BANK OF MAURITIUS

FINANCIAL STABILITY REPORT

July 2021

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FOREWORD

The Bank of Mauritius (hereunder referred to as "The Bank") is issuing its first edition of the Financial Stability Report of 2021, which covers developments taking place in between the fourth quarter of 2020 and first quarter of 2021, as well as updates related to the COVID-19 pandemic.

In line with its mandate*, the Bank's assessment of risks to financial stability with a view to identifying and mitigating vulnerabilities in the domestic financial system are underlined in this Report. The analysis provides insights into the resilience of the domestic financial system.

This Report is published pursuant to section 33(2)(b) of the Bank of Mauritius Act, which states that the Bank shall publish at least twice a year a report on financial stability. The Report includes a review of financial stability and an assessment of policies of the Bank in relation thereto.

This Report is available on the Bank of Mauritius' website at: https://www.bom.mu

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As prescribed under Section 4(2)(b) of the Bank of Mauritius Act 2004, one of the other objects of the Bank of Mauritius is to ensure the stability and soundness of the financial system of Mauritius. A stable and sound financial system is a prerequisite for proper intermediation and allocation of funds in the economy, thereby being conducive to economic and financial development.

1| Executive Summary

The global outlook has improved after more than one year into the pandemic, especially in advanced economies given the acceleration of the COVID-19 vaccination campaigns. Additional fiscal stimulus measures in some large economies have also contributed to boost investors' and consumers' confidence. Growth in some Emerging Market Economies (EMEs) is not expected to return to pre-pandemic levels for several years, mainly due to slower rollout of vaccines and persistence of structural macroeconomic and financial imbalances. Overall, global economic recovery from the crisis, supported by strong policy measures, have helped to contain risks to global financial stability.

In its July 2021 World Economic Outlook, the International Monetary Fund (IMF) projected a rebound in global growth by 6 percent in 2021 before moderating to 4.9 percent in 2022. The global outlook remains highly uncertain though. The main downside risks to growth stem from the emergence of new virus variants, divergent recovery paths across countries and the tightening pace of global financial conditions.

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The global financial markets remained buoyant since 2020Q4. The implementation of highly supportive macroeconomic policies, optimism about vaccines and the anticipated improvement in the growth outlook are some of the factors that have supported financial markets and alleviated financial stability concerns. Across the world, banks have generally remained well-capitalised, reflecting substantial monetary and fiscal support together with regulatory forbearance policies.

However, the pandemic poses considerable challenges to banks' asset quality and profitability. Relatively low interest rates are squeezing banks' net interest margins. Globally, regulators have encouraged banks in their jurisdictions to support the local economy through their buffers. The expiration of public policy measures in several countries in 2021 could weigh on asset quality of banks, thus the need for a carefully managed exit strategy.

The financial system in Mauritius has continued to demonstrate resilience. Improving economic conditions and prospects as well as strong policy measures have supported the financial system, in spite of the second lockdown in March 2021. The public policy measures, both conventional and unconventional, have contributed to limit economic scarring and protect the stability of the banking and financial sectors, principally by safeguarding employment, limiting corporate defaults and bankruptcies, and ensuring adequate liquidity in the financial system.

Latest data published by Statistics Mauritius show that the economic contraction gradually eased from 12.7 percent in 2020Q3 to 8.4 percent in 2021Q1. Economic growth is projected to improve in the second half of the year, spurred by a recovery in global demand and continued support from domestic policy measures. Further, following the ongoing vaccination campaign, the gradual re-opening of borders as from mid-July 2021 – planned for completion by 30 September 2021 – is expected to revive the tourism industry with positive spillover effects on domestic growth momentum. These developments are anticipated to boost consumer and business sentiment. The Bank has projected the economy to grow by 5.5 percent in 2021.

The foreign exchange market continues to operate without disruptions and excessive volatility, well supported by the regular foreign exchange interventions of the Bank. The Bank's supply of foreign exchange mitigated unwarranted exchange rate volatility that could have heightened economic and financial vulnerabilities. The Bank supplied foreign exchange to banks, foreign exchange dealers and the State Trading Corporation (STC) to stabilise conditions on the foreign exchange market. The significant shortfall in tourism receipts and muted export proceeds restrained activity on the foreign exchange market, though. From October 2020 to March 2021, the weighted average selling dealt rate of the Mauritian Rupee (Rs) depreciated by 1.7 percent against the dollar. The foreign exchange reserves buffer of the country, as measured by the Gross Official International Reserves (GOIR), stood at USD7.3 billion as at end-March 2021 representing 17.4 months of imports.

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Conditions on the rupee money market reflected the accommodative monetary policy stance of the central bank. The level of rupee excess liquidity in the banking system, also exhibiting the effects of the COVID-19 support measures, has exerted downward pressures on short-term yields. As the economy gradually recovered, the Bank has stepped up its open market operations leading to a pick-up in money market yields.

Banks in Mauritius entered the second lockdown in March 2021 with relatively strong capital and liquidity positions. Profitability ratios continued to decline during 2020Q4, but picked up during 2021Q1 due to an improvement in non-interest income, and reduced net impairment loss charge, which altogether countered the continuous reduction in the banks' net-interest margin. The Capital Adequacy Ratio (CAR) of banks stood at 18.7 percent as at end-March 2021. The overall Non-Performing Loan (NPL) ratio for the banking sector improved to 5.0

percent as at end-March 2021 from 5.4 percent as at end-September 2020. The consolidated Liquidity Coverage Ratio (LCR), in both rupees and other major currencies, for the banking sector stood at 250.6 percent as at end-March 2021, well above the regulatory requirements. Other prudential ratios, such as the foreign exposure limit as a percentage of Tier 1 Capital and Credit Concentration Limits, were also satisfactorily met. The five Domestic Systemically Important Banks (DSIBs) were assessed to be adequately capitalised and liquid during the period under review.

Banks have continued to extend credit to the private sector, thus supporting the economic recovery under way, while managing credit risk prudently as per their risk appetite. With the second wave of the COVID-19 infections and the ensuing lockdown in March 2021, the pace of growth in bank credit has slowed down. While household NPLs have remained contained within a relatively tight range, debt servicing has become more challenging in a difficult economic environment characterized by lower income-generating abilities for many households.

However, the COVID-19 support measures of the Bank of Mauritius (Bank) have eased financial strains on lenders and borrowers. The corporate sector remained by far the major contributor to the annual growth in bank credit to the private sector. Loan moratoriums have cushioned the impact of income losses on the financial performance of distressed firms, by allowing them to defer loan repayments. Nonetheless, as the COVID-19 pandemic continues to loom with new infections, the operating environment remains challenging for the corporate sector.

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Against this backdrop, the Bank has extended the moratorium on loans to 30 June 2022 to ease financial strains of impacted households and enterprises. Further, the easing of the Debt-to-Income ratio for residential property loans in June 2021, together with recent budgetary measures to support home ownership, are expected to enhance credit expansion to the household sector.

The results of the stress testing exercise show that banks are expected to maintain a CAR above the minimum requirement of 11.875 percent, even under a severe stress scenario. They also have adequate liquidity buffers to meet unexpected withdrawals of Global Business Corporations (GBCs) deposits. The resilience of banks largely reflects support measures put in place by the Bank and Government which provided flexibility and relief to banks as well as their customers, thus cushioning the effects of the pandemic.

Recent trends in long-term insurance asset values indicate the resilience of the life insurance industry to the pandemic. However, the low interest rate environment, fragile outlook for some economic sectors and a potential deterioration of the sanitary situation pose downside risks to the outlook of the industry. Credit facilities extended by life insurers rose in the period under review, driven by commercial mortgage loans. The general insurance industry also displayed resilience as the pandemic took a serious toll on several key sectors of the economy.

The GB sector, largely exposed to external developments, remains under the scrutiny of the Financial Services Commission (FSC) Mauritius. Deposits of GBCs have increased by nearly 8 percent, in dollar terms, between end-September 2020 and end-March 2021, despite the global impact of the COVID-19 pandemic and the anti-money laundering and combating the financing of terrorism (AML/CFT) listings of Mauritius. Over the year ended March 2021, the number of new applications and new licences issued has, however, recorded a decline.

At its June 2021 Plenary, the FATF determined that Mauritius has substantially completed its Action Plan and, thus, warranted an on-site assessment to verify the implementation of Mauritius's AML/CFT reforms. An early exit by Mauritius from the FATF List of "Jurisdictions Under Increased Monitoring" would enhance confidence and trust in the jurisdiction as an international financial centre (IFC).

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The Bank and the FSC continue to monitor closely risks to financial stability, including those emanating from the interconnectedness of the financial sector with the real sector. The risks posed by financial conglomerates to the financial system are well recognised. Changes were made to the law to allow both the Bank and the FSC to monitor conglomerates which include a financial institution in their group structure. Both authorities have initiated regulatory actions necessary for the proper oversight of the identified financial conglomerates.

The importance of cyber risk has increased over the recent years given the unprecedented digital transformation of the financial system. The Bank acknowledges that cyber incidents can have very severe impact on the financial stability of the banking sector and is fully committed to address this risk. To this end, the Bank is developing a guideline on cyber and IT risks management with the support of IMF AFRITAC South to improve the resilience of the financial system against cyber-attacks and other technology related incidents.

In sum, the strong policy response and expectations for a stronger economic recovery over the next quarters, underpinned by noticeable progress on vaccine rollout and the re-opening of borders, have contained risks to financial stability at this juncture.

The Bank continues to deploy its financial stability assessment toolkits to monitor the financial situation of banks.

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2| Macro-Financial Linkages

2.1 Global Financial Conditions

The evolving nature of the COVID-19 pandemic and the associated economic uncertainty have put the global financial system under considerable strain. However, extraordinary policy responses by monetary, fiscal and regulatory authorities were effective in easing global financial conditions and supporting the economy, thus containing risks to financial stability.

After more than one year into the pandemic, the global outlook appears favourable given additional fiscal stimulus measures in some large economies, especially in advanced economies. The acceleration of the COVID-19 vaccination campaigns has boosted investors' and consumers' confidence in economic recovery. International trade in goods has rebounded and is set to return to pre-pandemic levels, while trade in services continues to remain low. Inflation has increased in several countries, as commodity prices firmed up amongst others, though inflation expectations have remained broadly stable.

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Advanced economies, including the Euro area, is expected to rebound this year but at a slower pace. However, growth in some EMEs is not expected to return to pre-pandemic levels for several years due to slower rollout of vaccines and persistence of structural macroeconomic and financial imbalances. India, Brazil and South Africa have registered record-high new cases of infections, which impacted significantly on their growth prospects. The growth outlook for China, on the other hand, remains strong.

In its July 2021 World Economic Outlook, the IMF projected that the global growth would rebound by 6 percent in 2021 before moderating to 4.9 percent in 2022, though some uncertainty prevails. The main downside risks to growth stem from the emergence of new virus variants, divergent recovery paths across countries and a sharp tightening of global financial conditions. Looking ahead, policy normalisation and rapid increase in rates in advanced economies could tighten financial conditions in emerging and frontier market economies, resulting in large portfolio outflows, exchange rate depreciations and increases in domestic interest rates. On the other hand, there are also persistent concerns that extended period of accommodative financial conditions could exacerbate financial vulnerabilities and undermine the growth outlook.

Most central banks across the world continued to maintain their accommodative monetary policy stance and policy rates have generally remained unchanged. The European Central Bank (ECB) has indicated it would maintain net asset purchases under the Pandemic Emergency Purchase Programme, with a total envelope of €1,850 billion, until at least end of March 2022. The US Federal Reserve (US Fed) indicated that it would continue net asset purchases to the tune of USD120 billion per month, underlining that the increase in US inflation was due to temporary factors. Improved economic prospects led to a noticeable increase in US long-term nominal interest rates, with global effects.

The global financial markets remained buoyant since 2020Q4 due to the implementation of highly supportive macroeconomic policies, optimism about vaccines and the anticipated improvement in the growth outlook. The Morgan Stanley Capital International (MSCI) World index increased approximately by 19 percent since September 2020. Stock markets reached record highs in a few jurisdictions in February 2021, despite output being well-below pre-pandemic path, raising concerns of a disconnect between the markets and the real economy and risks of future financial fragility. The MSCI Emerging Market index and the MSCI Frontier index rose by around 22 percent and 10 percent, respectively, between September 2020 and March 2021. (Chart 2.1)

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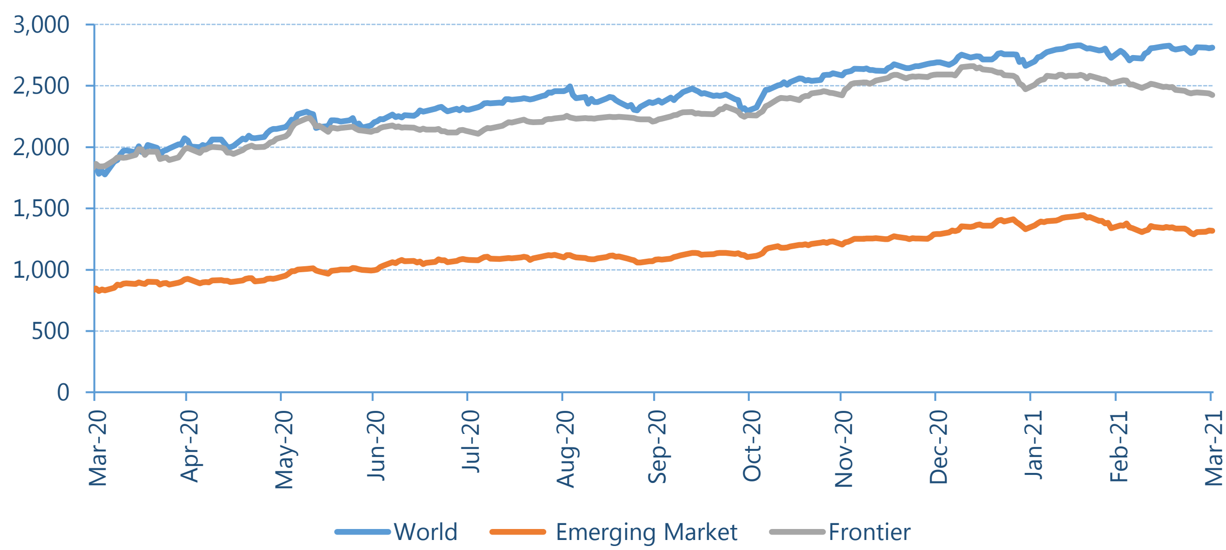
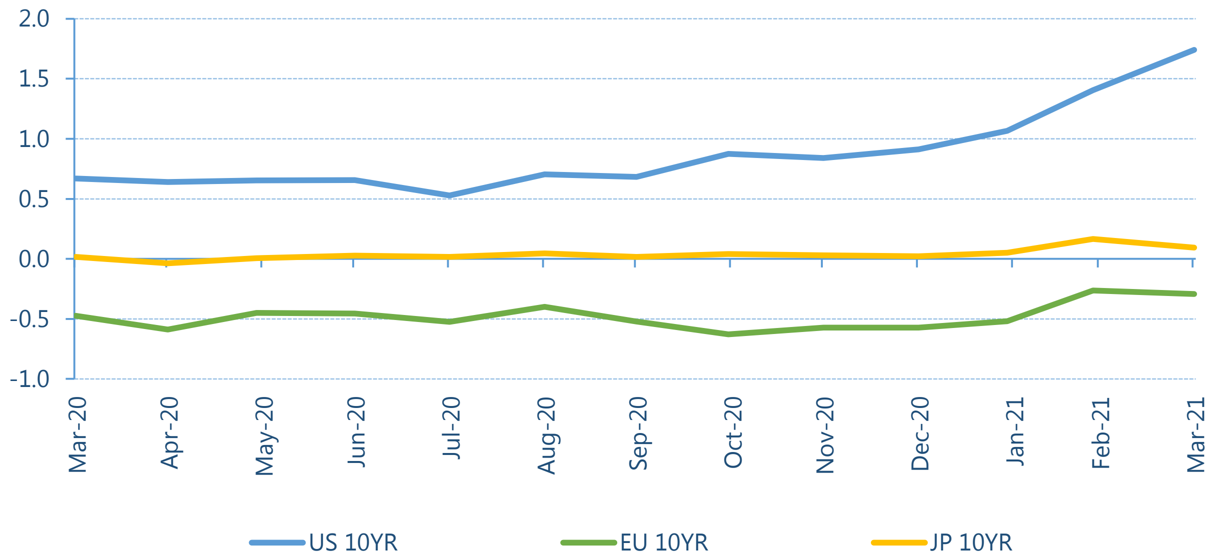
Chart 2.1: MSCI World Index



Source: Bloomberg

Sovereign yield curves in advanced economies remained low until the end of 2020 due to the low or negative policy rates as major central banks continued with their accommodative monetary policies. In early 2021, yields increased but remained close to historical lows. The rise was most pronounced in the US where 10-year yields resumed the trend initiated in August when the Treasury announced large increases in the issuance of long-term bonds. The US 10-year yield at end-March 2021 was 106 basis points higher than its level at end-September 2020. The resulting steepening of the yield curve was roughly mirrored in other major economies, reflecting the increase in market measures of interest rate risk and inflation compensation. (Chart 2.2)

Chart 2.2: Selected government bond yields



Source: Bloomberg

In currency markets, the US dollar (USD) Index dropped in 2020Q4 on the back of highly accommodative US monetary policy, hopes for a vaccine and strong fiscal stimulus in the US. The USD subsequently strengthened in 2021Q1, benefitting from strong investor confidence backed by the perceived US economic strength and quick vaccine rollout. The rise in US bond yields increased demand for US dollars. (Chart 2.3)

Notwithstanding the fragile global economic and financial environment, banks have generally remained well-capitalised, reflecting substantial monetary and fiscal support together with regulatory forbearance policies. Globally systemically important banks in US and Europe have built precautionary reserves against the risk of future deterioration in credit quality. Aggregate NPL ratio of Euro area banks fell further to 2.7 percent in 2020Q4, mainly reflecting the disposal of legacy NPL assets. Amid the pandemic, banks in countries like Cyprus, Greece, Italy

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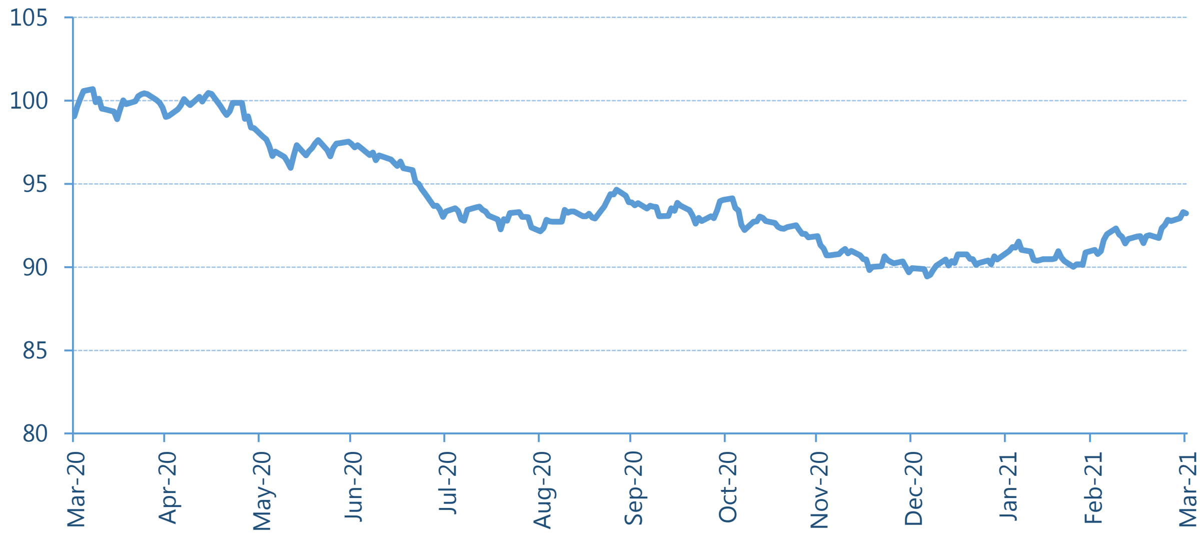
and Portugal, which were highly affected by previous crises, have managed to continue reducing their NPL ratios by up to 9 percentage points.

Chart 2.3: US Dollar Index



Source: Bloomberg

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However, the pandemic poses some daunting challenges to banks' asset quality and profitability. Relatively low interest rates are squeezing banks' net interest margins making weak profitability a structural issue for many banking sectors, particularly in Europe and Japan.

In addition, the eventual expiration of macroeconomic and financial policy measures in several countries implies that asset quality of banks is likely to deteriorate further over 2021, thus the need for a carefully managed exit strategy. Nonetheless, future asset quality relies on the timing and strength of the economic recovery and the exposure of banks to sectors that are most affected by the pandemic.

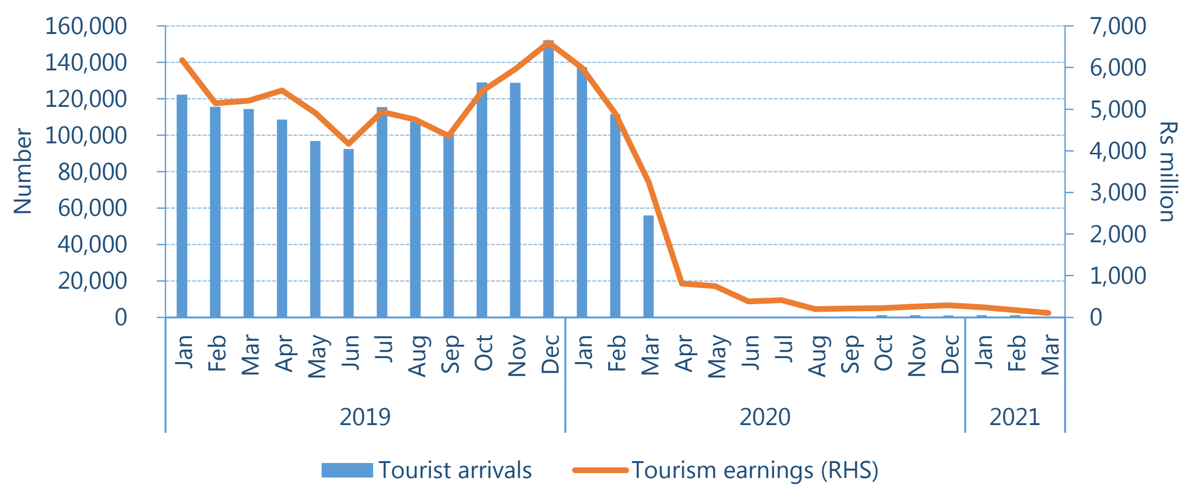
Globally, regulators have encouraged banks in their jurisdictions to support the local economy through their buffers. However, the ability and willingness of banks to ensure a continuous flow of credit to the real economy would depend on their assessment of the credit quality of impacted borrowers as support measures are gradually phased out.

