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A Busy Street by the Side of The Customs House



Since the 18th Century, Mauritius has been a flourishing trading centre and a cultural meeting point. When the British took possession of the island on 3 December 1810, the transition of power was relatively seamless, and people went about their daily lives with hardly any disturbance. The picture shows the cultural diversity that prevailed on the island, and the pursuit of daily activities in spite of the presence of British soldiers.

It is a historical fact that the island's French ruling class believed that collaborating with the British would best suit their interests. They began doing so immediately while the British provided liberal conditions of surrender. Indeed, the island's laws, customs, religion, private property, unrestricted trade, and even the French language were all maintained.

PAYMENT SYSTEMS AND CURRENCY MANAGEMENT

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REVIEW OF OPERATIONS

During FY2020-21, the Bank conducted open market operations for effective monetary policy transmission and ensuring that both the rupee and foreign exchange markets function smoothly.

With a view to providing financial assistance to economic operators including SMEs and households, the Bank made available Lines of Credit to the Development Bank of Mauritius Ltd (DBM) and State Investment Corporation (SIC). These lines of credit, initially made available for disbursement up to December 2020, were thereafter extended until end-June 2022. As at end-June 2021, a total amount of Rs3.4 billion was disbursed under these schemes. In parallel, the USD/MUR Swap Scheme and Special Foreign Currency (USD) Line of Credit to banks were extended up to 30 June 2021.

BoM securities for a total nominal amount of Rs99.6 billion were issued during FY2020-21 against maturing securities amounting to Rs58.7 billion, including special deposits of Rs7.6 billion. Of the total amount issued, BoM Bills for an amount of Rs69.3 billion were issued in maturities of up to one year. Reflecting liquidity conditions in the domestic money market, total bids received amounted to Rs141.9

billion against a total tender amount of Rs50.0 billion, representing, on average, a bid cover ratio of around 2.8. Additionally, the Bank issued BoM Notes amounting to Rs27.5 billion in the Two-Year, Three-Year and Four-Year tenors. Furthermore, Five-Year Bonds for an amount of Rs2.8 billion were issued during FY2020-21.

Between 15 March 2021 and 15 June 2021, the Three-Year Golden Jubilee Bonds, which were issued in 2018, were redeemed for a total amount of Rs9.0 billion. Sale of the 2.50% Two-Year Bank of Mauritius Savings Bonds, through commercial banks to individuals and Non-Governmental Organisations, that started in March 2020 for an initial period of 3 months was extended to end-June 2021. Savings Bonds issued during that period were for a total amount of Rs3.1 billion.

As a result of the Bank's operations on the money market, outstanding BoM securities reached Rs114.1 billion as at end-June 2021 compared to Rs79.6 billion as at end-June 2020. On a 12-month average basis, rupee excess liquidity amounted to Rs35.3 billion in FY2020-21, up from Rs20.6 billion in the previous financial year (Charts 4.1 and 4.2).

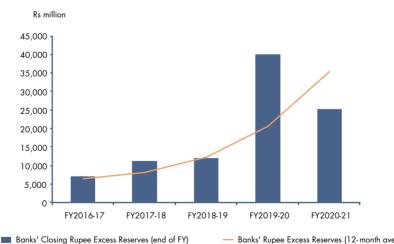


Chart 4.1: Banks' Rupee Excess Reserves

FINANCIAL STATEMENTS

REGIONAL AND INTERNATIONAL AFFILIATION

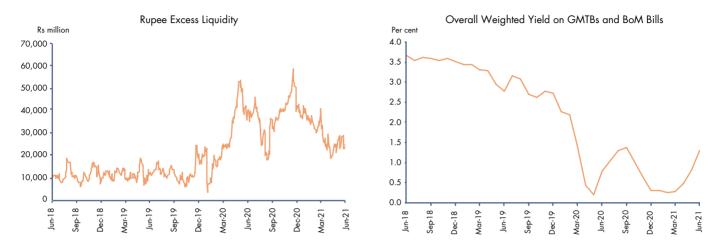
Banks' Rupee Excess Reserves (12-month average)

