



STATEMENT FROM THE GOVERNOR



As I share with you the Bank's activities and achievements for financial year 2020-21, it is increasingly evident that the worst of the Covid-19 pandemic is behind us. The deployment of vaccines has helped many countries deal with, and eventually circumvent, successive waves of infection and re-imposition of lockdowns. As a result, the global economy is recovering quite strongly this year, albeit unevenly across countries and regions. While uncertainty about the virulence of actual and potential variants continues to tilt the balance of risks to the growth outlook to the downside, prolonged accommodative monetary and fiscal policies, in conjunction with growing vaccination rates worldwide, will support economic revival.

The Mauritian economy is also well on the road to recovery after the severe blow dealt by the pandemic in 2020, despite the setback experienced in the second quarter of 2021 when a second sanitary lockdown took place. The full re-opening of the borders as from October 2021, with the resumption of air travel, is expected to lift sentiment and shore up growth prospects. The Covid-19 vaccination programme is bearing fruit, with around 70 per cent of the population having already received two doses of vaccines, and contributing to the positive outlook.

In this challenging context, the Bank remains committed to its mandates of price stability and financial stability while promoting balanced economic development. Monetary policy continued to be accommodative throughout FY2020-21, aiming at keeping interest rates low and maintaining the banking system liquid enough to provide the much-needed fillip to growth. In parallel, the Bank maintained its Support Programme introduced at the outset of the pandemic in March 2020. This Support Programme, a blend of conventional and unconventional financial and regulatory measures, ensures that the supply of credit to households and firms continues to function. There is no doubt that without these actions, the impact of the crisis on the Mauritian economy and financial system would have been much more sizeable and protracted than experienced so far.

Inflation has been on the rise lately, driven by supply-side factors. This is part of a global phenomenon arising from persistent disruptions to global supply chains due to the

pandemic, as well as rising food, energy and freight prices. Strengthening global demand, low vaccination rates in many emerging markets, and production bottlenecks in some main markets signal that supply-chain disruptions may linger for some time. Nonetheless, as sanitary conditions continue to normalise, these constraints should gradually lessen during the course of next year and ease inflationary pressures. The Bank will continue to closely monitor the risks to the inflation outlook and remain vigilant against signs that inflation expectations are being altered on the upside.

The banking sector has largely benefited from the Bank's Support Programme, including those aimed at temporarily providing flexibility with regard to the regulatory environment, and from the various assistance schemes



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set up by Government. Banks have remained sound and resilient, while continuing to hold strong capital and liquidity positions. Non-performing loans have remained under control. Profitability levels have understandably gone down on the back of higher provisioning and fall in net interest income, but the fact that they stayed broadly positive augur well for the ability of the sector to bounce back and support economic development in the future.

Indeed, the Bank's credit and liquidity stress tests show that the banking system continues to be resilient to a range of severe but plausible scenarios. Banks, which had been advised to refrain from making dividend payments until the end of 2020, can now envisage doing so while complying to the Guideline on Payment of Dividend that the Bank issued in September 2020.

The Mauritius Investment Corporation (MIC), which the Bank set up as a fully-owned subsidiary in 2020 to, among others, help systemically large and viable companies affected by Covid-19, has been instrumental in propping up those firms and contributing to the resilience of the banking sector. Up to the end of September 2021, the MIC had already disbursed Rs12.3 billion to companies mainly operating in the "Accommodation and Food Service Activities" sector. The MIC will undeniably continue to

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play a preponderant role in safeguarding the stability of the financial system while aiding to re-shape the economic landscape of Mauritius.

The Bank will continue to regularly ascertain the health of the banking system and take pre-emptive action as and when necessary. This task will now be undertaken under a clear legal mandate that in June 2021, has enlarged the Bank's remit to that of macroprudential authority of Mauritius. As the macroprudential authority, the Bank is expected to work in close collaboration with other financial regulators to identify and mitigate systemic risk, and protect the stability of the financial system. The Bank is currently working on establishing a comprehensive macroprudential policy framework in line with international best practice to ensure that it fulfils this mandate successfully.