2.2 Domestic Macro-Financial Conditions

The COVID-19 pandemic and associated containment measures have taken a severe toll on the Mauritian economy. Latest national accounts data show that the contraction in the economy has gradually eased from 12.7 percent in 2020Q3 to 11.1 percent in 2020Q4 and further to 8.4 percent in 2021Q1. The economic recovery underway is driven mainly by improving performance of the manufacturing, distributive trade and financial services sectors.

Tourist arrivals stood at 311 in March 2021, compared to 55,863 in March 2020, whilst tourism earnings dwindled to Rs103 million in March 2021, compared to Rs3,250 million a year ago (Chart 2.4). Travel restrictions had knock-on effects on other domestic industries as well, especially those indirectly connected to the heavily impacted tourism sectors.

Chart 2.4: Tourist arrivals and tourism revenue



Source: Bank of Mauritius

The number of unemployed rose by 12,500 to 52,500 in 2020. As a result, the unemployment rate stood at 9.2 percent in 2020, compared to 6.7 percent in the previous year.

In March 2021, the authorities imposed a second national lockdown in response to a resurgence of COVID-19 infections. While the re-opening of the economy was undertaken in gradual phases, sporadic cases are still being registered. The impact of the second lockdown is likely to be much lower than last year on account of the shorter duration, more flexibility for businesses to operate through the rapid deployment of Work Access Permits (WAPs) and established remote working practices.

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Nonetheless, growth is projected to improve in the second half of the year, spurred by a recovery in global demand, amid continued support from policy measures. The re-opening of borders to international travel in mid-July 2021 and full opening of borders as from October 2021, following notable progress on the vaccination front, is anticipated to boost consumer and business sentiment and spur the tourism sector, with positive spillover effects on domestic growth. The Bank projects economic growth at 5.5 percent in 2021.

The domestic stock market continued to display some vulnerabilities relative to the pre-pandemic picture. With the tourism outlook shrouded in uncertainty, recovery prospects appeared slim for listed stocks particularly those related to the 'accommodation and food service activities' sector. Banking stocks retreated at the start of 2020Q4, reflecting to some extent the Bank's Guideline on Payment of Dividend for banks and non-bank deposit-taking institutions (NBDTIs) that imposed some prudential requirements before they could declare dividend or transfers from profits, given the need to keep these institutions financially strong.

The announcement of the vaccination campaign in December 2020 brought back further confidence among investors. However, in March 2021, the downgrade by Moody's long-term ratings of two banks by one notch weighed on share prices. Overall, the SEMDEX closed the first quarter of 2021 at 1,600.19 points, shedding 2.9 percent compared to end-2020Q4. (Chart 2.5)

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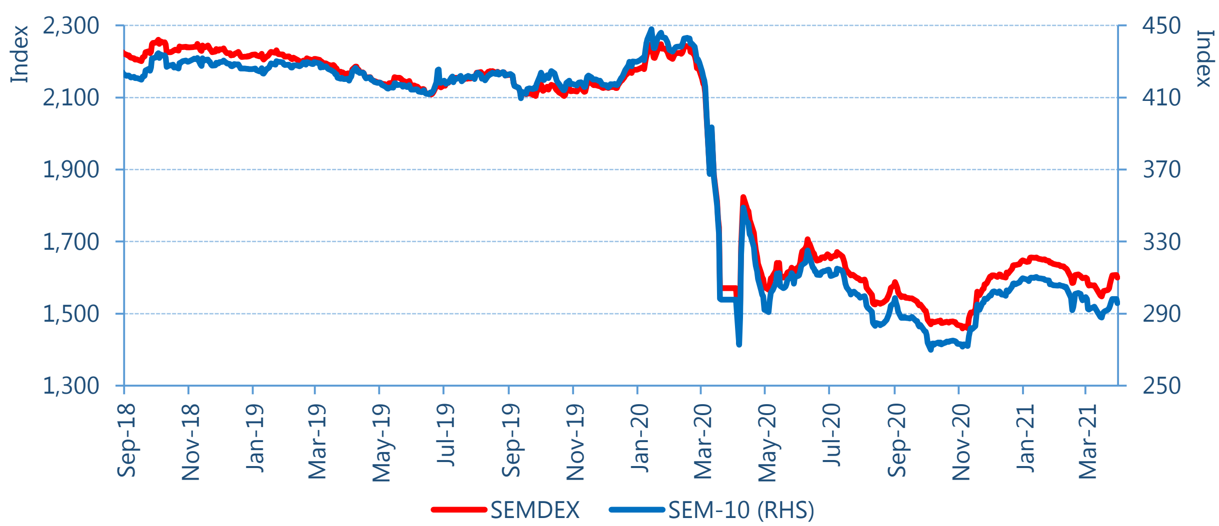
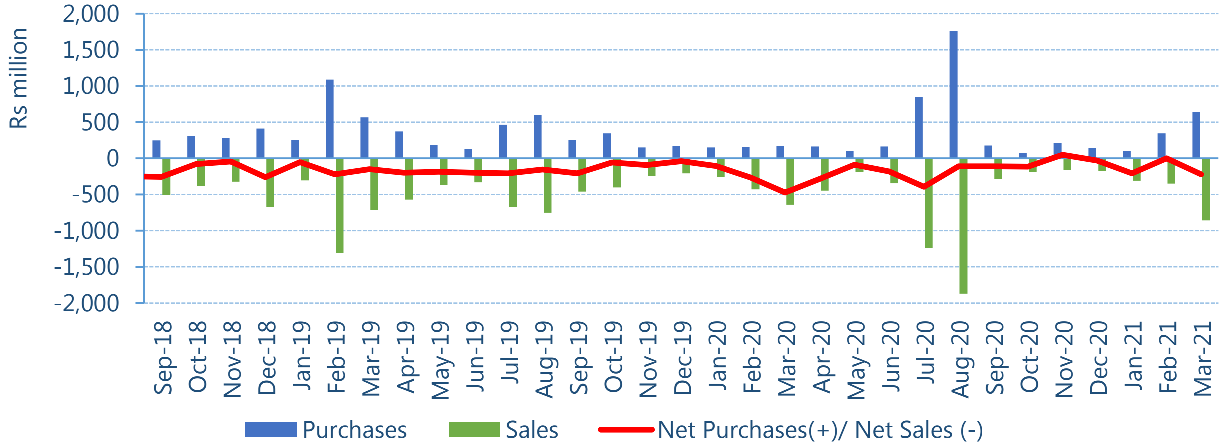
Chart 2.5: Stock market indices (base: June 2017)



Source: Stock Exchange of Mauritius

Foreigners continued to disinvest from the Stock Exchange of Mauritius during the period under review. (Chart 2.6)

Chart 2.6: Investment by non-residents on the SEM and DEM



Source: Bank of Mauritius

The shortfall in tourism receipts and muted export proceeds adversely impacted activity in the foreign exchange market. Large scale regular foreign exchange intervention by the Bank to address the shortfall bolstered activity on the foreign exchange market, particularly as from 2020Q3, leading to an improvement of 38 percent in foreign exchange turnover. With the second lockdown, as from 10 March 2021, the foreign exchange market once more fell into a lull, with only the financial sector registering a higher turnover relative to the previous quarter. (Chart 2.7)

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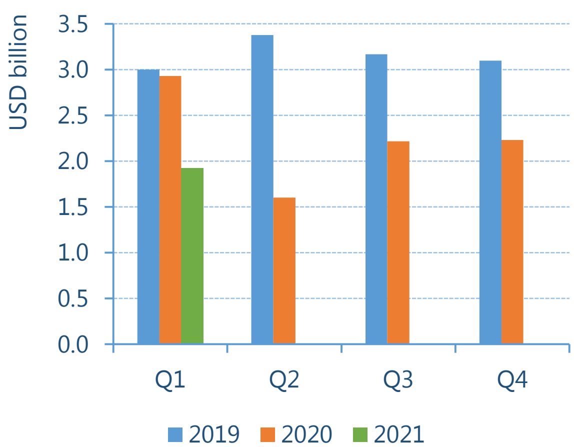
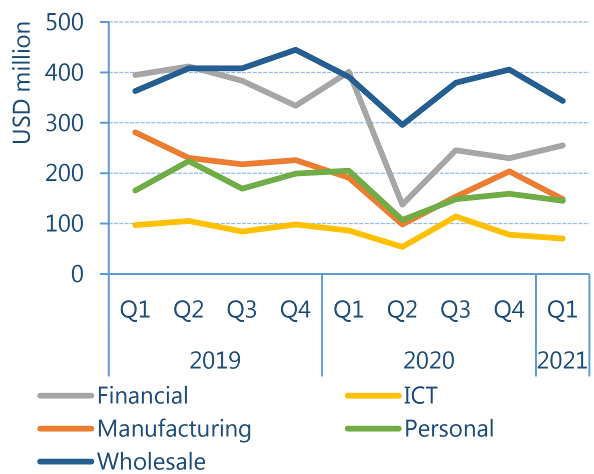
Chart 2.7: Foreign exchange turnover

a. Aggregate



b. Sector-wise

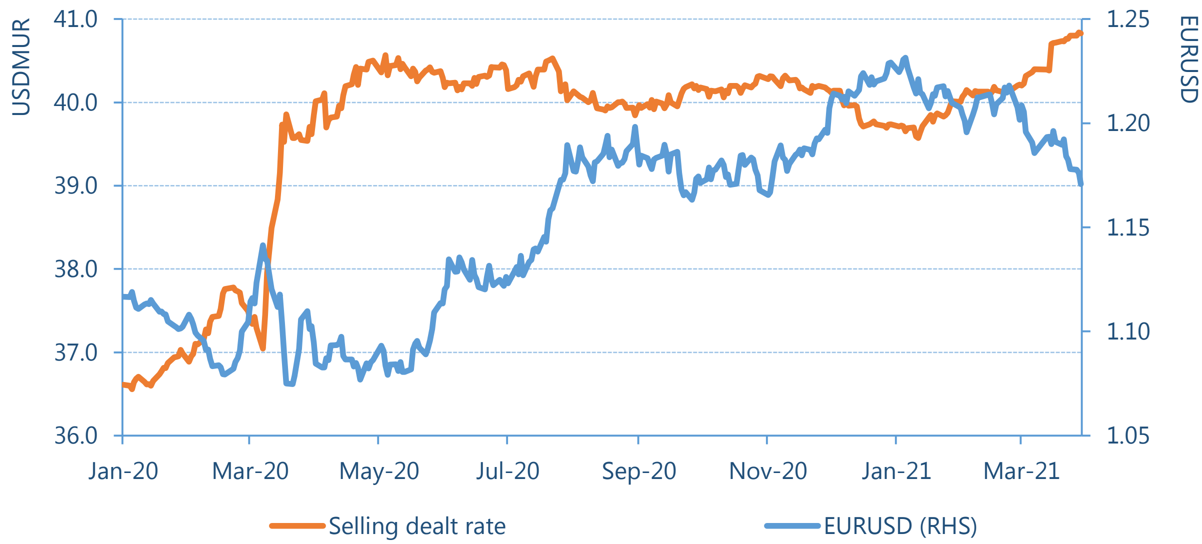


Source: Bank of Mauritius

From 2020Q4 to 2021Q1, the Bank intervened in the domestic foreign exchange market and sold a total amount of USD550 million to banks and foreign exchange dealers. Over the same period, the Bank sold a total amount of USD123.1 million directly to the STC to fund the imports of essential goods.

The Bank's regular supply of foreign exchange mitigated exchange rate volatility that could have heightened economic and financial vulnerabilities. The evolution of the Rupee exchange rate reflected conditions on the domestic foreign exchange market as well as international movements in EUR/USD. Over the period October 2020 to March 2021, the weighted average selling dealt rate of the Rupee depreciated by 1.7 percent against the dollar. (Chart 2.8)

Chart 2.8: Evolution of EURUSD and USDMUR selling dealt rate



Source: Bank of Mauritius

The GOIR stood at USD7.3 billion as at end-March 2021, representing 17.4 months of imports. The reserves adequacy assessment has been carried out using a blend of latest available and conservative economic data. It is aimed at determining whether reserves are adequate to meet, among other objectives, import obligations in the near term as well as short-term external debt. The use of conservative economic data is prompted by the significant drop in trade in 2020. Accordingly, data on imports and exports of goods and services for 2019, which better reflects conventional economic activity, was used instead of 2020 data. Reserve adequacy metrics were also calculated with all underlying variables measured in US dollar to mitigate the impact of fluctuations of the USDMUR exchange rate on the metrics.

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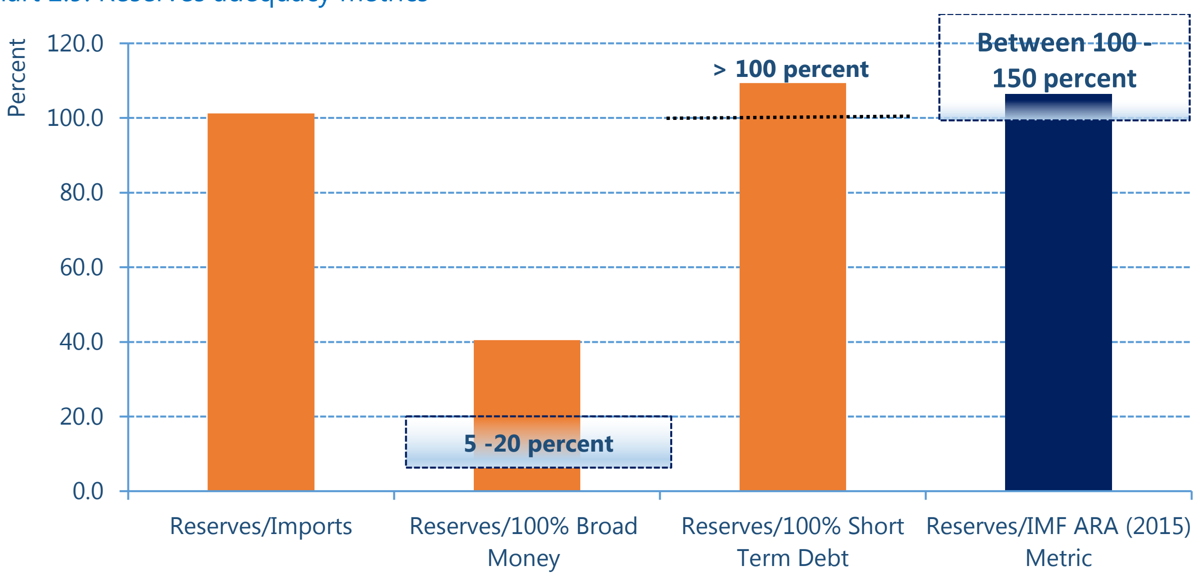
The three traditional reserve adequacy metrics indicate that reserves are broadly adequate. The reserves to import ratio, which stood at 101 percent as at end-March 2021, can cover for a whole year of imports of goods and services. The reserves to broad money ratio stood at 40 percent - well above the 5-20 percent range advocated by the IMF - while the ratio of reserves to short-term external debt stood at 109 percent, above the 100 percent adequacy threshold advocated by the Greenspan-Guidotti rule (Chart 2.9).

The adequacy of reserves has also been assessed from the perspective of potential shocks to the balance of payments. The IMF Assessing Reserve Adequacy metric[1], a more rigorous methodology, is calculated by taking into account shocks to exports, short-term debt, broad money, portfolio liabilities and deposits of global business license holders. The ratio of reserves to the IMF metric stood at 106 percent, which lies within the 100 to 150 percent range advocated by the IMF (Chart 2.9).

Chart 2.9: Reserves adequacy metrics



Source: Bank of Mauritius

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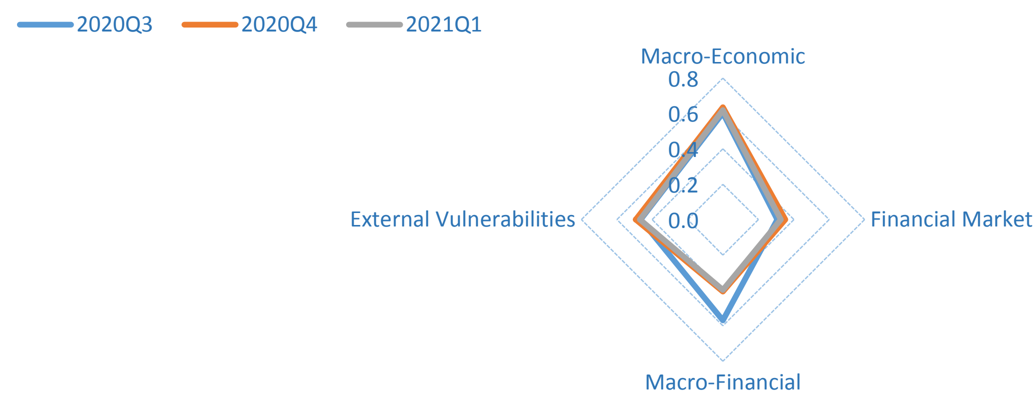
[1] Mauritius: Staff Report for the 2021 Article IV Consultation (https://www.imf.org/en/Publications/CR/Issues/2021/06/28/Mauritius-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-461296). IMF Policy Paper, Assessing Reserve Adequacy–Specific Proposals (https://www.imf.org/external/np/pp/eng/2014/121914.pdf).

Systemic risk to the growth and financial sector outlook subsided slightly. This drop was driven mainly by the improvement in the global economic outlook, with positive spillover effects on the financial market and macroeconomic realms during 2020Q3-2021Q1. (Chart 2.10)

Chart 2.10: Systemic risk indicator

a. Risk map



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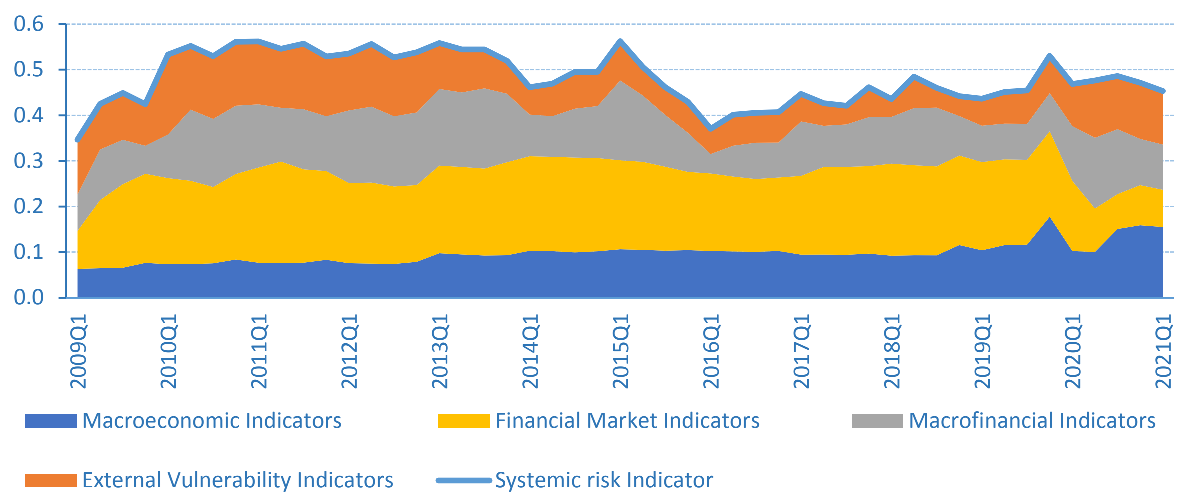
b. Systemic risk indicator



Note: The systemic risk indicator provides an indication of an overall assessment of changes in the underlying risk indicators relevant to the macro stability of the banking sector. It covers the period from the first quarter of 2009 to first quarter of 2021. It does not cover subsequent months due to lack of data at the time of writing this report. As the indicators move further from the centre (approach a score of 1), the risk increases.

Source: Bank of Mauritius

The Bank maintained its accommodative monetary policy stance and kept the Key Repo Rate (KRR) unchanged at 1.85 percent to support domestic economic recovery, amid muted inflation risks. Government resumed issuances of its securities as from November 2020, whilst the Bank resumed its open market operations as from mid-December 2020, to prevent further built-up of rupee excess liquidity. From October 2020 to March 2021, rupee excess liquidity in the banking system averaged Rs39.4 billion. High excess liquidity promoted the flow of credit to the economy.