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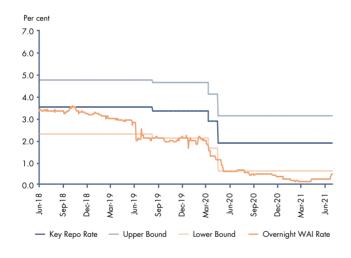
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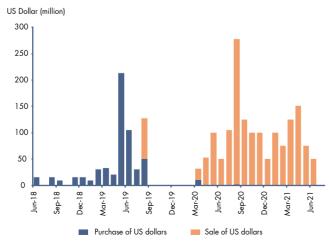
Chart 4.2: Excess Liquidity and Money Market Rates

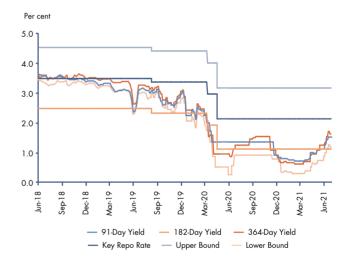


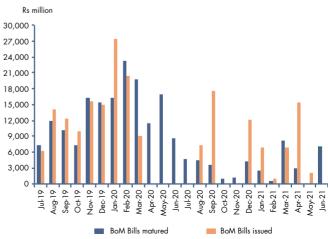
Short-term Money Market Rates and Key Repo Rate



Purchases and Sales of Foreign Currency by Bank of Mauritius





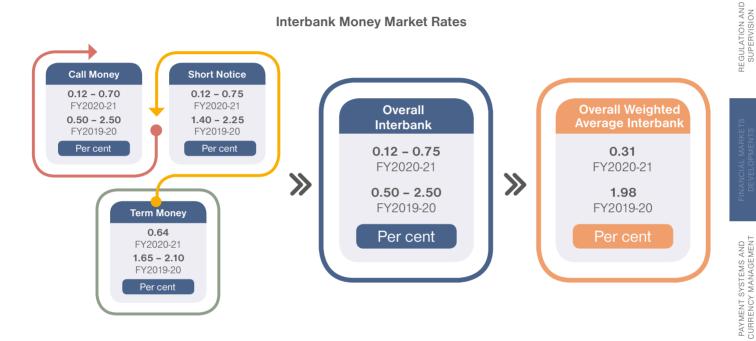


Bank of Mauritius Bills

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Interbank Money Market

Total turnover on the interbank money market increased from Rs94.3 billion in FY2019-20 to Rs123.2 billion during FY2020-21. The monthly average interbank transactions increased to Rs465 million in FY2020-21, from Rs334 million in the previous financial year. Monthly average transactions on the Call Money segment stood at Rs477 million and accounted for nearly 92 per cent of total transactions carried out in FY2020-21. Total transactions conducted under Short Notice increased from Rs7.5 billion in FY2019-20 to Rs9.7 billion in FY2020-21. Under the Term Money segment, the volume of transactions fell from Rs4.8 billion in FY2019-20 to Rs435 million in FY2020-21.



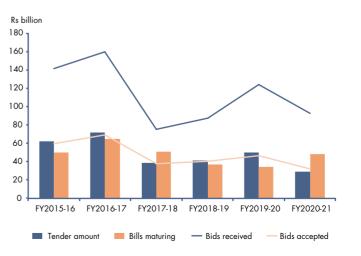
Issue of Government Securities

Government of Mauritius Treasury Bills

Government issued Treasury Bills for an aggregate amount of Rs32.1 billion in the 91-Day, 182-Day and 364-Day maturities against maturing Treasury Bills to the tune of Rs48.2 billion during FY2020-21, thus a net redemption of Rs16.1 billion. All auctions conducted during FY2020-21 were oversubscribed with bids received totaling Rs92.9 billion against a total tender amount of Rs29.4 billion (Chart 4.3).