Going forward, notwithstanding the uncertainty posed by the pandemic, the Bank is preparing for the gradual unwinding of the Covid-19 measures and working in close collaboration with banks to come up with an appropriate exit strategy. This process has to be targeted and time-bound to prevent households and businesses facing cliff-edge effects when measures are removed. It is being coordinated by the two Task Forces that I established last year on Banking Resilience and on the Covid-19 Support Programme, respectively.

The Bank is, in addition, revamping its monetary policy framework to better anchor inflation expectations and reinforce the effectiveness of monetary policy. The review is being undertaken in collaboration with the IMF to ensure that monetary policy strategy is forward-looking and transparent. The operational framework for the implementation of monetary policy is also being reviewed with a view to strengthening the monetary policy transmission mechanism. It is expected that the new framework will become effective in 2022.

The development of financial markets, which provides a strong foundation for monetary policy transmission, continues to be a major endeavour for the Bank. The Bank has revamped the guidelines under which Primary Dealers operate in order to boost the secondary market for securities and sustain a proper yield curve. In December 2020, the Bank granted the first licence for the issue of a Money Market Instrument and there is burgeoning interest from corporates for other issues. As a result of our constant efforts to improve the financial market structure, Mauritius has integrated the Bloomberg African Bond Indices (ABABI), which enables investors to measure and track the performance of Africa's local markets. Being part of the ABABI, which captures close to 90% of the

outstanding amount of African sovereign local currency bonds, strengthens Mauritius' position as a reputable International Financial Centre (IFC).

During the year, the Bank has continuously engaged with banks through surveys and meetings to prepare for the cessation of most LIBOR settings at the end of December 2021. The domestic banking sector is estimated to have the equivalent of about Rs260 billion outstanding in contracts linked to LIBOR as at that date. The Bank issued a Guidance on LIBOR transition setting out the key milestones and related timelines that banks are expected to meet in their preparation for the phasing out of LIBOR in April 2021, and updated it in September 2021.

The domestic FX market remained under pressure given the protracted closure of borders. The Bank maintained its interventions to supply the market, as well as the State Trading Corporation, with FX to facilitate international payments and other transactions. Despite these interventions, international reserves have remained at adequate levels as buffers against external shocks according to IMF metrics. The Bank reviewed the Strategic Asset Allocation of the FX reserves in January 2021 in an attempt to enhance returns while preserving their security and liquidity in a riskier and lower-yielding global environment.

The pandemic has reshaped the way in which the Bank conducts business and accelerated the shift towards technology-driven and sustainable processes. Internally, teleworking is now an integral way in which staff deliver on their tasks, and virtual meetings have become prevalent. More staff have been able to follow courses online as well. In this context, having the right IT support is essential. The Bank has thus embarked on a major IT Transformation project to streamline and automate our internal systems while promoting Straight Through Processing. This necessarily means greater emphasis on tackling issues related to cyber-security. Among actions undertaken so far, the Bank is developing a Guideline on Cyber and Technology Risk Management with the assistance of IMF AFRITAC South; a Memorandum of Understanding and a Cooperation Agreement to Counteract Cyber Attacks were signed between the Bank and the Bank of Russia to improve bilateral cooperation and fight cybercrime; the Bank is also collaborating with the Ministry of Information Technology, Communication and Innovation and other key stakeholders to draft the National Cyber Security strategy for Mauritius.

At the same time, I am speeding up digitalisation and technological innovation of the market infrastructure and

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cost enabler of payment interoperability.