The high level of rupee excess liquidity in the banking system exerted downward pressures on short-term yields. The weighted average yields on the 91-Day, 182-Day and 364-Day, which stood at 0.91 percent, 0.90 percent and 1.40 percent, respectively, as at end-September 2020 dropped to 0.21 percent, 0.31 percent and 0.45 percent, respectively, as at end-March 2021. Banks' weighted average savings deposit rate and weighted average lending rate dropped by 5 basis points and 3 basis points to 0.44 percent and 4.7 percent, respectively, over the same period. (Chart 2.11)

Chart 2.11: Evolution of market interest rates

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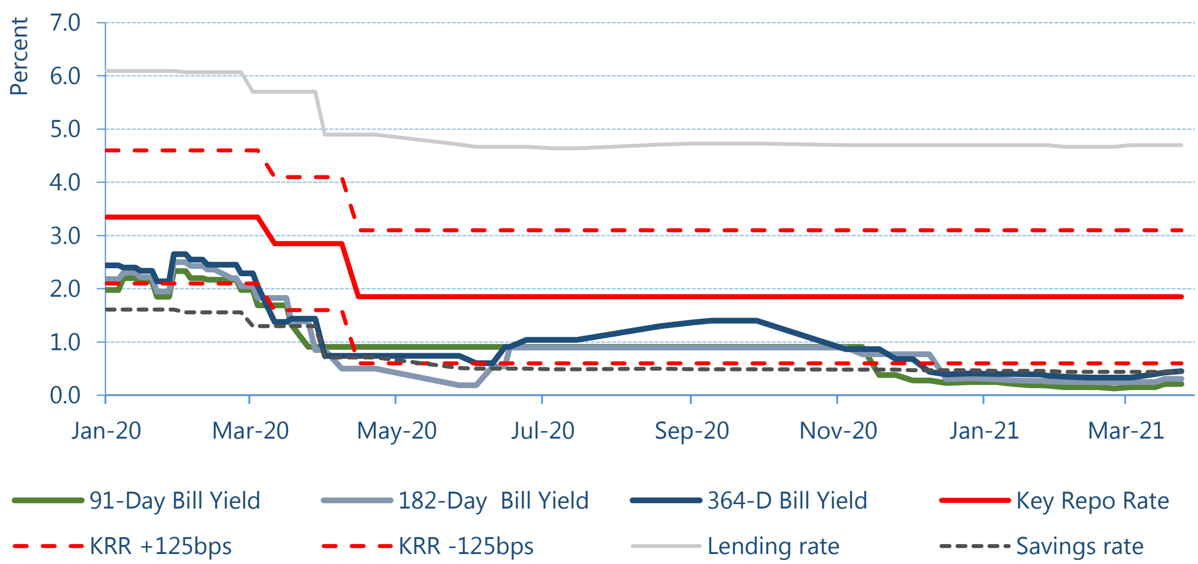

Source: Bank of Mauritius

Box 1: Update on COVID-19 measures

The Bank of Mauritius has come forward with a series of additional measures, during the period under review, to provide enhanced support to economic operators, households and individuals to address the challenges posed by the COVID-19 pandemic and its potential impact on the economy.

This Box provides an update on the COVID-19 measures implemented by the Bank in addition to measures outlined in the December 2020 edition of the Financial Stability Report.

Regulatory measures taken by the Bank:

- *Capital requirement*
  The requirements of the Guideline on Scope of Application of Basel III and Eligible Capital with regard to capital conservation buffer were reviewed such that the implementation of the capital conservation buffer of 2.5 percent was further deferred to 1 April 2022. Banks will be required to maintain a capital conservation buffer of 1.875 percent until 31 March 2022.

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- *Transitional arrangements for regulatory capital treatment*
  Guidance on transitional arrangements for regulatory capital treatment of IFRS 9 provisions for expected credit losses (ECL) was introduced with a view to alleviating the impact of the COVID-19 pandemic on provisioning levels of financial institutions. The transitional arrangements will allow financial institutions to retain a portion of their IFRS 9 provisions to prop-up the regulatory capital.

- *Liquidity requirements*
  The Guideline on Liquidity Risk Management was further revised to enable banks to have appropriate risk control measures to identify, manage, and monitor liquidity risk exposures.

- *Debt-to-Income Ratio*
  The threshold for the Debt-to-Income ratio in the Guideline on the Computation of Debt-to-Income Ratio for Residential Property Loans was reviewed to 50 percent, instead of 40 percent, for single and joint borrowers, to ease access to residential loans.

Box 1: Update on COVID-19 measures (continued)

Extension of specific measures:

- As part of the measures extended under its Support Programme, the Bank offered to bear the interest payable on outstanding loans for the period 1st January 2021 to 31st March 2021.

- Moratorium period on loans has been extended up to 30 June 2022 to support economic operators, SMEs, households and individuals impacted by COVID-19.

- The Special Relief Amount facility of Rs5.0 billion provided to economic operators to meet cash flow and working capital requirements has equally been extended to 30 June 2022. Interest rate on these advances are capped at the fixed rate of 1.5 percent annum.

- Cash Reserve Ratio, initially reduced from 9 percent to 8 percent, has been maintained up to 30 June 2022, allowing banks to further assist businesses directly impacted by COVID-19.

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Business operations

- Following the announcement made by the Government with regard to the temporary confinement as from March 2021, the Bank took various necessary measures to ensure there is no disruption in basic banking and payment services provided by banks.

- The exceptional closure of the premises of the Foreign Exchange Dealers and Money Changers was lifted, following the second temporary confinement in March 2021. They were allowed to carry on with their business activities, subject to adherence to the prescribed sanitary measures.

The Task Force on COVID-19 Measures, that meets under the chairmanship of the First Deputy Governor of the Bank and having the Mauritius Bankers Association Limited (MBA) and bankers as members, meets regularly to assess, review and recommend COVID-19 measures.

The Task Force on Banking Resilience, chaired by the Second Deputy Governor of the Bank and comprising the MBA and bankers, is closely monitoring the impact of COVID-19 on the banking system.

3| Financial Soundness of Households and Corporates

Economic recovery is under way. Prompt measures taken by the authorities have prevented a negative spiral in the economy. Support to households and corporates has been ongoing since the onset of the crisis. Banks have played an important role in containing the negative impact of the COVID-19 pandemic, in particular by granting various moratoria that have supported the liquidity position of numerous households and companies. The other measures taken by the Bank have also been instrumental in supporting the flow of credit to the economy, especially to systemic economic operators such as in the tourism sector, thereby limiting to a large extent liquidity problems in the corporate sector and a further build-up of vulnerabilities.

3.1 Overall Credit development

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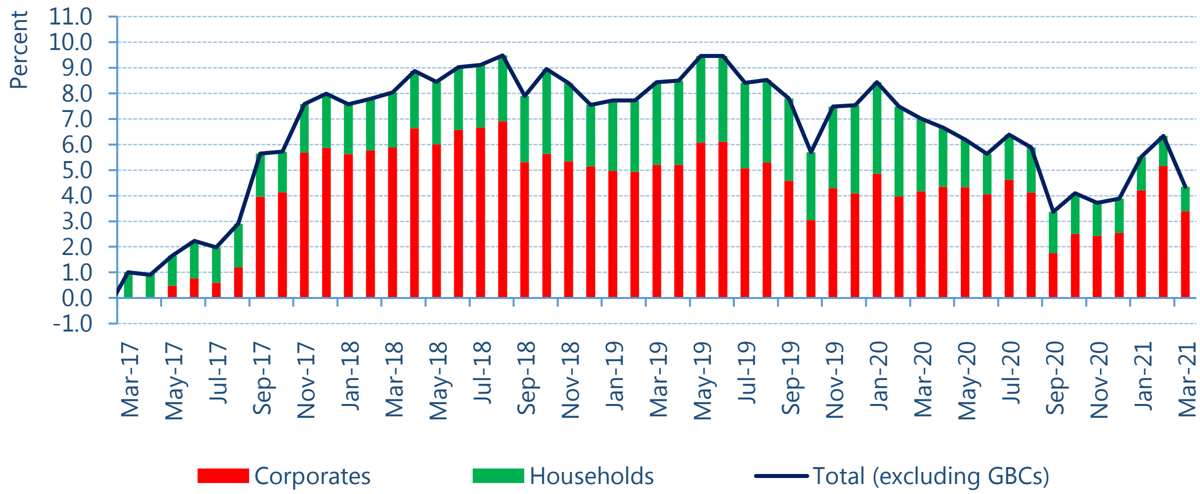
Bank credit to the private sector[2] (excluding GBCs) has continued to expand since 2020Q3, reflecting the host of measures implemented by the Bank to support credit to the economy. However, with the second wave of the COVID-19 infections and the ensuing lockdown in Mauritius, the pace of growth in bank credit has slowed down.

Annual growth in bank credit to the private sector, which stood at 3.4 percent in September 2020, peaked at 6.3 percent in February 2021, before moderating to 4.4 percent in March 2021. The corporate sector remained by far the major contributor to the annual growth in bank credit to the private sector. (Chart 3.1).

The growth in credit facilities availed by households and corporates outpaced the nominal Gross Domestic Product (GDP) growth and has led to a higher private sector credit-to-GDP ratio which increased from 82.1 percent in September 2020 to 88.2 percent in March 2021.

[2] *Private sector includes Other Nonfinancial Corporations, Other Financial Corporations, Public Nonfinancial Corporations and households.*

Chart 3.1: Growth of credit to the private sector



Source: Bank of Mauritius

The overall asset quality of banks has improved. The NPL ratio for the banking sector improved to 5.0 percent as at end-March 2021, from 5.4[3] percent as at end-September 2020. The NPL ratio for credit extended within Mauritius rose to 5.2 percent as at end-March 2021, from 4.4 percent as at end-September 2020. An improvement was observed in the NPL ratio for credit extended outside Mauritius, which dropped from 6.5 percent to 4.8 percent, over the same period. (Chart 3.2)

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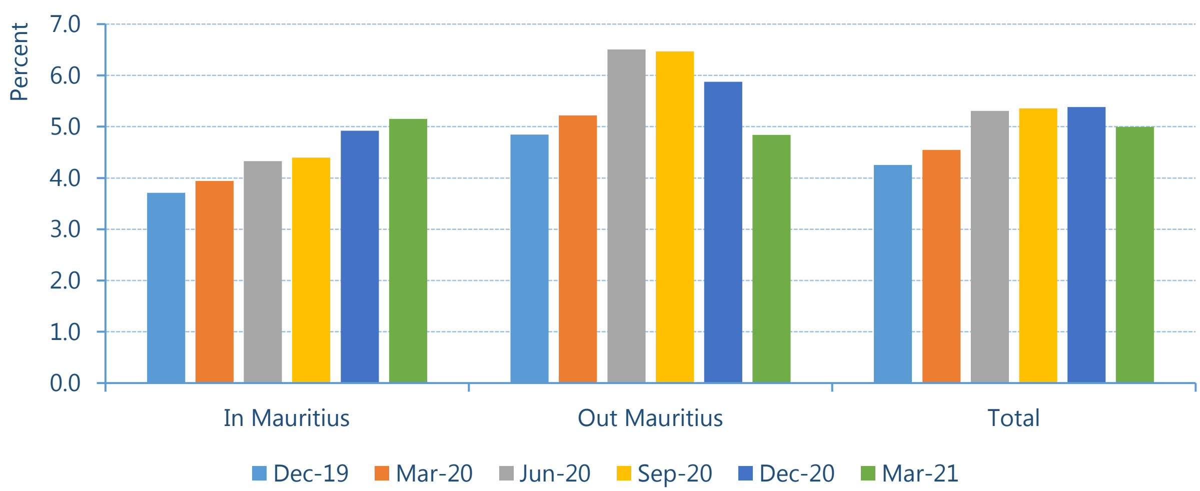
Chart 3.2: NPL ratio



Source: Bank of Mauritius

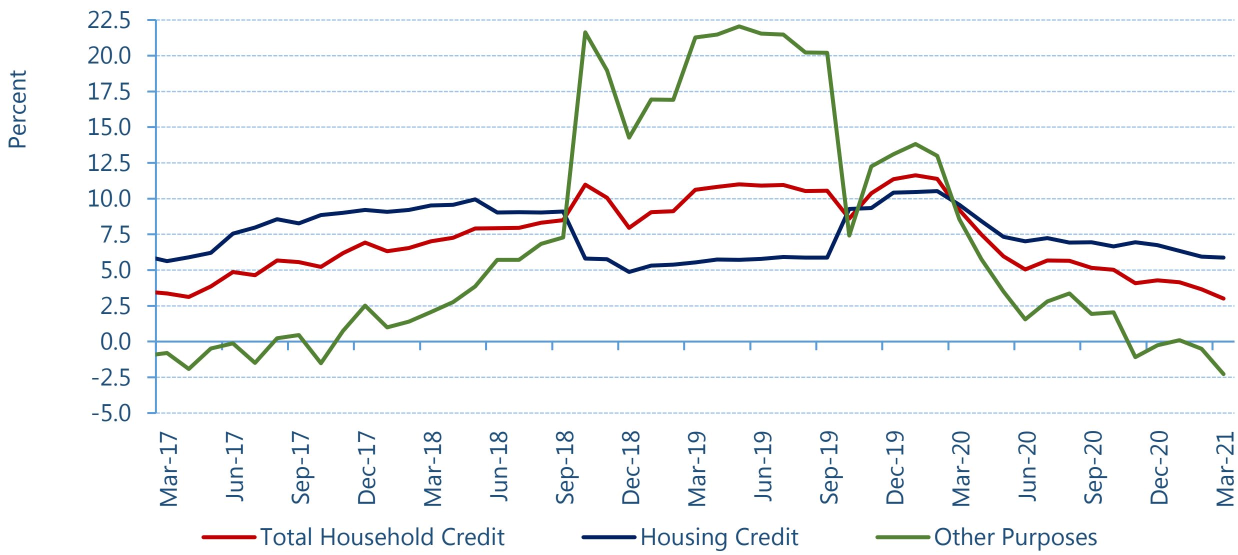
[3] *Revised figure.*

3.2 Household developments

Household credit, accounting for around 31 percent of total credit, grew at a slower pace of 3.0 percent in March 2021, compared to 4.3 percent in December 2020 and 5.2 percent in September 2020. Credit facilities extended to households were primarily dominated by housing credit, accounting for around 67 percent of total household credit in March 2021, with the remaining credit directed to households for other purposes[4].

Housing credit growth moderated by a full percentage point, from 6.9 percent in September 2020 to 5.9 percent in March 2021. On the other hand, household credit granted for other purposes contracted by 2.3 percent in March 2021 as against a growth of 1.9 percent in September 2020. (Chart 3.3)

Chart 3.3: Year-on-year growth of credit to households



Source: Bank of Mauritius

The moderation in household credit mainly reflects the sequels of the COVID-19 pandemic on the borrowing capacity of households. On the demand side, the rise in unemployment and the subsequent fall in income, especially in the hardest-hit sectors, have induced many households to embrace a more prudent approach towards expenditure by postponing investments in real estate and by revising their consumption patterns. On the supply-side, households who have been facing financial difficulties were unable to meet the eligibility criteria for securing new loans and advances.

[4] *Credit extended to households for other purposes include purchase of other consumer durable goods, purchase of land, purchase of motor vehicles, education purposes, medical purposes, investment purposes, and other unspecified purposes.*

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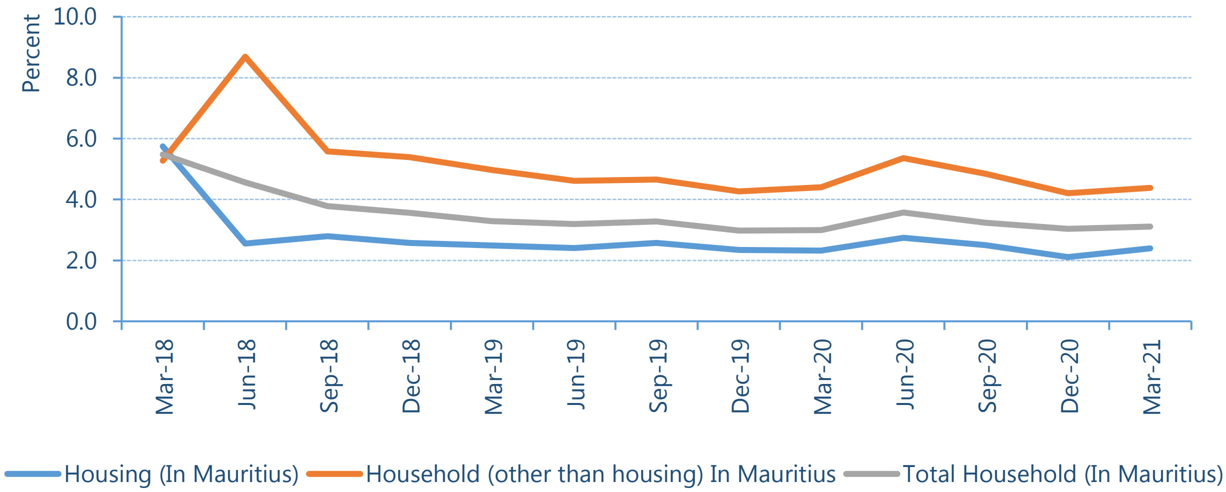
Household NPLs, both on housing credit and on credit for other purposes, have remained within a relatively tight range since 2019 (Chart 3.4). This could be attributed to the various support measures implemented by Government and the Bank to assist household income and support debt repayment during the pandemic.

Chart 3.4: Household NPL on credit granted by banks



Source: Bank of Mauritius

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In a difficult economic environment characterized by lower income-generating abilities for many households, debt servicing has become more challenging. As GDP has declined, several key indicators of indebtedness that use GDP as yardstick have deteriorated.

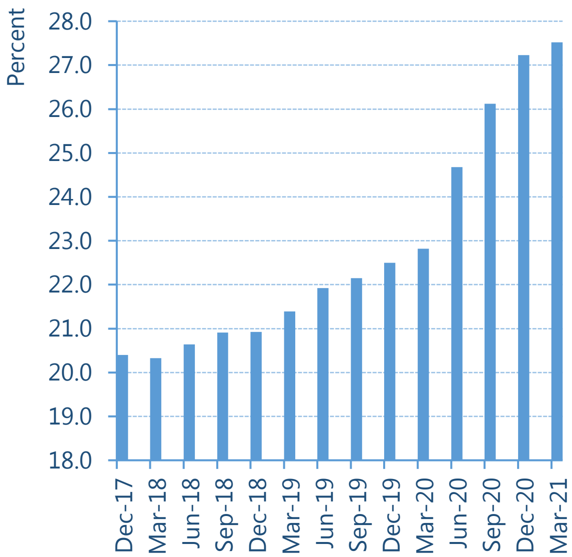
This cyclical evolution of indebtedness, although temporary in nature, should be carefully monitored to avoid potential debt overhang issues. The latter can arise in specific circumstances going forward, should households continue to face difficulties in servicing their debt despite a pick-up in economic activity.

The household credit-to-GDP ratio increased from 26.1 percent in 2020Q3 to 27.5 percent in 2021Q1, with the household credit-to-GDP gap[5] widening from 2.3 percent to 3.4 percent over the same period (Chart 3.5). The widening of this gap is deemed transitory as it is mainly driven by the decline in GDP, and is likely to narrow down as economic conditions gradually revert to normal levels.

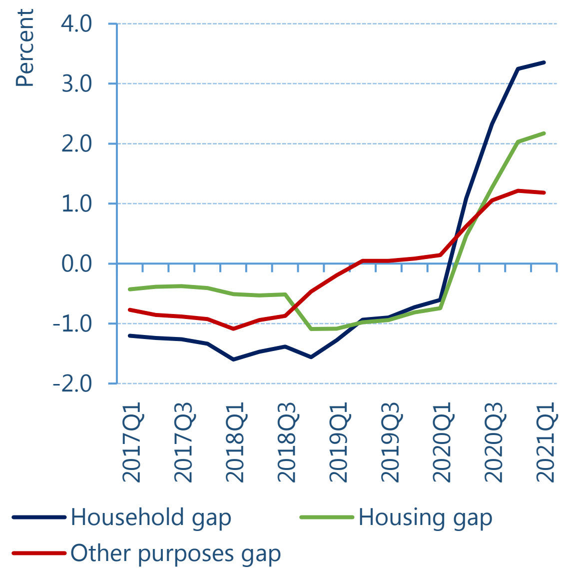
[5] *Credit-to-GDP gap is the percentage deviation between the credit-to-GDP ratio and an estimate of its trend. Trend in Credit to GDP Ratio is estimated by using HP filter.*

Chart 3.5: Indicators of household indebtedness

a. Household debt-to-GDP ratio



b. Household credit-to-GDP gap



Source: Bank of Mauritius

A broader measure of household indebtedness, which sums up household credit from banks, NBDTIs, insurance and leasing companies[6], showed indebtedness rising from 38.8 percent of GDP in 2020Q3 to 41.0 per cent of GDP in 2021Q1.

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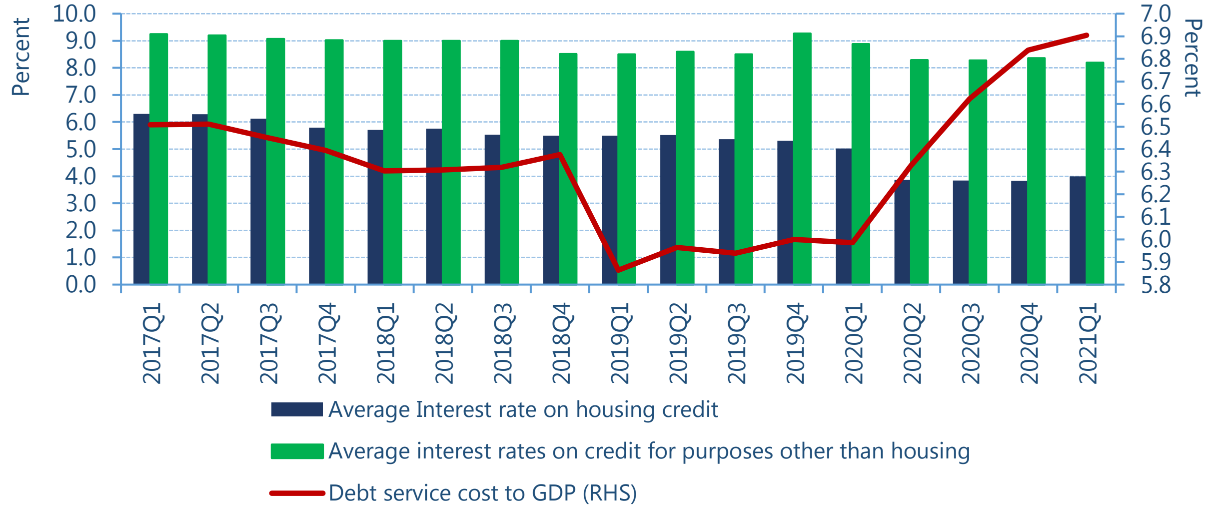
The household debt service ratio, computed as a ratio of household debt service cost to GDP, suggests that the ability of households to repay their debt has deteriorated further. The household debt service ratio increased from 6.6 percent in 2020Q3 to 6.9 percent in 2021Q1, on the back of the decline in household disposable income (Chart 3.6). Nonetheless, low interest rates, the wage assistance scheme and other support measures, such as moratoriums and appropriate loan restructurings, have enabled households stay financially afloat and have helped stall a surge in default risk.