Government maintained the issuance of the 182-Day Government of Mauritius Treasury Certificates (GMTCs) to Non-Financial Public Sector Bodies (NFPSBs) on tap at the weighted average yield registered at the latest 182-Day Bills auction plus a margin of 20 basis points. During FY2020-21, investment by NFPSBs in 182-Day GMTCs amounted to Rs19.6 billion compared to Rs7.4 billion in the previous financial year.

Chart 4.3 Auctioning of Government of Mauritius Treasury Bills



APPENDICES

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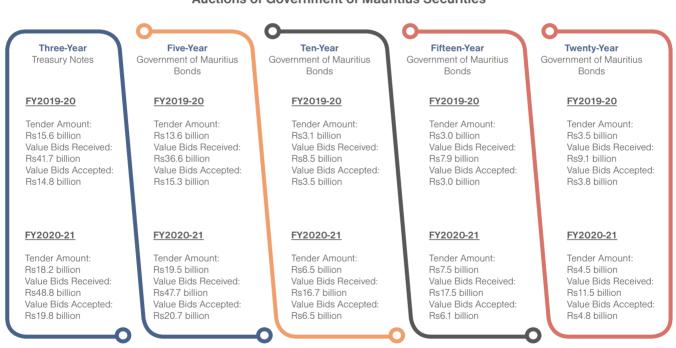
Benchmark Issues

During FY2020-21, Government continued to conduct benchmark issues of the Three-Year Treasury Notes and Five-Year Bonds to ensure sufficient liquidity in the instruments, with a view to boosting secondary market trading and fostering market development.

Primary Dealer System and Secondary Market Trading

The main objective of the Primary Dealer System is to develop the secondary market for both Government and BoM securities. Following an annual review of the activities of the Primary Dealers and taking into account the exceptional market conditions that prevailed during FY2020-21, the licence of the existing four Primary Dealers were renewed for a period of one year, starting April 2021.

Total volume of transactions conducted on the secondary market fell from Rs181.5 billion in FY2019-20 to Rs104 billion in FY2020-21. Transactions carried out by banks accounted for around 44.6 per cent of total transactions, of which 33.2 per cent were effected with Non-Primary Dealer Banks for a total amount of Rs34.5 billion. The volume of transactions conducted by non-bank financial institutions, mainly comprising pension funds and insurance companies, accounted for around 44.2 per cent of total transactions in FY2020-21.



Auctions of Government of Mauritius Securities

EXCHANGE RATE DEVELOPMENTS

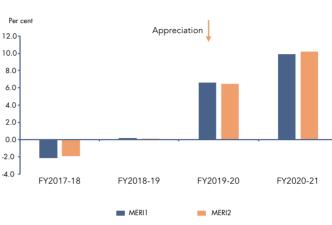
During FY2020-21, the exchange rate of the rupee remained largely influenced by the evolution of the US dollar against main currencies on international foreign exchange markets as well as domestic market conditions. The Bank continued to intervene on a regular basis on the domestic foreign exchange (FX) market to ensure an adequate supply of foreign exchange. On a weighted average dealt selling rate basis, between end-June 2020 and end-June 2021, the rupee depreciated by 6.3 per cent and 11.4 per cent vis-à-vis the US dollar and the euro, from Rs40.464 and Rs45.514 to Rs43.027 and Rs51.348, respectively. Depreciation of the rupee against the Pound sterling was more pronounced at 16.1 per cent, from Rs50.085 to Rs59.709 (Chart 4.4). During FY2020-21, on a nominal effective exchange rate basis, as measured by MERI1 and MERI2, the rupee depreciated by 9.9 per cent and 10.2 per cent, respectively (Chart 4.5).

