front of democracy and good governance whilst also demonstrating commendable economic growth.

On this front, allow me to underline that over the past eight years, Africa has been registering gross direct investment inflows of around USD50 billion, on average every year according to 2018 World Investment Report released in June last. These figures speak volumes about the significance of the emerging markets across the African continent as well as the efforts of a number of countries to promote their potential as investment destinations.

Ladies and gentlemen, the Africa Financial Markets Index brings to light the fact that dynamic and efficient financial markets are pre-eminent triggers of economic growth by virtue of their capability to crystallize the elements that investors look for: optimized product offerings, high returns, good governance and strong regulatory and legal frameworks.

For the 2018 edition, three countries – Angola, Cameroon and Senegal – joined the index, thus bringing the number of countries tracked to 20. The country measures were also broadened to include elements of financial inclusion and levels of investor education. South Africa topped the index this year again, followed by Botswana, Kenya, Mauritius and Nigeria.

While some may dwell on the fact that Mauritius ranks fourth among the twenty countries, I invite them to examine the positive elements underlined in the report, and like we say, the glass can also be half-full rather than half-empty:

- ♦ The level of foreign exchange reserves which has grown substantially in Mauritius. Today, we have a level of gross official reserves of about USD6.3 billion, representing nearly 10.6 months of imports of goods and services, which we manage judiciously under a legal mandate of security, liquidity and, then, return. On that point, I would like to stress that Mauritius is a notable exception with regard to investment in complex assets. As quoted in the report "There is a wide range of investment options and relatively strong demand for more complex assets, including different types of derivatives products'. [Unquote].
- ♦ The report commends Mauritius for its strong legal and regulatory framework and highlights that Mauritius is amongst the top countries as regards market depth, market transparency, tax and regulatory environment as well as the legality and enforceability of financial markets master agreements.

The Africa Financial Markets Index comes at an opportune time when positive changes are being witnessed on the domestic financial landscape. Mauritius aims to double the size of its financial sector as spelt out in the Government's Vision 2030 document and the financial sector blueprint. We have broadened the access to the purchase of Government and Bank of Mauritius Securities by the public. The development of a secondary market for risk-free instruments has helped individual investors to benefit from the increase in yields registered since the start of 2018. Today, Treasury Bills and Bonds are proving to be viable alternative investment instruments to term deposits. Increased accessibility and enhanced public awareness has led to a three-fold increase in the amount of securities held by individuals, from Rs1.8 billion as at end-December 2017 to Rs6 billion currently.

You may recall that the African Development Bank along with Bloomberg launched the Africa Domestic Bond Fund, which is listed on the Stock Exchange of Mauritius since 18 September 2018. This Fund tracks the performance of a Bond Index, comprising local currency sovereign bonds of eight markets: Botswana, Egypt, Kenya, Namibia, Nigeria, South Africa, Ghana and Zambia. Mauritius is also expected to join the index in the near future with the recent developments on the secondary market of Government/ Bank of Mauritius Securities.

As I conclude, allow me to thank ABSA for its initiative to launch the Africa Financial Markets Index in Mauritius. The Index will be yet another benchmark that will provide precious insights to our country which is busy positioning itself as a leading international financial centre and a gateway to Africa, with a clear vision to join the sphere of high-income countries.

Ladies and Gentlemen, I thank you for your attention.