Pressures on the debt repayment capacity of households are likely to persist as the revenue generating capacity of households continue to be affected by the prolonged impact of the COVID-19 shock. While the banking sector remains exposed to household creditworthiness, the risks remain contained, to some extent, given the COVID-19 support measures put in place by the Bank and the Government.

[6] *Data for total credit inclusive credit from banks, NBDTIs, insurance and leasing companies has been revised as from 2019.*

Chart 3.6: Household debt service cost and interest rates



Source: Bank of Mauritius

3.3 Corporate developments

The pandemic impacted heavily on the performance of the corporate sector, heightening risks to financial stability. Revenue shortfalls and cash flow imbalances added to pressures on the corporate sector. The prompt roll-out of relief measures largely contained the adverse effects. The reduction in interest rates, moratoriums on loan repayments, the provision of liquidity to the market, wage support measures and other targeted schemes to assist large and systemically important corporates, helped soften the full impact of the pandemic on economic operators and activity.

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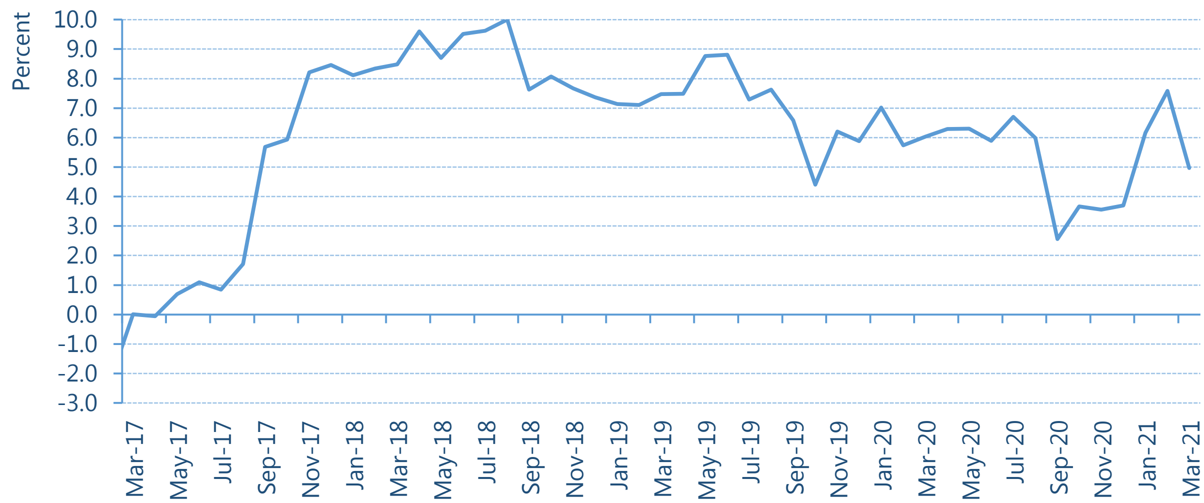
Bank credit to the corporate sector constitutes an important driver of private sector credit, with a share of almost 70 percent. Bank credit directed to the corporate sector grew more moderately in the second half of 2020 but eventually regained some momentum in 2021, mostly on account of renewed optimism over domestic economic activity and growth prospects. Corporate credit growth accelerated from 2.6 percent as at end-September 2020 to 5.0 percent as at end-March 2021. (Chart 3.7)

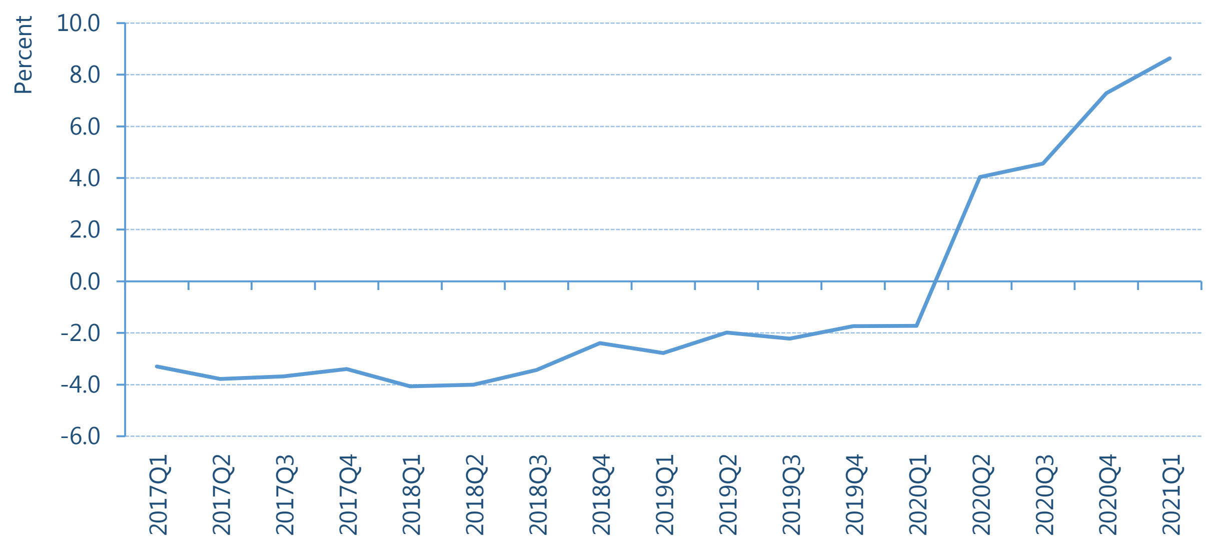
The corporate credit-to-GDP ratio increased from 56.0 percent in September 2020 to 60.7 percent in March 2021, reflecting the combined effects of corporate credit expansion and output contraction. Consequently, the corporate credit-to-GDP gap widened sharply from 4.2 percent in 2020Q3 to 8.5 percent in 2021Q1 (Chart 3.8). Under normal circumstances, the increasing gap in credit would have sent signals of potential overheating in the domestic credit market, warranting careful monitoring. Nevertheless, given that the surge in the credit gap for corporates stems primarily from the decline in output, it may be perceived as transitory in nature and is likely to narrow down as economic conditions gradually revert to normal levels.

Chart 3.7: Y-o-y growth of credit to corporates



Source: Bank of Mauritius

Chart 3.8: Corporate credit-to-GDP gap



Source: Bank of Mauritius

The corporate sector predominantly relies on domestic sources to meet its financing needs. The domestic component of debt accounts for about 92 percent of total corporate debt. Total domestic debt extended to corporates, comprising credit granted by banks, NBDTIs, insurance and leasing companies, expanded by 5.6 percent as at end-March 2021, compared to 2.4 percent as at end-September 2020.

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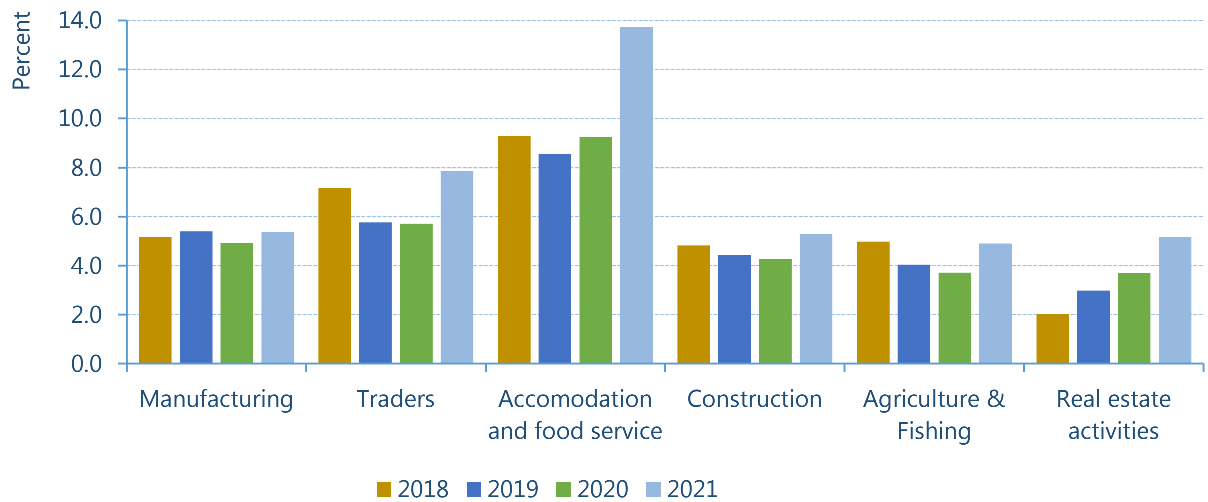
Corporate credit was distributed across the main sectors of the economy, with the 'accommodation and food service activities' and 'distributive trade' sectors capturing relatively larger shares (15.6 percent and 9.0 percent of total private sector credit, respectively) in March 2021. (Chart 3.9)

Chart 3.9: Sectoral distribution of corporate credit

a. Share in GDP



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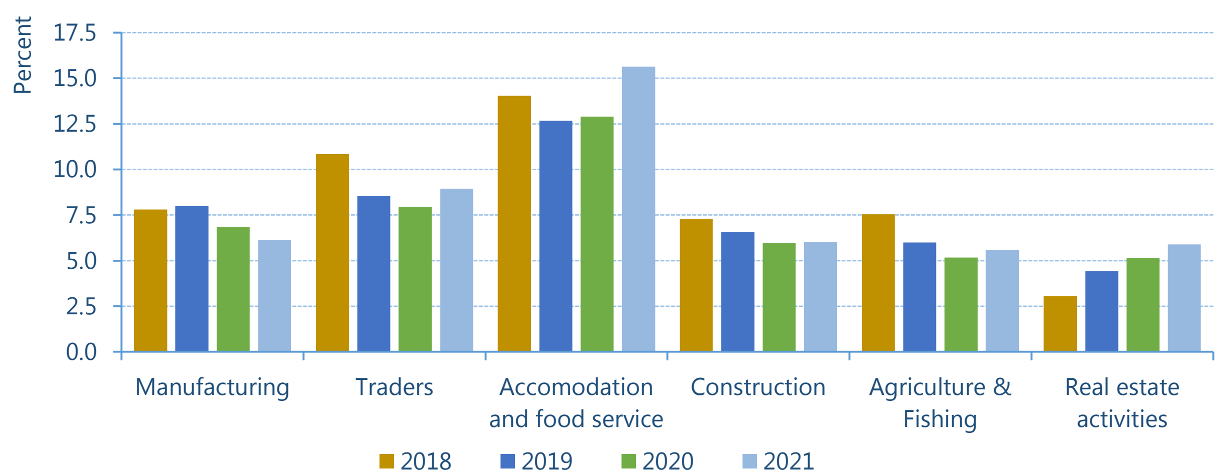
b. Share in total private sector credit

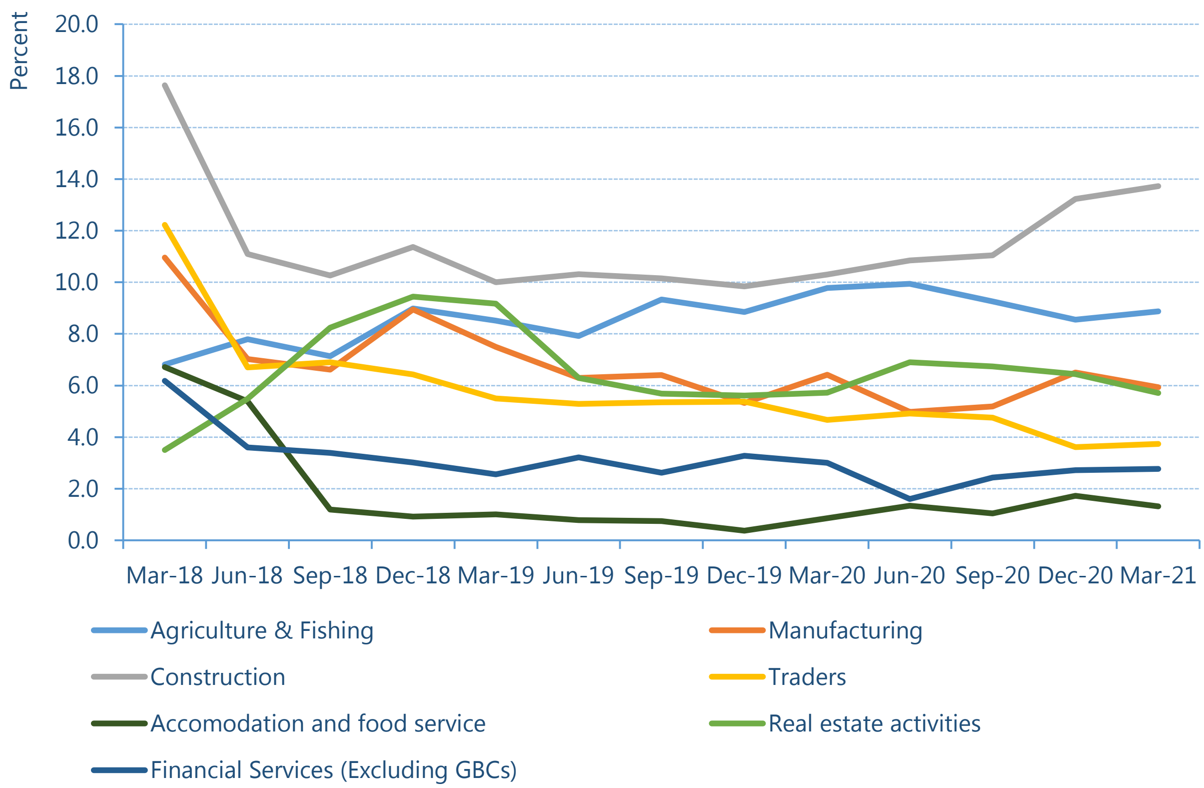


Note: Data refer to end-March.
Source: Bank of Mauritius

The corporate sector remains subjected to elevated risks, as regards to their liquidity, capitalisation and profitability positions. Loan moratoriums have cushioned the impact of income losses on the financial performance of distressed firms, by allowing them to defer loan repayments. Financial costs also eased as interest rates settled to low levels, while government assistance measures helped firms meet their operating expenses. In so doing, other unwarranted consequences for the domestic economy were successfully avoided, including the mass downsizing of the labour force and synchronized firm closures. Nonetheless, as the COVID-19 pandemic continues to loom with the second wave of infections still underway, the operating environment remains highly challenging and uncertain for the corporate sector.

Corporate NPLs, with respect to loans granted to key sectors of the economy, have been broadly contained over the period under review, except for the 'construction' sector, which registered an increase of 2.7 percentage point in its NPL ratio. (Chart 3.10)

Chart 3.10: Sectoral distribution of corporate NPL (in Mauritius) ratio



Source: Bank of Mauritius

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3.4 Impact of moratoriums on debt-serving capacity of corporates and households

The COVID-19 crisis created unprecedented challenges for the private sector, mainly on the revenue and cash-flow generation fronts. However, affected households and businesses which faced substantial declines in income have benefitted from loan moratoriums, thereby enabling them to defer their loan repayments.

The moratoriums, granted during the early stages of the outbreak of the pandemic, were extended to end-June 2021 and subsequently to end-June 2022 to further support economic operators, SMEs, households and individuals through the economic recovery phase.

The timely roll-out of these loan moratoriums has aided in safeguarding the capacity of both households and corporates in settling their other obligations by allowing them to postpone loan repayments. In so doing, the probability of running large-scale foreclosures was minimized and risks to financial stability were significantly curtailed.

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Box 2: Restructured Loans and Moratoriums

The deployment of moratoriums with the onset of the pandemic helped contain risks to financial stability. Defaults among pandemic-affected households and businesses entail a reduction in the interest income of banks, negatively impacting their balance sheet. Therefore, it is important for banks to monitor the performance of these loans and the financial position of affected borrowers in order to minimize risks.

Total restructured loans increased by 5.9 percent, from Rs108.5 billion as at end-September 2020 to a peak of Rs114.9 billion as at end-December 2020. Subsequently, it declined steadily to Rs106.3 billion as at end-March 2021, reflective of a contraction in demand for restructured loans. Of these restructured loans, around 88 percent was due to the COVID-19 pandemic. (Chart I)

Around 80 percent of restructured loans are in the form of moratoriums. From end-September 2020 to end-March 2021, moratorium as a ratio to total outstanding loans declined slightly by 1.8 percentage points to 11.6 percent.

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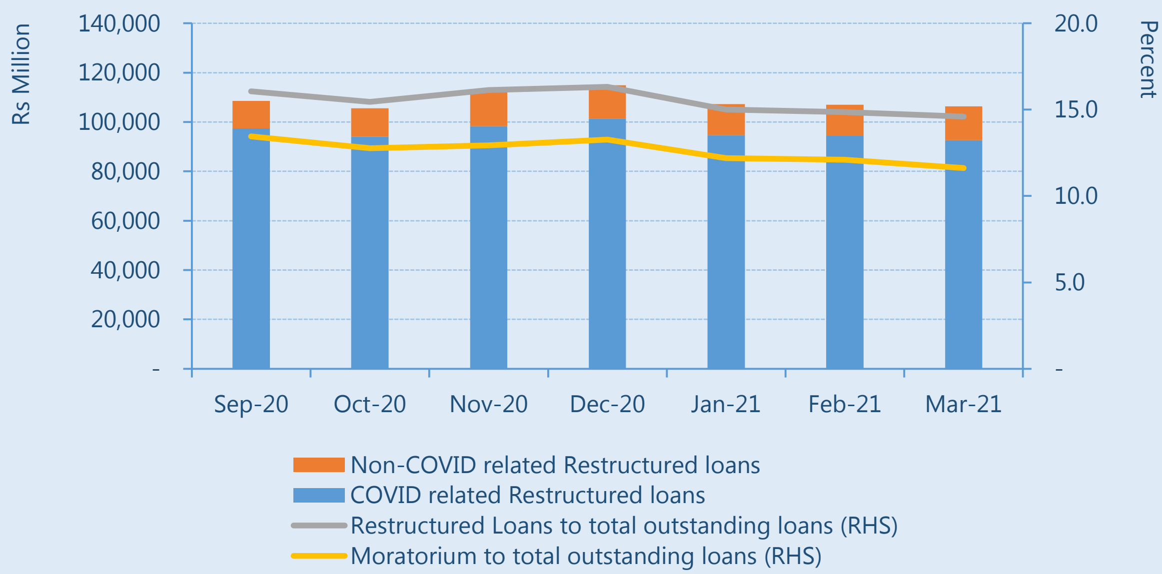
Chart I: Restructured loans



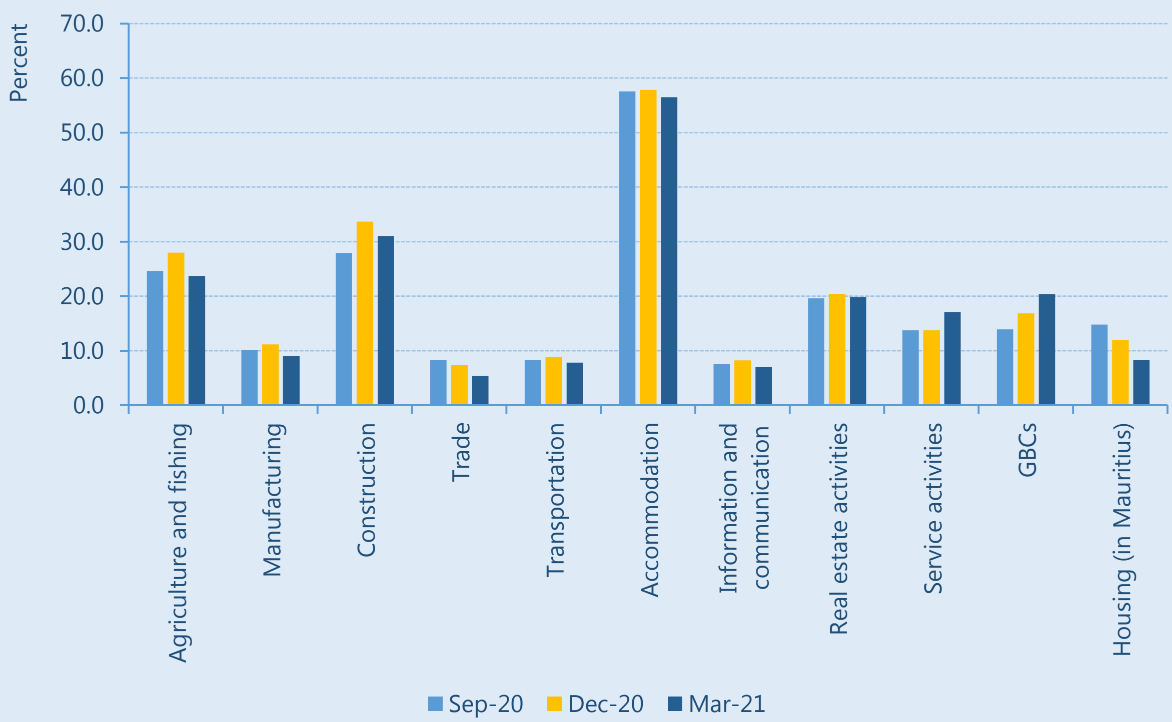
Source: Bank of Mauritius

Box 2: Restructured Loans and Moratoriums (continued)

The Bank of Mauritius relief packages accounted, on average, for around 70 percent of the total loans on moratorium over the period under review. The remaining moratoriums granted relate to the internal policies of banks.

Reflecting the severe disruption caused by the pandemic, around 57 percent of loans in the 'accommodation and food services' sector have been restructured as at end-March 2021. Restructured loans in the 'construction', 'agriculture' and 'real estate' sectors accounted for 31 percent, 25 percent and 19 percent, respectively, of their total outstanding loans. It is noteworthy that the GBC sector has experienced an increasing trend in its ratio from 13.9 percent as at end-September 2020 to 20.4 percent as at end-March 2021. (Chart II)

Chart II: Sector-wide restructured loans to total outstanding loans ratio



Source: Bank of Mauritius

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4| Financial Soundness of Deposit-Taking Institutions

As at end-March 2021, nineteen banks were licensed to carry out banking business in Mauritius, of which eight were domestic-owned, eight were foreign-owned subsidiaries and three were branches of foreign banks. One bank is currently under conservatorship.