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Chart 4.4: Nominal Exchange Rate of the Rupee Chart 4.5: Annual change in MERI1 and MERI2 against Main Currencies



Foreign Currency Transactions

Since the outbreak of COVID-19 in March 2020, activity on the domestic FX market remained low. Total turnover, including spot and forward transactions but excluding interbank transactions, FX interventions and sales to the State Trading Corporation by the Bank, decreased from US\$10.8 billion in FY2019-20 to US\$8.3 billion in FY2020-21. This was primarily due to the significant decline in tourism receipts, following the closure of national borders.

Foreign currency transactions remained concentrated in the spot market, totaling US\$7.7 billion and accounting for 91.8 per cent of total turnover. Forward transactions dropped from US\$1.2 billion in FY2019-20 to US\$0.7 billion in FY2020-21. The share of forward transactions in total FX turnover thus declined from 11.5 per cent to 8.2 per cent over the same period (Table 4.1).

Foreign currency purchases and sales were mostly denominated in US dollar and euro, with the share of transactions conducted in US dollar declining from 59.6 per cent in FY2019-20 to 48.1 per cent in FY2020-21. Concurrently, the share of transactions in euro dropped from 29.3 per cent to 20.1 per cent (Table 4.2).

(LISC million)

(LIS\$ million)

Table 4.1: Foreign Currency Transactions¹

		Purchases				Turnover				
	Spot		Forward	Total	Spot	Spot		Total		
	Miscellaneous ²	More than US\$ 20,000 or equivalent	-		Miscellaneous ²	More than US\$ 20,000 or equivalent				
FY2019-20	1,726.4	2,867.3	659.4	5,253.1	1,484.3	3,479.1	579.9	5,543.3	10,796.4	
FY2020-21	1,123.8	2,109.6	236.7	3,470.1	1,405.6	3,015.8	443.0	4,864.4	8,334.4	

¹ Transactions conducted by banks and foreign exchange dealers, excluding interbank and swap transactions.
² Includes transactions below US\$20,000 or equivalent.

Figures may not add up to totals due to rounding.

Table 4.2: Foreign Currency Purchases and Sales by Major Currencies

			Purchases			Sales				
	USD	EUR	GBP	Others*	Total	USD	EUR	GBP	Others*	Total
FY2019-20	1,876.9	1,386.3	179.1	84.4	3,526.7	2,647.3	839.7	173.0	399.0	4,059.0
FY2020-21	1,429.3	736.3	97.8	83.1	2,346.3	2,222.7	791.5	116.9	327.6	3,458.8

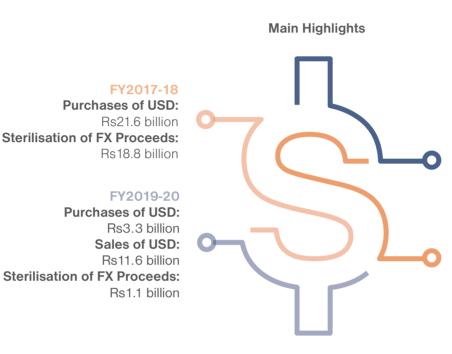
*Other currencies, excluding Miscellaneous Transactions

Figures may not add up to totals due to rounding.

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Foreign Exchange Intervention

The Bank intervened to sell US dollars in a regular and a total amount of US\$1,330.1 million was sold to banks sustained manner to ensure constant availability of foreign and FX dealers through regular interventions compared to currency on the domestic FX market. During FY2020-21. US\$299 million in FY2019-20.



FY2018-19

Purchases of USD: Rs17.4 billion Sterilisation of FX Proceeds: Rs5.3 billion

FY2020-21

Purchases of USD: Rs0.1 billion Sales of USD: Rs53.1 billion

Interbank Foreign Exchange Market

FY2019-20

Total Turnover, excluding BoM interventions: US\$749 million

Of which

- Purchases of US dollar against the rupee: • US\$425 million
- Purchases of US dollar against other foreign currencies: US\$236 million

Weighted average interbank Rs/USD: Rs35.8069 - Rs40.6000

FY2020-21

Total Turnover, excluding BoM interventions: US\$288 million

Of which

- Purchases of US dollar against the rupee: US\$209 million
- Purchases of US dollar against other foreign currencies: US\$42 million

Weighted average interbank Rs/USD: Rs39.2452 - Rs42.8429

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Reserve Management

Foreign exchange reserves reached US\$7.3 billion as at end-June 2021, slightly up from US\$7.2 billion a year earlier. The level of international reserves has remained within adequacy ranges, based on both traditional metrics as well as the more rigorous IMF Assessing Reserves Adequacy (ARA) methodology.