Moreover, with the coming in force of the National Payment Systems (Authorisation and Licencing) Regulations in June 2021, a body corporate may apply to the Bank for an authorisation to operate a payment system, clearing system or settlement system in Mauritius or for a licence



to act as a payment service provider in Mauritius. Non-bank players have the potential to bring innovation and foster competition in payments systems. The Regulations will ensure a competitive level playing field while setting out standards to ensure a fair and uniform operating environment.

of the banking system in general. In November 2020, I established a multilateral Fintech Committee comprising various agencies to chart a roadmap for the financial industry to embrace fintech and adapt the regulatory framework accordingly. Technology is changing the way financial institutions conduct business and meet customer expectations. The financial industry has to harness the potential of these technologies to uphold the digital transformation process of Mauritius.

To mitigate the risks posed by innovations to the payments landscape and to ensure its safety and efficiency, the Bank is gearing up its oversight capacity. The National Payment Systems Act was amended in August 2021 to allow for the establishment of the National Payment Systems Committee, which will act as an advisory body to the Bank in the exercise of its payments oversight function. The Committee will also serve as a forum for cooperation, thereby supporting the achievement of sound and efficient payment systems in Mauritius.

Based on the Fintech Committee's recommendations, the Banking Act was amended to empower the Bank to grant a regulatory sandbox authorisation to a financial institution, a licensee under the National Payment Systems Act or a body corporate. The authorised entity can use the regulatory sandbox to experiment with fintech, regtech or other innovation-driven financial services falling under the purview of the Bank in a controlled testing environment. To encourage an entrepreneurship culture, the Bank will also establish a fintech innovation hub and digital lab. These initiatives will accelerate the development of fintech and support the Digital Mauritius 2030 Strategic Plan with the ambition to make Mauritius a regional fintech hub.

The Bank is currently developing, with the assistance of the IMF AFRITAC South, a licensing and regulatory framework for the establishment of digital banks in Mauritius. Digital banking will encourage innovation and competition in the banking industry and contribute to position our IFC as a leading centre in digital financial services. As part of the enabling infrastructure, the Bank is consulting with the banking industry on a regulatory framework for the use of cloud services.

The Bank is working in close collaboration with the Ministry of Information Technology, Communication and Innovation, representatives of banks and the MBA to use the MoKloud platform and the central database of the Civil Status Office, the InfoHighway, to come up with a mechanism to facilitate digital onboarding of customers and online verification and validation of identity.

Last year, I had launched the groundwork for the introduction of a Central Bank Digital Currency (CBDC). In view of the far-reaching implications of a CBDC for the financial system and the economy, the Bank is carrying out with the assistance of the IMF a feasibility study that will culminate into a pilot run for the Digital Rupee next year. CBDCs have become popular among central banks and work is ongoing worldwide to analyse the various aspects and implications of its introduction.

With regard to the payments system in the post-pandemic world, consumers will look beyond debit and credit cards and demand safer and more convenient payment means such as access to digital wallets and contactless payments. In this perspective, the Bank has continued to broaden the services available on the MauCAS platform to give further impetus to the digitalisation of the payment ecosystem. One of our main achievements is the deployment in September 2021 of a national QR Code, the MauCAS QR Code, an important instrument in payments and a low-

The pandemic has pushed the climate change agenda to the forefront. This is an issue of particular concern to Mauritius as a small island economy and to the

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Bank of Mauritius. Our resilience to climate-related and environmental risks depends on the actions being taken now to make our financial system more sustainable. Since joining the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in July 2020, the Bank has actively participated in the projects of various NGFS workstreams. The Bank has also embarked on several sustainability projects, of which a Guide for the Issue of Sustainable Bonds launched in June 2021 and a draft Guideline on Climate-related and Environmental Financial Risk Management issued for consultation in September 2021.

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risks into the Bank's regulatory, supervisory and monetary policy frameworks, while supporting the development of sustainable finance. The Centre will also oversee the Bank's internal operations to reduce its carbon footprint. The Centre will be a forum for engagement with stakeholders to better understand climate and environmental vulnerabilities and develop suitable strategies to mitigate them.