The total assets of the sector represented around 428.5 percent of GDP as at the end of March 2021, compared to 393.8 percent as at end-September 2020. The banking landscape remains relatively concentrated, with the two largest banks accounting for over 40 percent of market shares for total deposits, advances and assets.

Banks in Mauritius entered the COVID-19 second phase period (and the second lockdown) with relatively strong solvency and liquidity positions.

The Bank carried out an assessment in June 2021 to measure the systemic importance of banks and the ensuing capital surcharge to be maintained by them. It was determined that the same five banks, namely, The Mauritius Commercial Bank Ltd, SBM Bank (Mauritius) Ltd, Absa Bank (Mauritius) Limited, The Hongkong and Shanghai Banking Corporation Limited and AfrAsia Bank Limited, were systemically important for the jurisdiction. These DSIBs maintained adequate capital buffers, inclusive of their respective DSIB charges. Despite the COVID-19 impact, the DSIBs maintained sound asset quality and remained profitable, as at end-March 2021. They were also sufficiently funded, registering LCR well above the regulatory requirement of 100 percent.

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As at end-March 2021, NBDTIs, comprising leasing companies and finance companies, held assets equivalent to 15.4 percent of GDP, an increase of about 0.4 percentage point since end-September 2020.

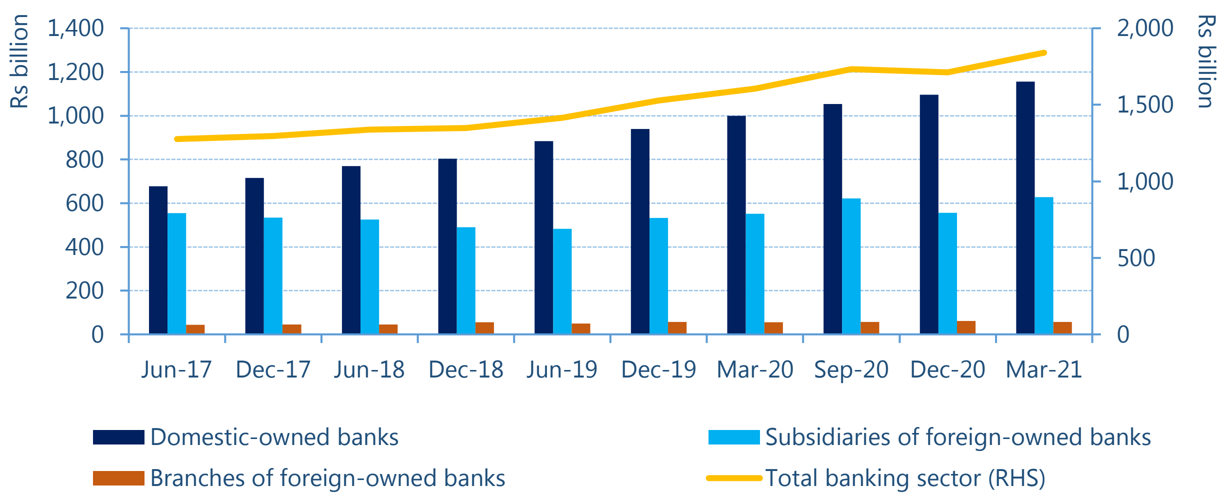
The regulatory and supervisory framework of banks and NBDTIs is based on international best practices. The Bank has achieved good progress in the implementation of the risk-based supervision framework with the assistance of the World Bank. (Box 3)

The importance of cyber risk has increased over the recent years given the unprecedented digital transformation of the financial system. To date, the impact of cyber incidents has remained relatively minimal in the banking sector, but, given the increasing adoption of digital channels, cyber risk is becoming an increasing source of concern. The Bank acknowledges that cyber incidents can have very severe impact on the financial stability of the banking sector and is fully committed to address this risk. To this end, the Bank is developing a guideline on cyber and IT risk management with the support of the IMF AFRITAC South.

4.1 Banking Sector Overview

The asset size of the banking system – mostly reflecting growth in domestic-owned banks – has been increasing over the period September 2020 to March 2021. (Chart 4.1)

Chart 4.1: Banking sector assets



Source: Bank of Mauritius

The distribution pattern of assets and of liabilities have remained relatively unchanged over the period under review (Chart 4.2). Deposits continued to be the main source of funds of the banking system. GBCs deposits – which are, by nature, somewhat more volatile - accounted for nearly 28 percent of total liabilities. Banks channel their funds into loans, followed by placements abroad and investments in domestic and foreign assets.

Banks maintained strong capital buffers, adequate to withstand adverse shocks. The Capital Adequacy Ratio (CAR) of banks stood at 18.7 percent as at end-March 2021, compared to 18.8 percent as at end-September 2020. Common Equity Tier 1 (CET1) Ratio, which is indicative of the strength of banks' core capital structure, stood at 16.9 percent, as at end-March 2021, up from 16.8 percent as at end-September 2020 (16.6 percent as at end-December 2020) (Chart 4.3). Overall, the CAR of banks was above their respective regulatory minimum (inclusive of Capital Conservation Buffer and DSIB charges, where applicable).

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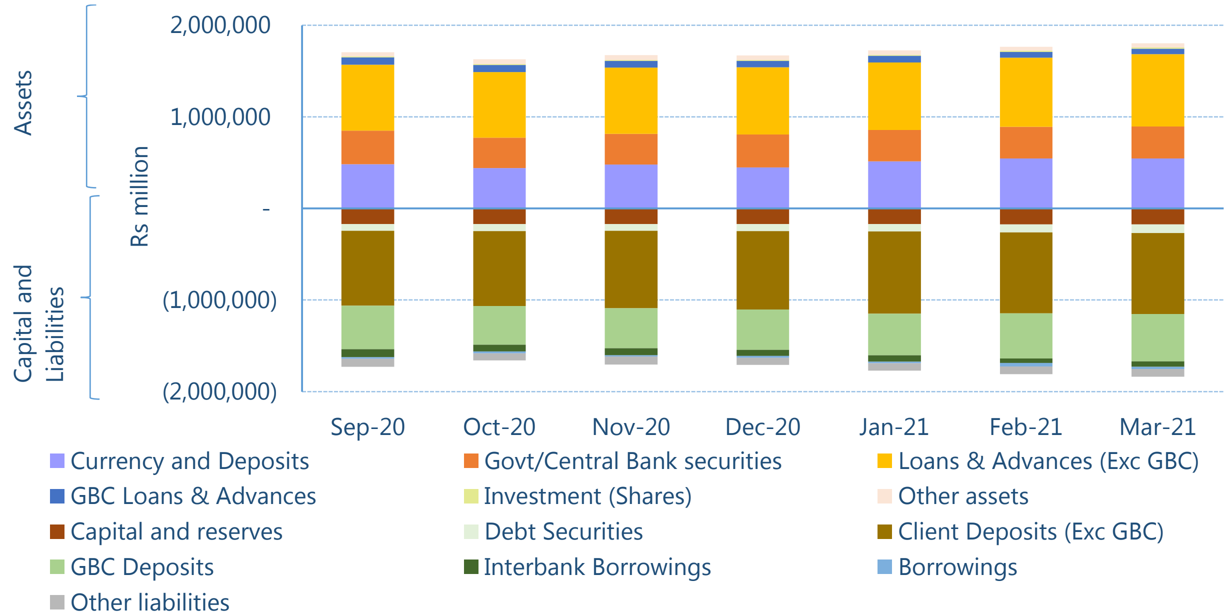
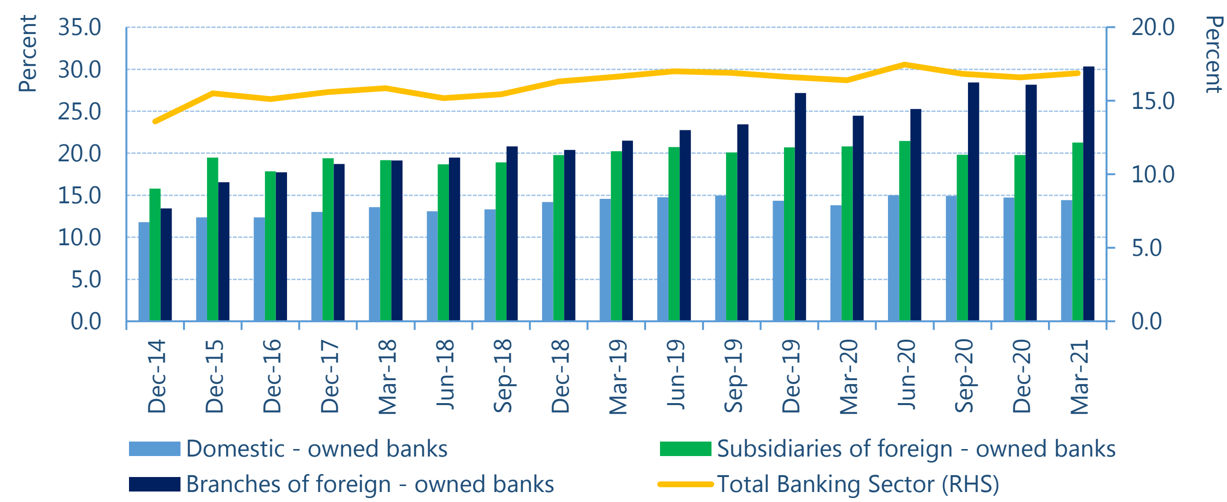
Chart 4.2: Assets and liabilities allocation of banks



Note: "Assets" and "Capital and Liabilities" are shown in the positive territory and negative territory, respectively, for illustrative purposes only.

Source: Bank of Mauritius

Chart 4.3: CET1 capital ratios



Source: Bank of Mauritius

The banking sector, as a whole, remained profitable. Profitability ratios continued to decline during 2020Q4, but picked up during 2021Q1 due to an improvement in non-interest income, and reduced net impairment loss charge, which altogether countered the continuous reduction in the banks' net-interest margin. The post-tax Return on Equity (ROE) and pre-tax Return on Assets (ROA) stood at 10.6 percent and 1.2 percent, respectively, during 2021Q1. (Chart 4.4)

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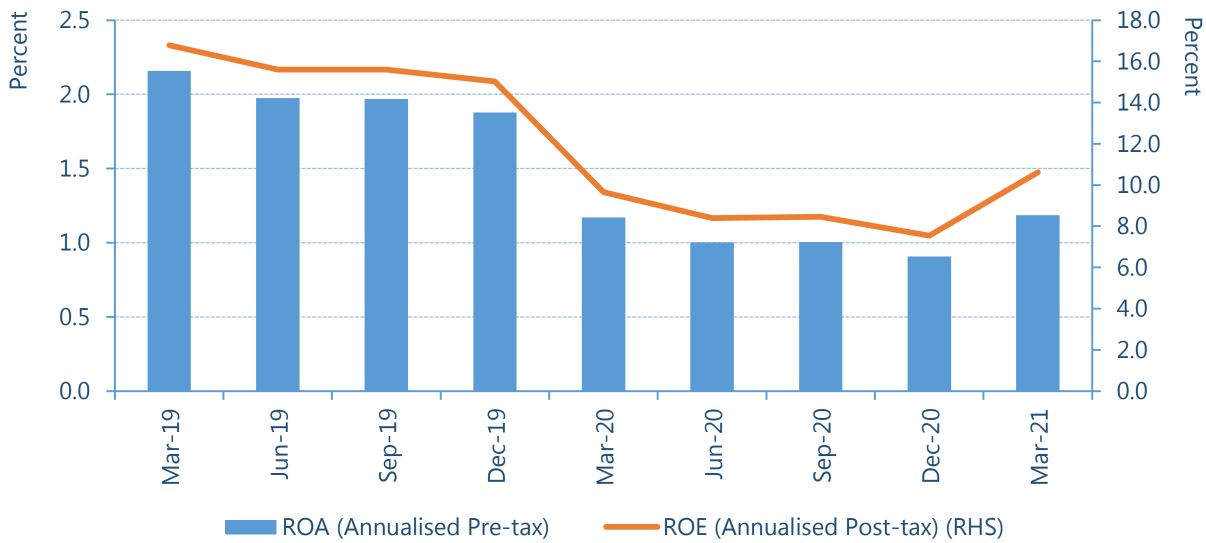
Chart 4.4: Profitability ratios



Note: Profitability ratios are based on the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund.
Source: Bank of Mauritius

The LCR for the banking sector stood at 250.6 percent as at end-March 2021, compared to 262.8 percent as at end-September 2020. Taken together, the consolidated LCR of banks, in both rupees and other major currencies, stayed above the regulatory requirements. Other prudential ratios, such as the Foreign Exposure Limit as a percentage of Tier 1 Capital and Credit Concentration Limits, were satisfactorily met.

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Banks in Mauritius have relatively large exposures to foreign countries as funds from abroad are routed through the system to other destinations. Both the source countries as well as the destination countries can pose potential risks to the banking sector. The banking system is a net recipient of funds from China and is thus vulnerable on the funding side to adverse developments taking place in China. On the other hand, the banking sector is a net provider of funds to countries such as the USA, UK, South Africa and India (Chart 4.5). Adverse developments in these countries could affect the quality of assets exposure.

Chart 4.5: Evolution of cross-country exposure

Source: Bank of Mauritius

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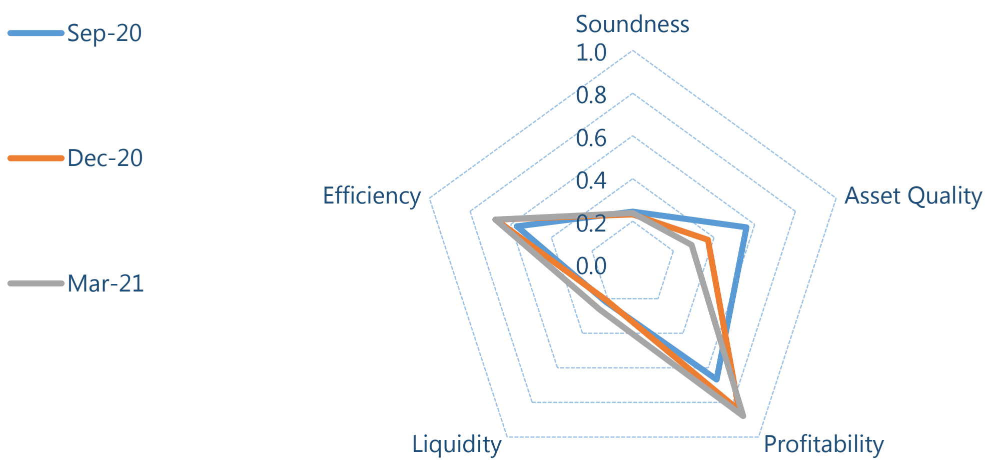
4.2 Banking Sector Stability Indicator

The banking stability indicator is a composite index of five indicators: soundness, asset quality, profitability, liquidity and efficiency. As the five risk indicators move farther away from the centre (approach a score of 1), the composite measure of riskiness increases. (Chart 4.6)

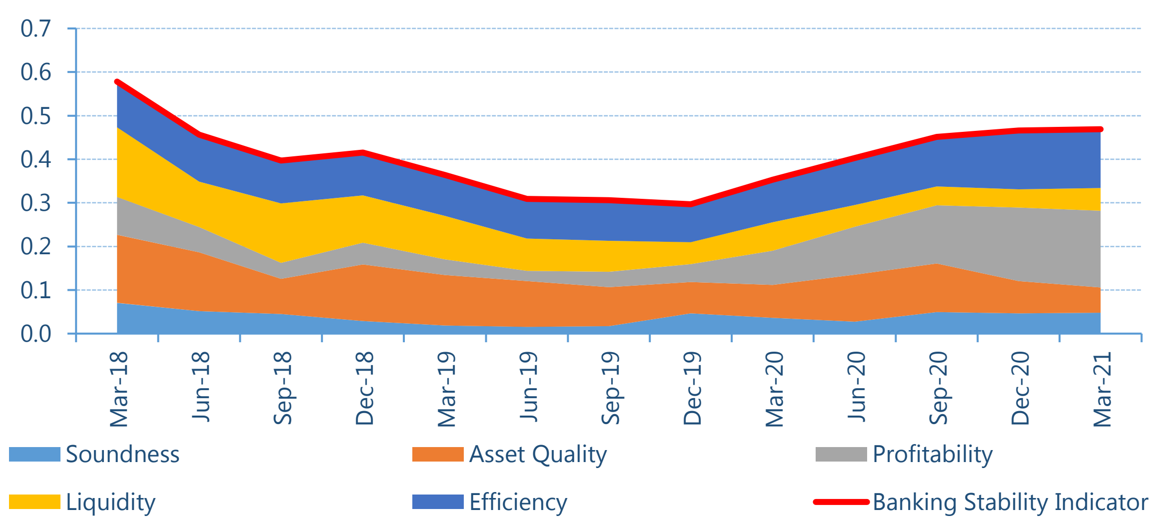
The banking stability index pointed to higher riskiness over 2021Q1, compared to 2020Q3, reflecting mainly the deterioration in the profitability index.

Chart 4.6: Banking stability indicator

a. Banking stability map



b. Banking stability index



Source: Bank of Mauritius

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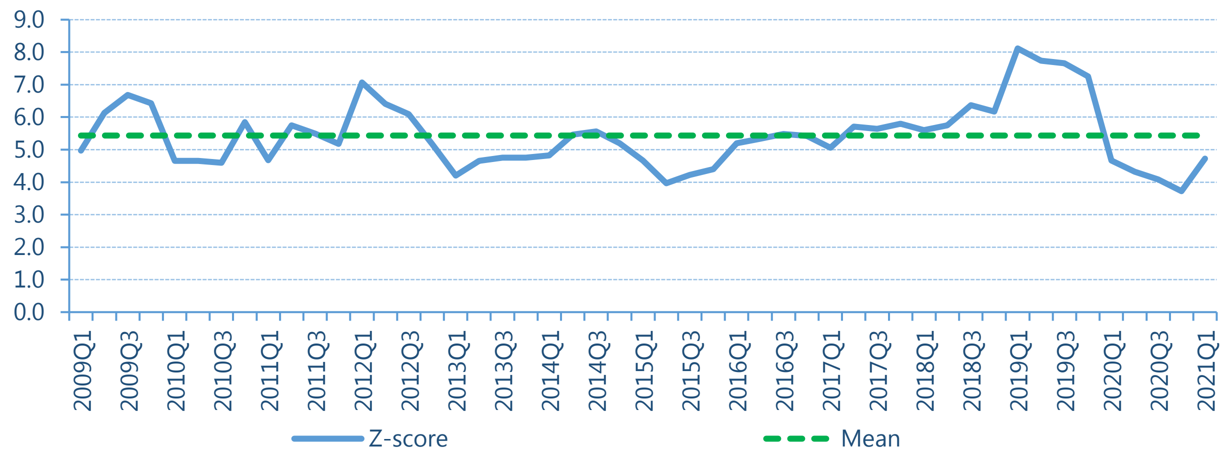
4.3 Z-score

A Z-score approach has been devised to further monitor banks. The basic principle of the Z-score measure is to relate a bank's capital level to the variability in its returns. The Z-score has been derived through the following formula:

$$Z - score = \frac{(\frac{Capital}{Asset} + ROA)}{Std\ Dev\ (ROA)}$$

The Z-score of the banking sector contracted to 3.7 as at end-December 2020, and subsequently improved to 4.7 as at end-March 2021. It continued to remain below its mean of 5.4 reflecting principally the impact of the pandemic on profitability of banks. (Chart 4.7)

Chart 4.7: Z-Score for banks



Source: Bank of Mauritius

4.4 Non-Bank Deposit-Taking Sector

NBDTIs mobilise deposits from the public, and grant leasing and loan facilities to individuals and corporates. There were six NBDTIs licensed as at 2021Q1. The growth in total assets of NBDTIs remained stable while total deposits of NBDTIs contracted slightly. (Chart 4.8)

NBDTIs were assessed to be sound and adequately capitalized during 2021Q1. Their aggregate CAR decreased to 48.6 percent as at 2021Q1, from 50.3 percent as at 2020Q3, following an increase in the risk-weighted assets (RWAs). With the current level of capitalization, NBDTIs continue to have robust capital adequacy position.

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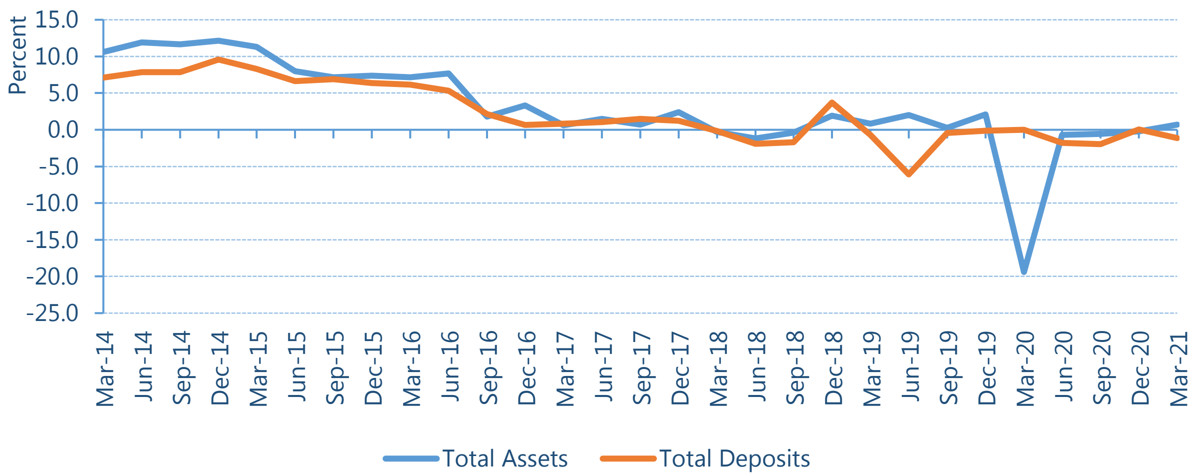
As at end 2020Q3, NBDTIs experienced a drop in liquid and total assets. Nevertheless, all NBDTIs maintained liquidity ratios above the statutory minimum of 10 percent. The ratio of liquid assets to total deposits, which stood at 23.7 percent as at end-September 2020, decreased to 21.5 percent as at end-March 2021.