Strategic Asset Allocation

The Strategic Asset Allocation (SAA) of the foreign exchange reserves pertains to the reserves management process at the Bank and defines the allocation of reserves in terms of currencies and broad asset classes. The SAA is approved by the Board of the Bank and is designed to adhere to the guiding principles of security, liquidity and return in that order of priority under Section 46(2) of the Bank of Mauritius Act 2004.

A new SAA was approved by the Board in January 2021 to take account of updated capital market assumptions across financial asset classes over the medium term, whilst enhancing the resilience of the reserve portfolio to liquidity shocks. In line with governance best practices, the Board also approved the 'Foreign Exchange Reserves Investment Policy and Guidelines', which incorporates the risk preferences and investment guidelines relating to the investment process for the reserves portfolio.

STOCK MARKET DEVELOPMENTS

During FY2020-21, the domestic stock market partly recouped the losses registered in the preceding year. The second wave of the pandemic and re-imposition of national lockdown in March 2021 did not have significant adverse impact on the share prices of listed companies on the domestic stock market. Accordingly, the SEMDEX and SEM-10 posted respective gains of 12.1 per cent and 10.5 per cent between end-June 2020 and end-June 2021 (Chart 4.6).

All major sectors posted positive performances in FY2020-21. Share prices of the sugar-linked, tourism, banking and construction sectors improved in the range of 17.6-32.8 per cent in FY2020-21 compared to FY2019-20, on the back of optimistic growth outlook and progress in the domestic vaccination programme. The tourism sector was boosted by announcement of the phased re-opening of borders as from mid-July 2021. Construction activity remained buoyant in the wake of the ongoing Metro Express project and implementation of the Road Decongestion Programme, amongst others. Similarly, the sugar-linked sector was underpinned by an improvement in global sugar demand and easing of containment measures worldwide, which supported sugar prices.

2400 450 2300 430 2200 410 2100 390 370 2000 1900 350 1800 330 1700 310 1600 290 1500 270 1400 250 Jul-19 Aug-19 Aug-19 Sep-19 Oct-19 Dec-19 Jan-20 Feb-20 Feb-20 Jun-19 Mar-20 Apr-20 May-20 May-20 Aug-20 Dec-20 Jun-19 Jul-20 Sep-20 Nov-20 Jun-20 Sep-20 Oct-20 Nov-20 Jan-21 Jan-21 Feb-21 Jul-20 Mar-21 Apr-21 Apr-21 Aay-21 Jun-2 J Jun-2 J SEMDEX SEM-10 (RHS)

Chart 4.6: SEMDEX and SEM-10

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Total market capitalisation on the Official Market increased by 12.1 per cent to Rs226.1 billion as at end-June 2021 against a decline of 20.1 per cent as at end-June 2020. Average monthly turnover of transactions on the Official Market dropped by 18.3 per cent to Rs51.9 million in FY2020-21. In volume terms, 1.8 million shares were, on average, traded on the Official Market during the period under review. Net investment by foreigners on the domestic stock market remained in negative territory during FY2020-21 (Chart 4.7). Total purchases by foreigners increased by around 60.8 per cent, from Rs2.9 billion in FY2019-20 to Rs4.6 billion in FY2020-21, while their sales expanded by around 20.6 per cent, from Rs5.0 billion to Rs6.1 billion over the same period. Hence, net sales by non-residents dropped by 33.1 per cent to Rs1.45 billion.