Also high on the Bank's agenda this year was the work to exit Mauritius from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring and the EU blacklist. I have had the privilege of leading the Mauritius delegation for discussing with the FATF Joint Group, as a result of which the FATF Joint Group, at its Plenary meeting in June 2021, concluded that Mauritius has taken all the necessary measures to implement the remaining action items of the FATF Action Plan. Accordingly, the Joint Group conducted an on-site visit in September 2021 to validate the implementation of these action items. On 21 October 2021, the FATF announced the removal of Mauritius from its list of jurisdictions under increased monitoring. This

confirms the effective mechanism that Mauritius has in place to combat money laundering and the financing of terrorism.

I must here commend the close collaboration among regulatory authorities and law enforcement agencies to coordinate efforts to address the deficiencies. The Interagency Coordination Committee (ICC), which I chair, has played a key role in the process over the past year and has been an important platform to improve AML/CFT supervisory effectiveness.

The AML/CFT Core Group, of which the Bank is a member, has been given legal status in the Financial Intelligence and Money Laundering Act in August 2021 and is responsible to coordinate and monitor progress made by the different stakeholders to implement the FATF Action Plan. As member of the National AML/CFT Committee, the Bank is actively engaged in various sub-committees for ground-level and cooperative work to align Mauritius with the FATF recommendations.

Training of staff is paramount in ensuring continued supervisory effectiveness. Trainings, including outreach and awareness sessions in various AML/CFT areas, have been delivered by partners and international organisations, including

the ESAAMLG and the FATF. Furthermore, the AML/CFT Unit at the Bank has been strengthened with seasoned supervisors as well as qualified young recruits. The Bank will soon launch a one-year training programme on AML/CFT to young graduates in collaboration with the Financial Services Commission.

Gauging by the developments expounded above, central banking is evolving at a faster pace than ever before. The Bank has therefore engaged in the modernisation of the banking legislation. The Bank of Mauritius Act and Banking Act are both being reviewed under the auspices of the IMF to align them to international best practice.

The banking industry also needs to adapt to the changes currently occurring and be able to benefit from the opportunities that are arising. To this end, I have established the Committee on the Future of Banking in Mauritius (CFBM) in July 2020 to identify strategic objectives and chart the way forward for the banking industry. Membership of the CFBM, under my chairmanship, comprises my Deputy

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Governors, Chief Executive of the MBA, Chief Executive Officers of a number of banks and two seasoned financial sector experts. This collaboration between the Bank and the MBA will culminate in the elaboration of an actionable strategic roadmap for sustained development of the banking sector. The CFBM appointed Oliver Wyman as consultant to study the banking sector and develop the strategic roadmap to attain the core strategic objectives determined by the CFBM. The roadmap recommended by the consultant will be published next year.

To contribute to these developments, the Bank has set up an Advisory Committee to the Governor. The Advisory Committee is a platform for the exchange of ideas and experience on several matters relevant to central banking. The Committee, which I chair, comprises my Deputy Governors and select international professionals who are eminent experts in their respective fields. The Committee held its first meeting in March 2021. In July 2021, the third meeting of the Committee was stylized as the first edition of the BoM Thought Leadership Series, which was a roundtable session around the theme of banking resilience. I intend to promote discussions among industry players on topical themes of direct relevance to central banking and the banking industry.

In concluding, I wish to express my utmost gratitude to the Honourable Pravind Kumar Jugnauth, Prime

Minister, Minister of Defence, Home Affairs and External Communications, Minister for Rodrigues, Outer Islands and Territorial Integrity, and Dr the Honourable Renganaden Padayachy, Minister of Finance, Economic Planning and Development for their unflinching support to the Bank in fulfilling its duties of maintaining price stability and financial stability and for sparing no effort in safeguarding the economy during the crisis, and as the country prepares to bounce back. I am also grateful to the Board of Directors including my Deputy Governors for their contribution and commitment.

I thank the staff of the Bank for rising up to the challenges posed by these testing times and allowing the Bank to continue delivering effectively on its mandate. I also present my thanks to the MPC Members, CEOs of banks and financial institutions, and all stakeholders for their steady collaboration.

Harvesh Seegolam
Governor

27 October 2021