Chart 4.8: Assets and deposits q-o-q growth of NBDTIs



Note: The drop in the total asset growth of NBDTIs in March 2020 relates to the surrendering of licence by two institutions.
Source: Bank of Mauritius

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4.5 Financial Soundness Indicators[7]

Financial Soundness Indicators (FSIs) have been assessed for all deposit-taking institutions[8] (banks and NBDTIs) over the period under review (Chart 4.9). These indicators have been grouped under five distinct categories and each color-coded line indicates the position of these indicators over the quarters under review. The principle of the chart is that, the farther away the indicators are from the centre, the better positioned are the depository corporations, except for those indicators marked with * which flow in the opposite direction.

Deposit-taking institutions maintained adequate capital positions, with their CAR declining marginally from 19.9 percent as at end-September 2020 to 19.8 percent as at end-March 2021. Total Regulatory Capital of deposit-taking institutions increased by 3.8 percent over the period under review, and stood at Rs185,492 million, supported by strengthened Regulatory

[7] *FSIs are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund. Figures in this section may not match those provided in other sections.*
[8] *These comprise 19 banks and 6 NBDTIs and are all regulated by the Bank of Mauritius.*

Tier 1 Capital. This was countered by a 4.5 percent increase in RWAs over the same period, which stood at Rs939,107 million as at end-March 2021.

Impaired credit rose broadly in line with total credit resulting in an unchanged NPL ratio of 6.2 percent as at end-March 2021. Adjusted for specific provisioning, the Net NPL as a ratio of Regulatory capital worsened by around 0.5 percentage point to 10.6 percent.

Deposit-taking institutions registered an increase of 21.1 percent in their annualized profit (before tax), to Rs21,646 million as at end-March 2021. The pre-tax ROA increased slightly to 1.2 percent as at end-March 2021, compared to 1.1 percent as at end-September 2020. Similarly, pre-tax ROE improved by 1.7 percentage point to 11.4 percent.

Both liquidity measures, i.e. liquid asset as a ratio of total assets and liquid asset as a ratio of short-term liabilities, increased by 1.7 percentage points over the period under review. Liquid assets as a ratio of total assets stood at 29.4 percent while liquid assets as a ratio of short-term liabilities stood at 32.8 percent, as at end-March 2021.

Sectoral loan distribution indicated a mild shift from 'Deposit-taking' towards the 'Other domestic sectors', with the largest share of loans still attributed to Non-Financial Corporations. Asia (13.0 percent) and Africa (12.7 percent) remained the main cross-border destinations for credit facilities originating from banks in Mauritius.

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A detailed tabled trend of the Core and selected Encouraged Set of Financial Soundness Indicators can be found at Annex A.

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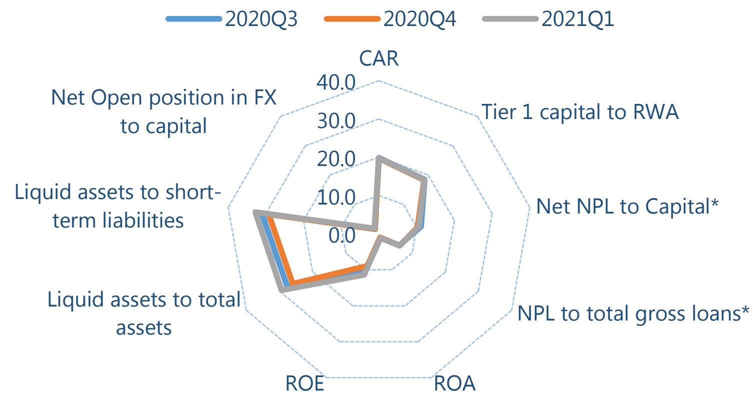
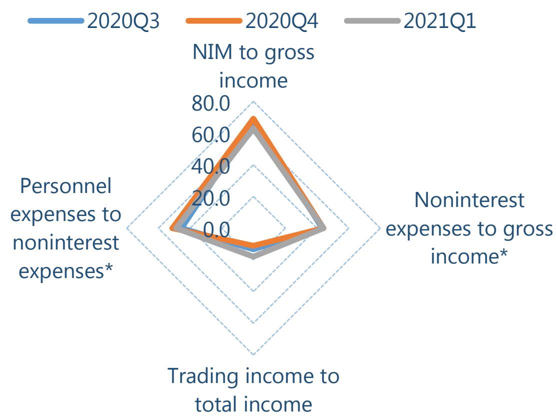
Chart 4.9: FSI radar panel

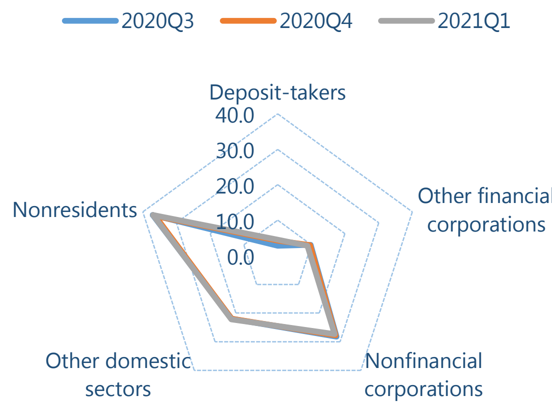
Core FSIs (percent)



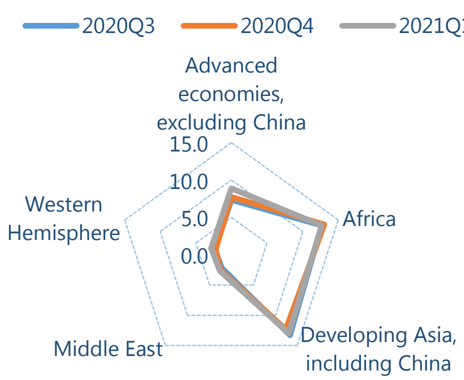
Encouraged profitability ratios (percent)



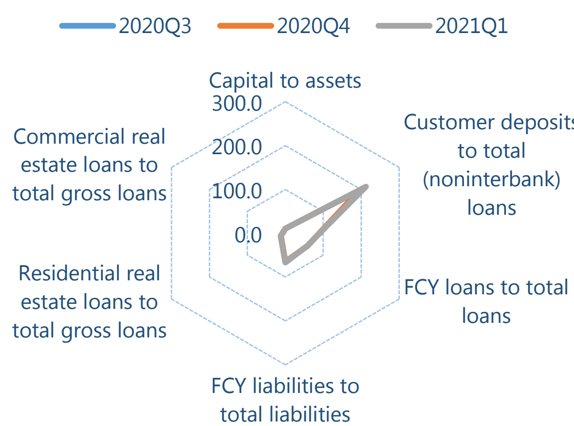
Sectoral distribution of loans (percent)



Geographical distribution of loans (percent)



Selected encouraged FSIs (percent)



*Note: * These ratios show better position of the deposit corporations, when moved closer to the centre.*
Source: Bank of Mauritius

Box 3: Risk-Based Supervisory Framework

The Bank continued to make progress towards the implementation of a Risk Based Supervision (RBS) framework with technical assistance from the World Bank. As of date, the Money Laundering/Financing of Terrorism, Credit, and Liquidity risks and the Governance & Assurance modules have already been developed. The remaining modules, namely those for Capital Adequacy, Operational, Market, Residual risks are currently under development.

The templates for collection of data for these modules have already been rolled out and banks have already submitted the relevant information. The Bank is currently working on the inherent risk scores for these module and intends to initiate the pilot runs for the full RBS module early next year.

Box 4: Banking Sector Resilience

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Ensuring banking sector resilience in the context of the COVID-19 pandemic

Since the outset of the COVID-19 pandemic, the Bank has taken several measures to ensure that the banking system remains strong and resilient. As a testimony, the banking sector continues to remain adequately capitalized with an average CAR well above the minimum regulatory requirements.

Preservation of capital

With a view to preserve capital, banks were advised to refrain from paying dividends until the end of the year 2020. As the situation progressed and with more clarity on the potential impact of the pandemic, the Bank is now considering payment of dividend on a case-to-case basis. However, banks which intend to pay dividend are required to strictly comply with the requirements of the recently issued Guideline on Payment of Dividend. The guideline sets a forward-looking approach to the preservation of capital of banks to ensure that banks have adequate capital buffers to absorb potential losses.

Box 4: Banking Sector Resilience (continued)

Preservation of capital (continued)

To this end, banks have to submit financial forecasts for a period of 12 months and results of stress testing to demonstrate that they would remain adequately capitalized and liquid following the payment of dividend.

Enhanced supervisory oversight

The Bank established a Task Force on Banking Sector Resilience in March 2020, comprising representatives of the Bank, selected banks and the MBA. It meets regularly to, inter alia, discuss current and emerging risks, set the supervisory expectations with respect to credit risk management, asset classification and provisioning requirements in the context of COVID-19 as well as to discuss the plans for unwinding the COVID-19 support measures.

The Bank regularly conducts surveys and stress testing to ascertain potential impact of current and emerging risks on the resilience of the banking system. To this end, new reporting requirements in respect of moratoriums granted by banks were introduced with a view to assess the true state of the banking system. DSIBs were also required to present the results of their stress tests to the Bank. In addition, the Bank issued a draft Guideline on Stress Testing to the industry for consultation. The draft guideline draws on the guidance from the Banking Committee for Banking Supervision on Stress testing principles. The guideline, inter alia, requires all banks to regularly conduct and report on their stress testing exercises. The Bank also provided guidance on the application of IFRS 9 in the context of COVID-19 and introduced transitional arrangements for the regulatory capital treatment of IFRS 9 provisions.

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Preparing arrangements for unwinding of COVID-19 measures

Whilst accommodative measures have helped to contain the impact of the pandemic, the Bank acknowledges that they may have undesirable effects on the banking system in the long run. Thus, there is a need to consider the timely unwinding of such measures while ensuring they are not prematurely removed.

Box 4: Banking Sector Resilience (continued)

Preparing arrangements for unwinding of COVID-19 measures (continued)

The Bank has already initiated work on arrangements for the unwinding of COVID-19 measures and the guiding principles have been discussed during the last meeting of the Task Force on Banking Sector Resilience. These arrangements will take into consideration the timing of the recovery from the pandemic and include a transition period in order to avoid cliff-edge effects. The COVID-19 support measures will be unwound in targeted and time-bound manner, with a gradual return to the standard regulatory requirements. To this end, whilst the moratorium on loans granted to economic operators, Small Medium Enterprises, households and individuals impacted by COVID-19 has been extended to 30 June 2022, banks have been required to examine the requests on a case-to-case basis.

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5| Non-Bank Financial Services Sector[9]

5.1 Life Insurance Industry[10]

The impact of the second lockdown on the business of life insurance was subdued by the relative resilience of the stock prices and a more flexible containment. However, the low interest rate environment, fragile outlook for some economic sectors and a potential deterioration of the sanitary situation pose downside risks to the outlook of the life insurance industry.

As at end of March 2021, the long-term insurance industry comprised seven life insurers operating under the domestic regime. Despite the resurgence of local COVID-19 cases in 2021Q1, value of assets of life insurers continued on its recovery path since the contraction observed in March 2020 during the first lockdown (Chart 5.1). As expected, the impact on life insurers in terms of assets has been less pronounced in view of the resilience of financial markets.

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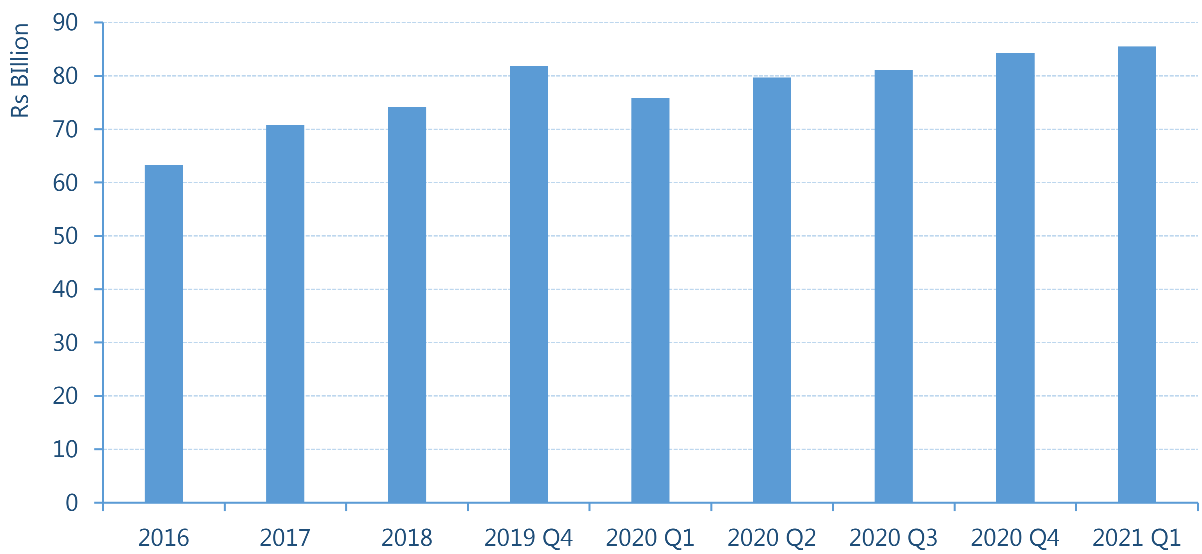
Chart 5.1: Long-term insurance assets value

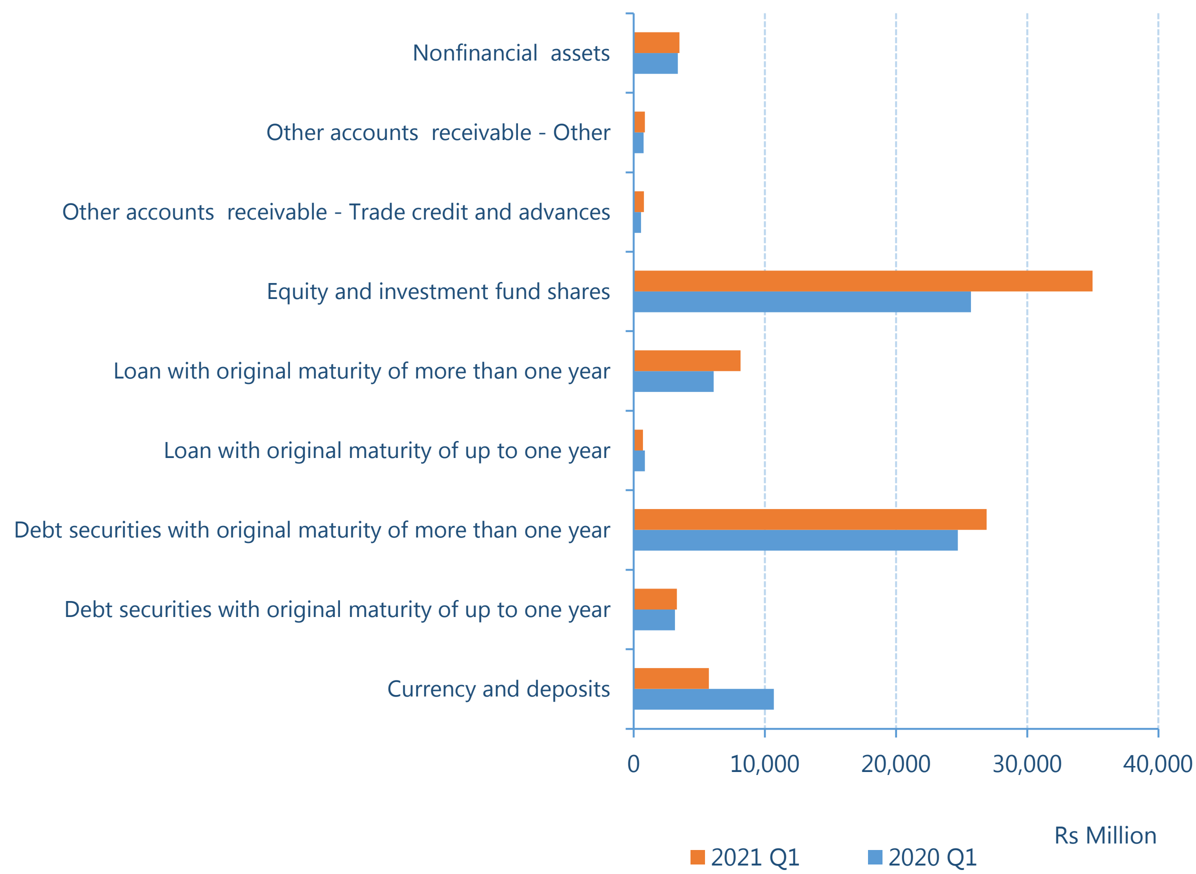


Source: Financial Services Commission, Mauritius

[9] *This chapter is a contribution from the Financial Services Commission (FSC) Mauritius to the Report.*
[10] *Analysis excludes one life insurer.*

A year-on-year comparison shows that life insurers have significantly increased their exposure in equity instruments from 34 percent in March 2020 to 41 percent in March 2021 (Chart 5.2). The fall in stock prices observed in March 2020 may also have provided investment opportunities in these instruments. In terms of investment allocation, an opposite trend is observed in general as compared to last year. In 2021Q1, a moderate shift is noted from fixed income instruments to equity in the breakdown of assets by class. Life insurers have almost halved their allocation in deposits for the year ending March 2021.

Chart 5.2: Distribution of assets by class



Source: Financial Services Commission, Mauritius

The largest exposure of life insurers remained with the Government and the Bank in the form of debt securities which accounted for 33 percent of total financial assets, followed by Non-residents, Multi-industry investment and banking sectors, respectively at 17 percent, 13 percent and 12 percent. (Chart 5.3)

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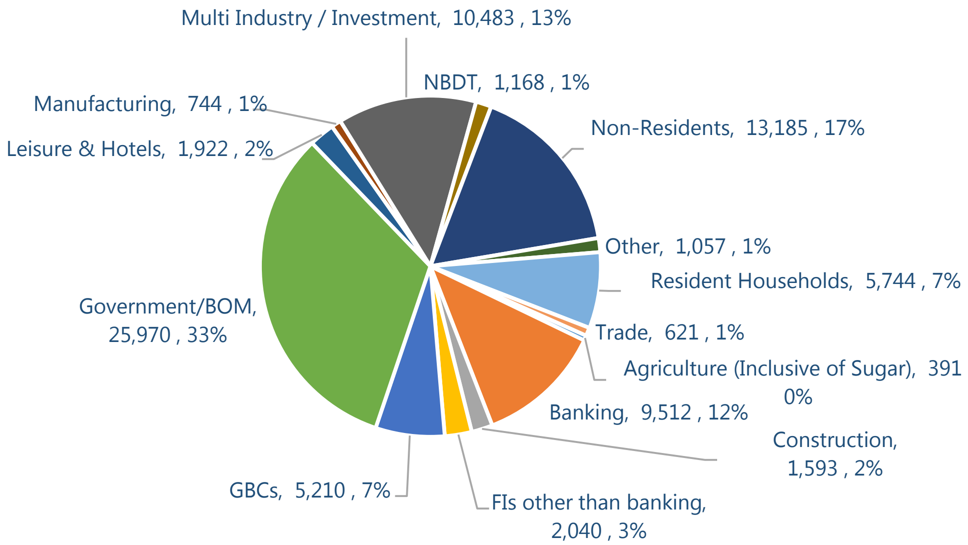
Chart 5.3: Monetary and financial assets by sector



Source: Financial Services Commission, Mauritius

Credit facilities extended by life insurers rose in the period under review, driven by commercial mortgage loans. (Chart 5.4)

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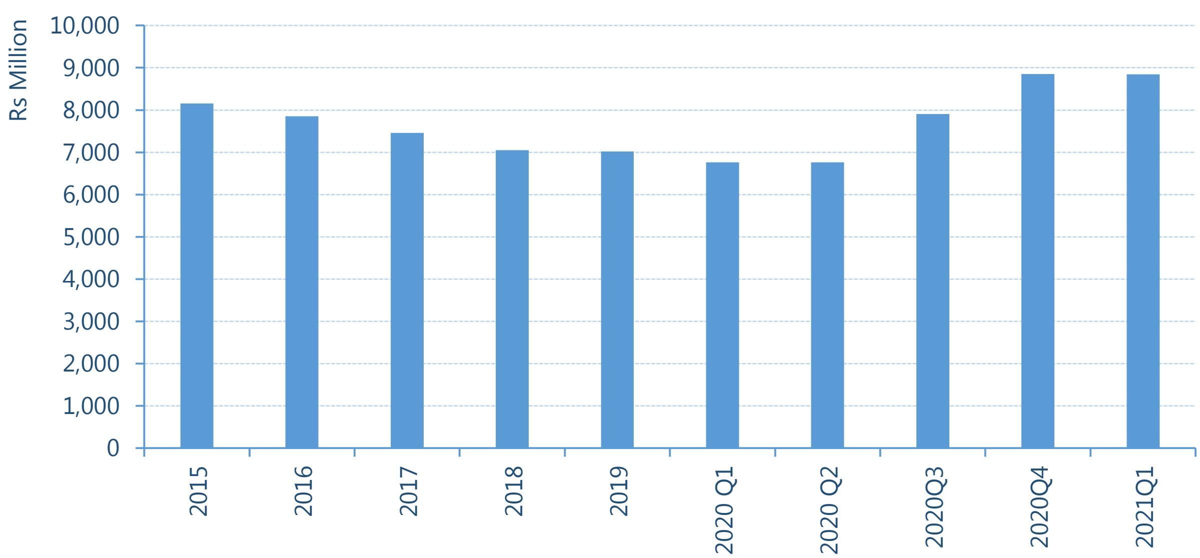
Chart 5.4: Credit extended by life insurers



Source: Financial Services Commission, Mauritius

5.1.1 Solvency Position

Life insurers are required to maintain a minimum solvency margin under the Insurance (Long Term Insurance Business Solvency) Rules 2007. The various challenges posed by the COVID-19 pandemic coupled with a low interest rate environment had an adverse effect on the solvency position of the life insurers.

Two insurers, of small to medium size, were particularly impacted and were subject to increased monitoring. Several measures have been adopted, including capital injection to restore their solvency. It is worth noting that the largest insurers are well-capitalised and have a percentage solvency margin well above the minimum requirement.

With a view to supporting the industry in these challenging times, the FSC, being a prudential regulator, provided certain flexibilities to insurers. Amendments were made to the Guidelines on Stress Test requirement for Long Term Insurers to cater for the declining interest rates among others.

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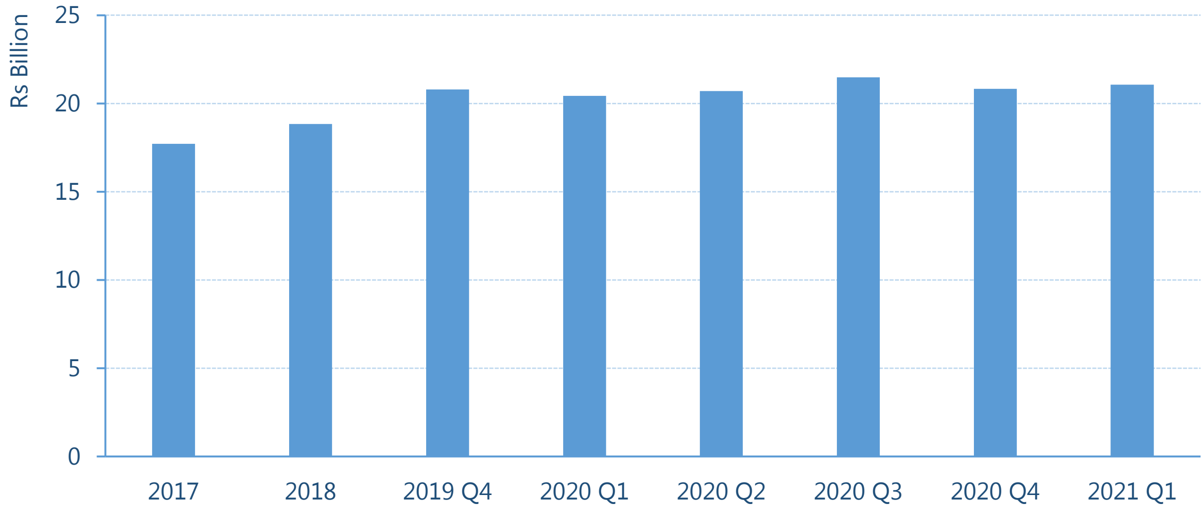
The FSC has also launched a COVID-19 survey for all insurers. The objective of the questionnaire was to analyse and assess the impact of the pandemic on the assets, liabilities, profitability and solvency of insurers. The responses received from the licensees are currently being assessed and the main findings would be reported in the next issue of the Financial Stability Report.

5.2 General Insurance Industry

The general insurance industry consisted of fifteen insurers as at end-March 2021. General insurers did not appear to be impacted by the pandemic in terms of total assets likely due to lower exposure to financial markets. Total assets of the industry were estimated at Rs21.1 billion[11] at the end of March 2021. (Chart 5.5)

[11] *Total Assets for 2020Q4 of one General Insurer has been carried forward.*

Chart 5.5: General insurance asset's value



Source: Financial Services Commission, Mauritius

The number of policies in force respectively in Motor and Non-Motor segments of the general insurance business has trended upwards, reflecting resilience of the sector amid the pandemic. (Charts 5.6 and 5.7)

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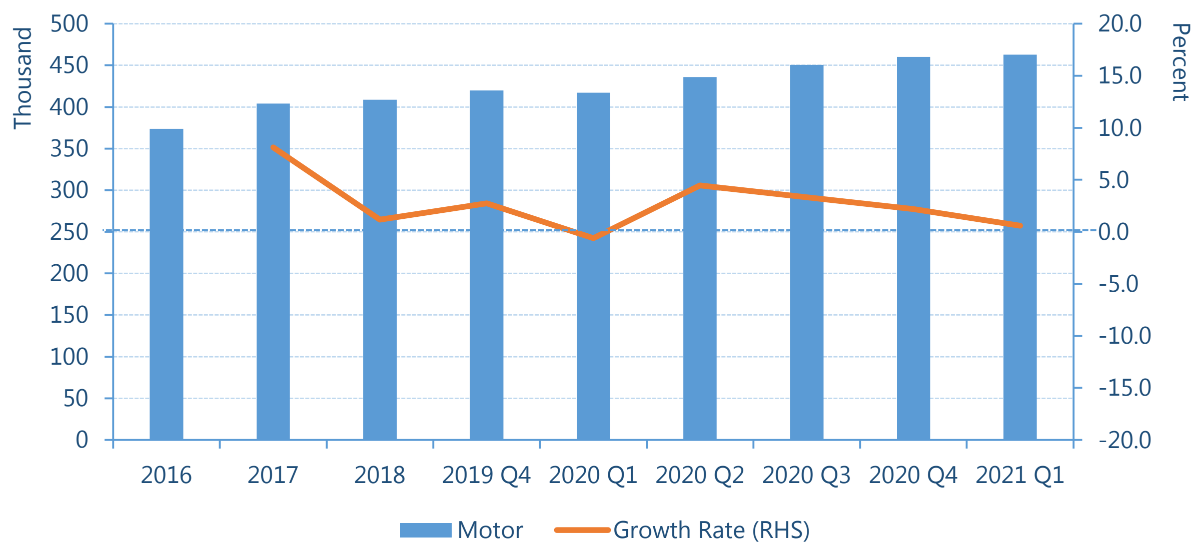
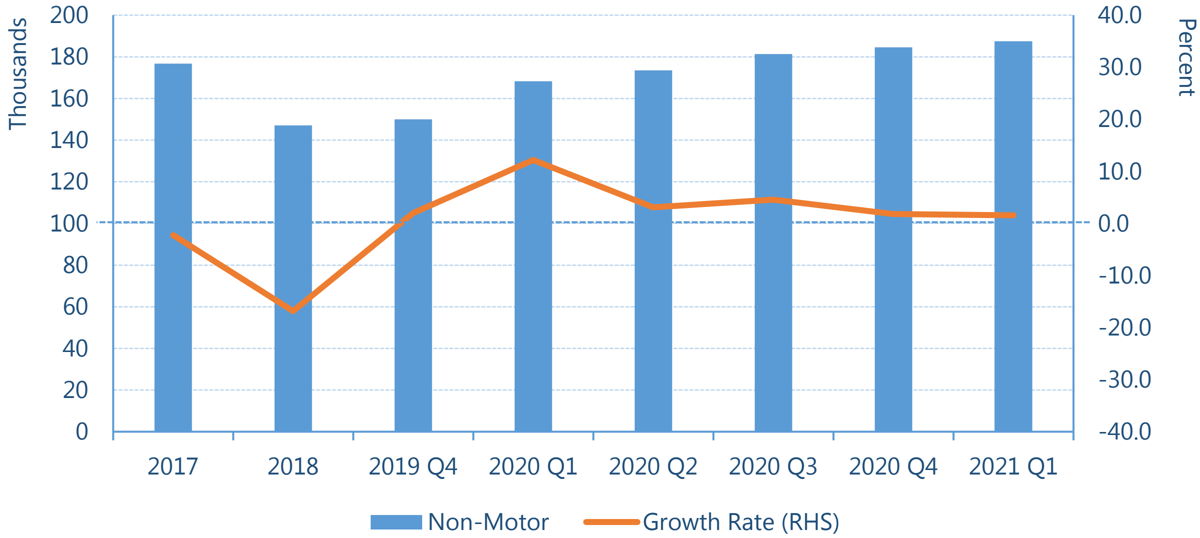
Chart 5.6: General insurance – number of policies in force in motor segment



Source: Financial Services Commission, Mauritius

Chart 5.7: General insurance – number of policies in force in non-motor segment



Source: Financial Services Commission, Mauritius

5.3 Supervision of Conglomerates

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The risks posed by financial conglomerates to the financial system are well recognised. Effective supervision of such entities are especially challenging because risks may spillover from entities operating in various economic sectors to the banking and non-banking financial services sector or vice-versa. The Basel Committee on Banking Supervision came up with principles for effective supervision of financial conglomerates in 1999 and 2012.

In Mauritius, the Bank has been empowered in 2016 to conduct consolidated supervision of financial conglomerates involving banks. The Financial Services Act has also been amended in 2020 to empower the FSC to collect statistics on financial conglomerates which involve one of its licensees.

Effective consolidated supervision of financial conglomerates requires cooperative arrangements. The exchange of prudential information between the two financial regulators is essential. The concept of a Lead Regulator for financial conglomerates was therefore important to determine the regulator that shall be responsible for coordinating the supervisory and regulatory actions necessary for the proper oversight of a financial conglomerate. In this regard, in November 2020, the FSC and the Bank agreed on a Terms of Reference for Lead Regulator and on a list of financial conglomerates to be supervised.

The financial regulators have jointly developed and implemented a framework for the supervision of financial conglomerates including a data collection instrument to gauge their exposures. The first set of results are expected by end of 2021.

6| Global Business Sector[12]

The GB sector is an important pillar of the Mauritian economy. Its contribution to the GDP stood at 6.0 percent in 2020. The aggregated assets of entities operating under the GB regime are valued at around USD683 billion, representing approximately 63 times the size of GDP. Direct employment in the GB sector is estimated to be around 6,000, while indirect employment is provided through services contracted from accounting and audit firms, legal advisors and banks.

Since GB activities mainly involve cross-border transactions both from financing and target investment ends, the sector is directly exposed to externalities and is also subject to constant review to adhere to international standards and adapt to a fast evolving global need.

6.1 Global Business Sector Developments

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The GB sector is estimated to have contracted, in Gross Value Added terms, by 10.7 percent in 2020, reflecting the global impact of the COVID-19 pandemic coupled with the listings of Mauritius by FATF and EU in 2020. The UK, being now separate from the EU, has also placed Mauritius on its blacklist in March 2021.

Since Mauritius was included in the FATF List of "Jurisdictions Under Increased Monitoring" in February 2020, the authorities have been working relentlessly to address the deficiencies highlighted. During the period under review, a virtual face-to-face meeting was held between the authorities and the FATF in February 2021. While Mauritius has been maintained on the list, progress achieved so far was acknowledged. The country was encouraged to keep up its efforts on the implementation of its action plan in some areas. Mauritius reiterated its commitment to continue progressing until it exits the listings at earliest.

At its June 2021 Plenary, the FATF determined that Mauritius has substantially completed its Action Plan and thus warranted an on-site assessment to verify the implementation of Mauritius's AML/CFT reforms. An early exit by Mauritius from the FATF List of "Jurisdictions Under Increased Monitoring" could enhance confidence and trust in the jurisdiction as an IFC.

[12] *This chapter is a contribution from the Financial Services Commission (FSC) Mauritius to the Report. The section on "Linkages between GB sector and Banking Sector" was prepared jointly by the FSC and the Bank.*

Mauritius continues its efforts to adapt the regulatory framework governing its GB sector to international initiatives. In late 2018, a series of major changes was introduced, including the phasing out of the Global Business Category 1 ('GBC1') and Global Business Category 2 ('GBC2'). At the same time, two new regimes were introduced notably the Global Business Licence ('GBL') and the Authorised Company ('AC') as alternatives for GBC1 and GBC2, respectively.

These new regimes address issues of ring-fencing and introduce additional substance requirements to those that already existed for the GBC1 regime. GBC1s and GBC2s whose licence has been issued on or before 16 October 2017 benefitted from a grandfathering clause until end-June 2021 after which GBC1s will be deemed as holders of GBLs and the licence of GBC2s will lapse. This implies that holders of GBC2 licence will need to convert to the new regimes before mid-year 2021.

During the period under review, changes were brought to the Special Purpose Fund (SPF) regime with the aim to bolster the image of Mauritius as a leading IFC. The purpose of these amendments is to modernise the existing SPF regime through diversification and expansion of the Mauritian markets.

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6.2 Licencing Trends

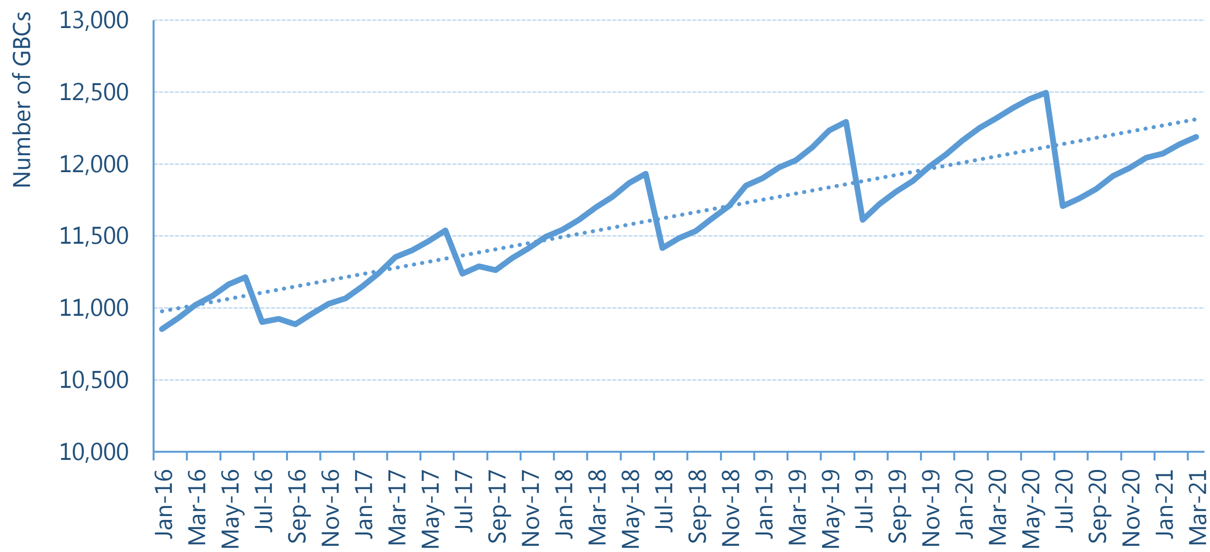
The number of live GBCs[13] as at end-March 2021 stood at 12,188 compared to 12,317 last year. (Chart 6.1)

The recent events seem to have accentuated the downward shift, notably, with number of new applications received falling to 974, representing a drop of 26 percent for the year ended 31 March 2021.

Likewise, new licences issued recorded a contraction of 30 percent with 900 GB licences issued for year ended March 2021, compared to 1,288 for the same period a year earlier. However, cases of non-live GBCs have remained almost at par during this period. (Chart 6.2)

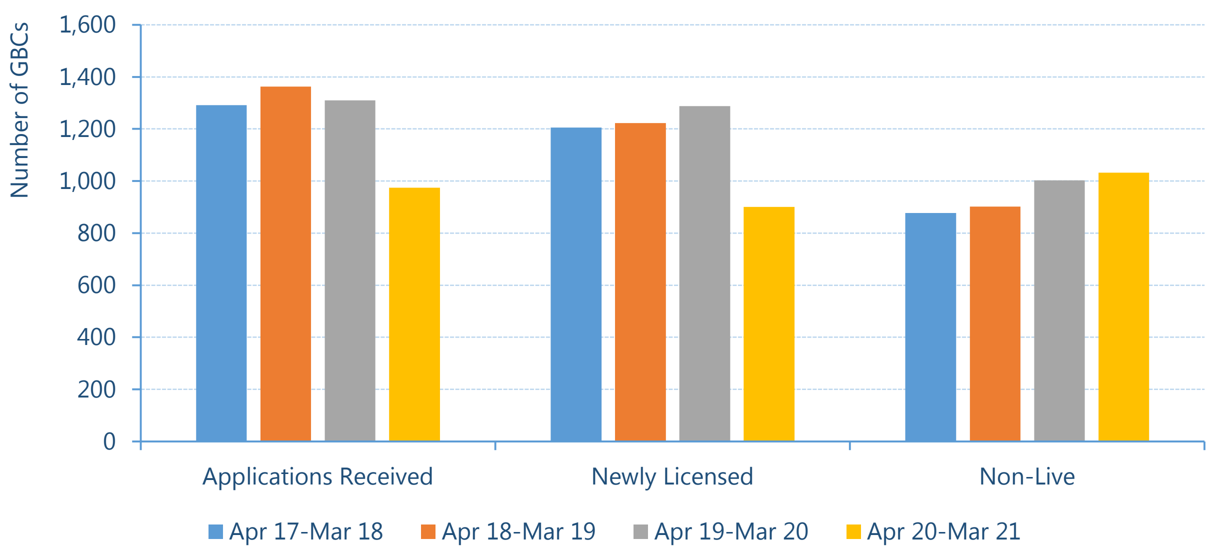
[13] *Inclusive of holders of Category 1 Global Business Licence and Global Business Licence following changes brought to FSA in 2018.*

Chart 6.1: Evolution of live GBCs



Source: Financial Services Commission, Mauritius

Chart 6.2: Evolution of applications, newly licensed and non-live GBCs



Source: Financial Services Commission, Mauritius

In terms of our main target investment region, Africa has been gaining momentum over the last few years with a yearly growth rate of 8 percent from March 2018 to 9 percent over March 2020, and 1 percent for year ended March 2021. Unsurprisingly, Africa and India display a contraction in terms of new licences issued for the year ended 2021. (Charts 6.3 and 6.4)

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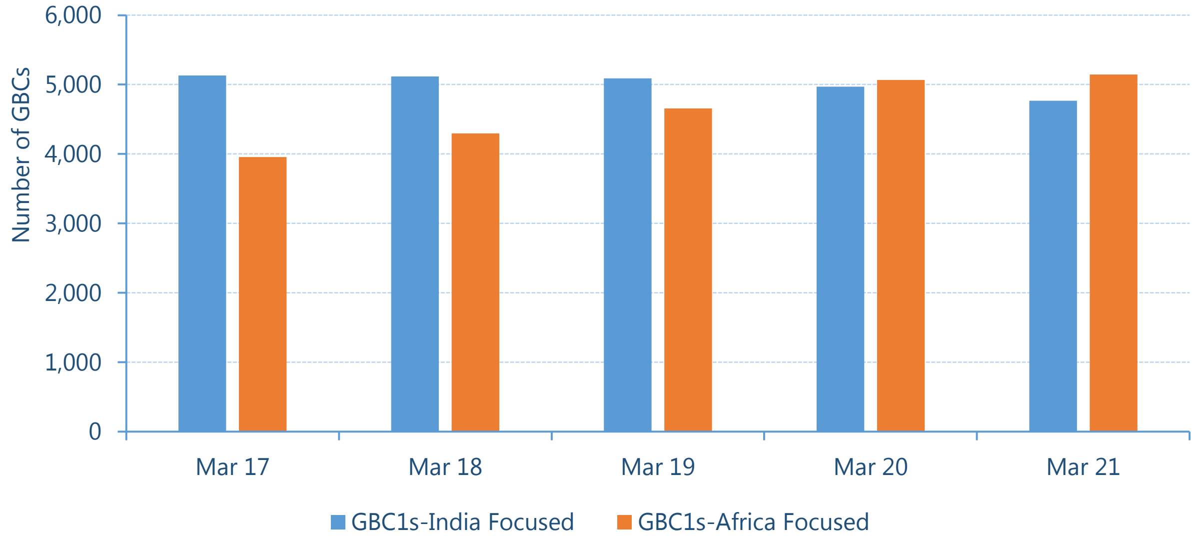
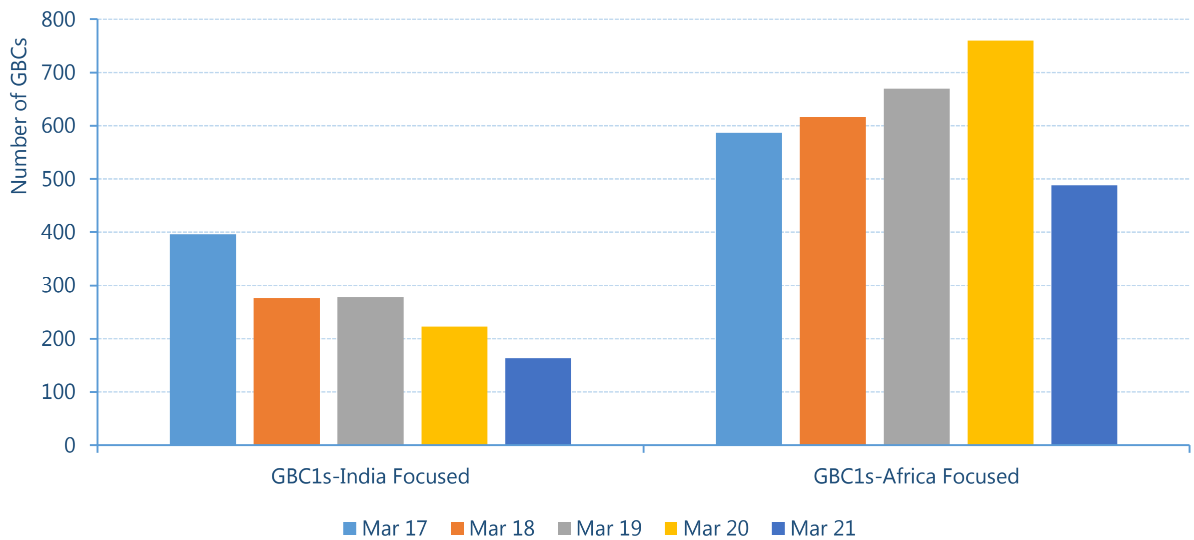
Chart 6.3: Live GBCs targeting India vs Africa



Source: Financial Services Commission, Mauritius

Chart 6.4: Newly licensed GBCs targeting India vs Africa



Source: Financial Services Commission, Mauritius

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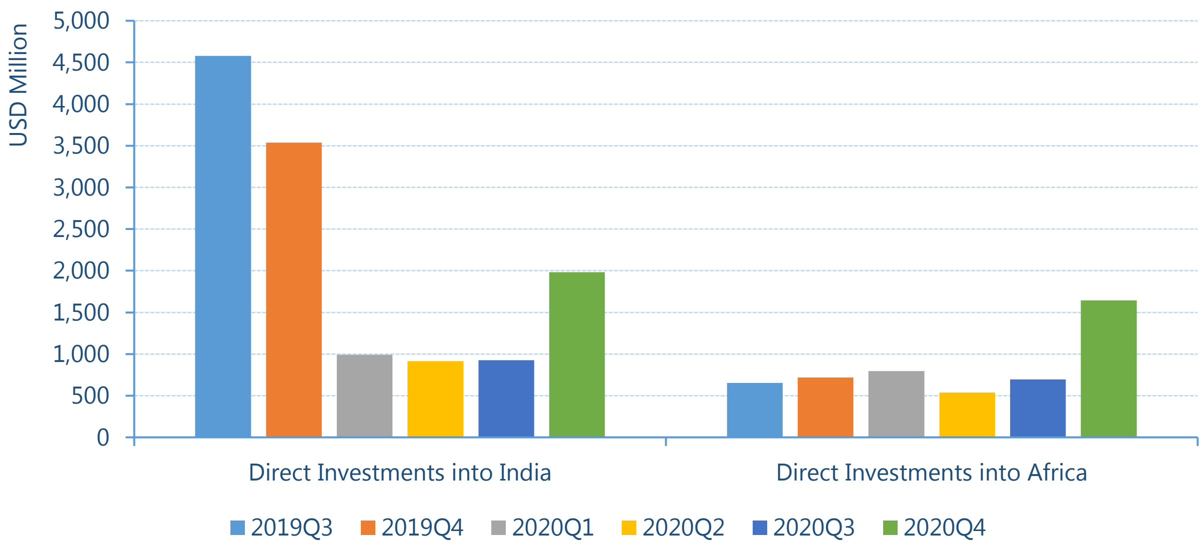
6.3 Investment Trends

Whilst, there is a greater number of Africa-focused GBCs, they still represent much less in terms of investment flows compared to India-focused GBCs. Gross foreign direct investment (FDI) and gross foreign portfolio investment (FPI) flows into India amounted to USD12,574 million for 2020Q4. This compares to total FDI and FPI flows of USD2,155 million into Africa for the same period.

Compared to the same period in 2019, FDI flows into India dropped significantly in the first three quarters of 2020, likely to be caused by the adverse effects of the pandemic and the listings of Mauritius. Nevertheless, an encouraging pick up was noted in 2020Q4, possibly as global investor sentiment surged following the approval of the first vaccine by the World Health Organization in late 2020. Furthermore, FDI in Africa remained resilient in the first nine months of 2020 and experienced a similar boost in investment in the 2020Q4. (Chart 6.5)

Chart 6.5: Gross FDI flows



Source: Financial Services Commission, Mauritius

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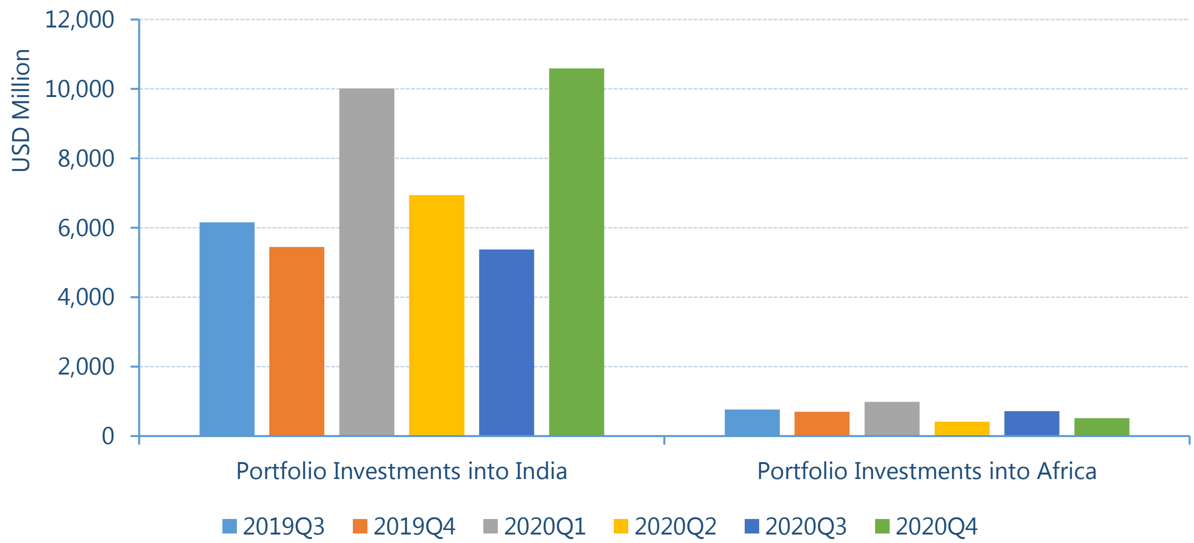
The gross FPI into India fared better in 2020 with a growth of 14 percent compared to 2019. The Indian market, in general, displayed better investment sentiment buoyed by the frequent and active intervention of the Government of India to support its economy during the pandemic. In particular, the Indian authorities' decision not to impose a full-scale lockdown and the renewed optimism with respect to the distribution of vaccines to adults might have contributed to a rally in the stock markets in India. It is noted that GBC investment into Africa, in particular FPI into listed equities, remains constrained by the presence of relatively less deep and liquid stock markets in this region. Volatility inherently exists in flows of investment, especially for India, and these variations are expected to be more erratic amidst the impact of the COVID-19 pandemic globally. (Chart 6.6)

Chart 6.6: Gross FPI flows



Source: Financial Services Commission, Mauritius

6.4 Linkages between GB Sector and Banking Sector

The GB sector of Mauritius is mainly used as an investment platform towards the Asian and African regions. This is clearly presented in the breakdown of the monetary and financial assets of GBCs by institutional sectors as at 31 December 2020. (Chart 6.7)

The mainstream business model of GBCs being conducting of economic activities principally outside Mauritius, their largest exposure is with non-residents representing 77 percent of the total monetary and financial assets; followed by cross-holding assets between GBCs due to the presence of group structures operating in the sector. In terms of exposure with residents other than GBCs, it is in the form of deposits retained in local banks.

GBC deposits with banks continued to account for approximately one-third of total banking deposits and one-quarter of total banking assets as at end-March 2021. Despite COVID-19 and the recent developments in the GB sector, GBC deposits have been resilient. As at end-

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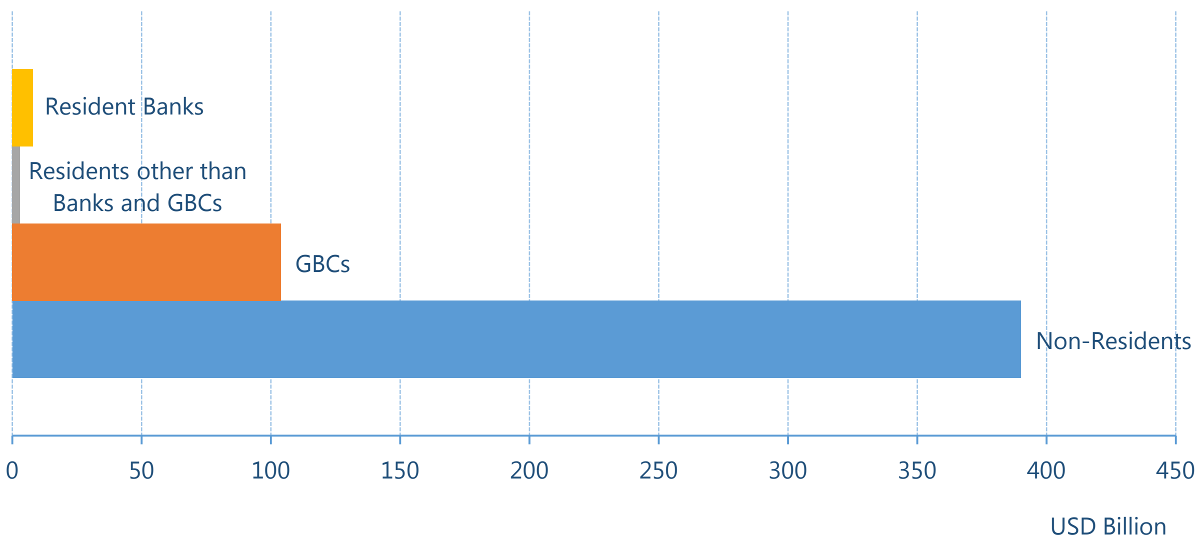
March 2021, GBC deposits reached a high of Rs517 billion (approximately USD12 billion), from Rs474 billion (approximately USD11 billion) as at end-September 2020, representing around 121 percent of the GDP. (Chart 6.8)

Chart 6.7: Exposure of monetary and financial assets of GBCs by institutional sectors



Source: Financial Services Commission, Mauritius

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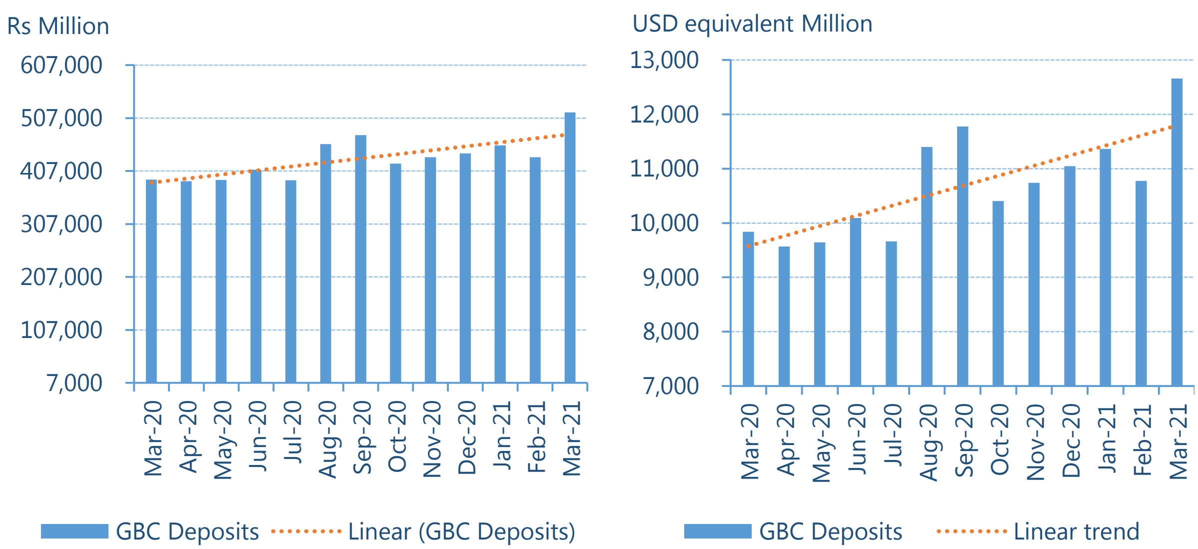
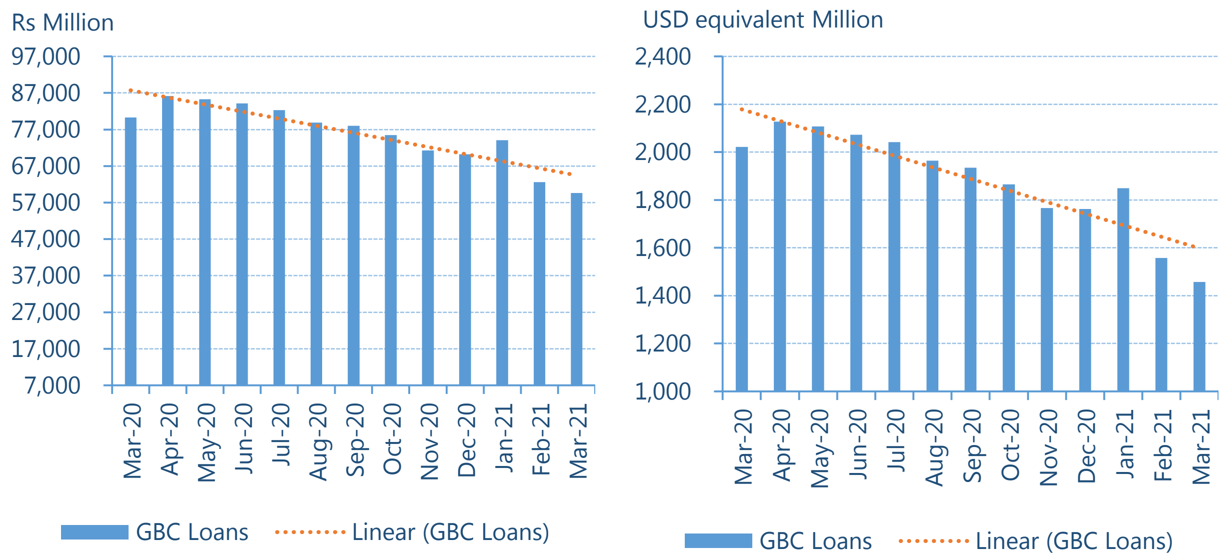
Chart 6.8: Evolution of GBC deposits



Source: Bank of Mauritius

Loans and advances to GBCs, accounting for approximately 10 percent of total loans and advances provided by banks and 5 percent of total assets of the banking sector, have trended downwards over the past year. As at end-March 2021, GBC loans and advances stood at Rs57 billion (approximately USD1.5 billion), compared to Rs78 billion (USD1.9 billion) as at end-September 2020. (Chart 6.9)

Chart 6.9: Evolution of GBC loans



Source: Bank of Mauritius

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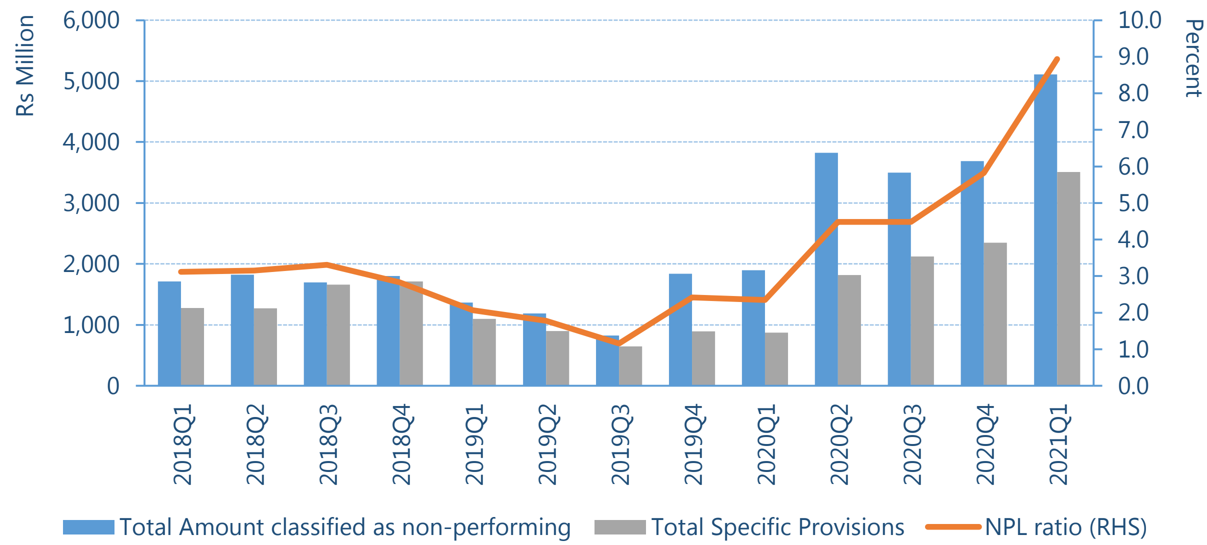
GBC NPLs represented, on average, 10 percent of the total banking sector's impaired credit. Reflecting the decline in credit to the sector and global impact of the pandemic, GBC NPLs rose noticeably from 4.5 percent in 2020Q3 to 8.9 percent in 2021Q1. Banks have accordingly increased specific provisions to around 69 percent of the NPLs in the GB sector. (Chart 6.10)

To have a better assessment of this exposure, a risk map was developed by the FSC to estimate the likelihood of GBCs leaving the jurisdiction and another rating to measure its impact on the banking sector. The model includes a component to measure the risk of exits of EU-funded GBCs from the jurisdiction. Based on data as at 31 December 2020, it is noted that around 3.2 percent of the GBC deposits have been classified under the high risk and medium-high impact categories. (Table 6.1)

A risk map was devised for each local bank to measure their respective exposures to a sudden withdrawal of GB deposits.

Chart 6.10: Evolution of GBC NPLs



Source: Bank of Mauritius

Table 6.1: Risk map - percent of total GBC deposits

		Sub-Total Risk scores					
Risk Score	**High Risk**	**12.4**	0.0	**4.4**	**4.7**	**3.2**	**0.0**
	Medium-High Risk	**9.4**	0.0	5.1	2.5	1.8	**0.0**
	Medium-Low Risk	**20.1**	0.1	8.3	6.1	4.3	**1.3**
	Low Risk	**58.0**	0.3	23.6	18.5	7.2	**8.5**
		Sub-Total Impact Score	**0.5**	**41.4**	**31.8**	**16.6**	**9.7**
			Low Impact	**Medium-Low Impact**	**Medium Impact**	**Medium-High Impact**	**High Impact**
		Impact Score					

Source: Financial Services Commission, Mauritius

7| Stress Testing the Mauritian Banking Sector

The banking sector continues to sustain unprecedented shocks from the COVID-19 pandemic, since last year. Nevertheless, banks in Mauritius have been able to maintain capital and liquidity buffers above regulatory limits, thus far. The Bank has assessed the Mauritian banking sector's resilience through its stress testing framework. Plausible scenarios for the stress tests are by design based on hypothetical adverse conditions, such as shocks to the credit portfolios, interest rate, exchange rate and liquidity. It is highlighted that these hypothetical scenarios and their outcomes should not be considered as forecasts.

Banks in Mauritius held resilient capital and liquidity buffers as supported by the stress testing exercise of the Bank, despite the imposition of the second lockdown in March 2021. In general, the impact of the second lockdown is assessed to be less pronounced due to the shorter duration and more flexibility for businesses to operate through rapid deployment of WAPs and remote working practices. Stress test results show that banks have adequate capital and liquidity buffers to deal with the protracted repercussions of the pandemic. However, some banks appear to be more vulnerable than others.

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The Bank continues to deploy its financial stability assessment toolkits to monitor the financial situation of banks.

7.1 Scenario Analysis

To assess the resilience of banks to macroeconomic shocks, three hypothetical scenarios have been built, namely: a baseline, a moderate and a severe risk scenario. These scenarios have been investigated further through adverse macroeconomic shocks to the GDP, interest rate and exchange rate.

The underlying rationale for the "baseline" scenario is that the economy would recover in the second semester of 2021, spurred by a recovery in global demand and continued support from policy measures. The re-opening of borders to international travel would boost confidence of households and businesses and support a gradual recovery of the tourism sector, with positive spillover effects on domestic growth momentum. The economy is estimated to rebound.

The second scenario, "Moderate", assumes that the economic recovery in 2021 would be more delayed, due to slower than expected growth in main export markets, which would impact on key sectors of the economy, in particular the manufacturing, financial and tourism sectors, notwithstanding ongoing COVID-19 support measures. This would imply that the economy would stagnate in 2021 and that recovery would be expected as from the first semester of 2022.

As for the "Severe" scenario, it is assumed that the economy would contract in 2021 due to some unexpected negative shock in the second half of 2021. This scenario assumes that growth would reach positive territory as from the second semester of 2022. The underlying rationale for such a scenario is the risk of a third wave of infections following the full opening of borders in October 2021. This could lead to the imposition of a third lockdown, with adverse repercussions on the economy.

Chart 7.1 provides a diagrammatic illustration of the outcomes on the banks' post-shock CAR and CET1 ratio, following the materialization of shocks for each scenario. The banks had robust capital position during the period under review. The CAR of banks stood at 18.7 percent as at end-March 2021. The stress test results show that the Mauritian banking sector remained resilient even in the worst-case scenario.

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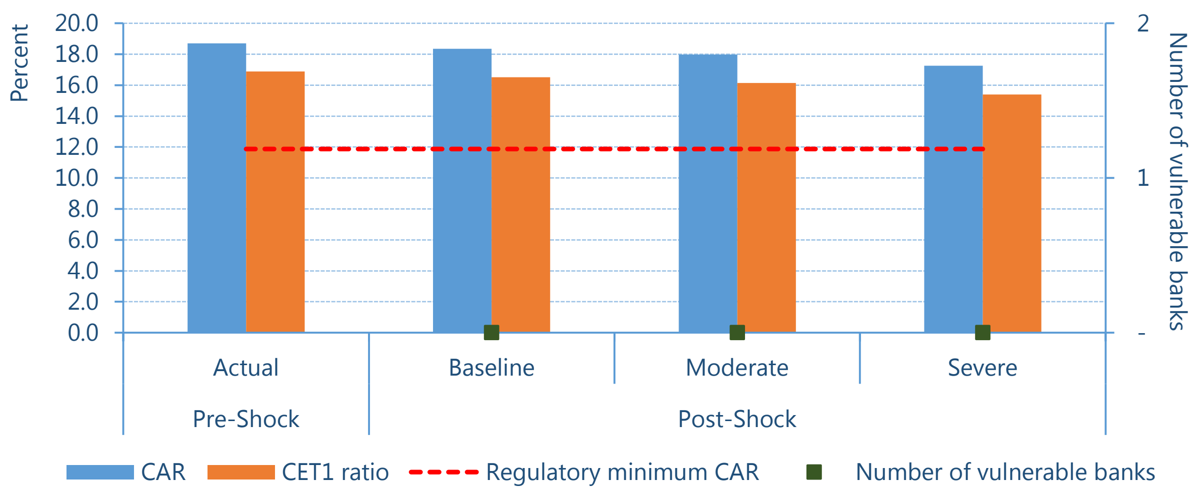
Chart 7.1: Scenarios results



Source: Bank of Mauritius

While, as expected, the system-level CAR declined, it nonetheless stood above the regulatory minimum of 11.875 percent (standard limit of 10 percent plus phased-in capital conservation buffer of 1.875 percent). The CAR of all banks, including DSIBs, hovered above the regulatory minimum of 11.875 percent in all three scenarios. Chart 7.1 also illustrates the impact of the combined macroeconomic shocks on the CET1 ratio under each of the three scenarios. The outcome demonstrated that banks displayed resilience, even in the severe scenario.

7.2 Sensitivity Analysis

A number of single-factor sensitivity stress tests, based on March 2021 data, were carried out on banks to assess their vulnerabilities and resilience under various scenarios. The sensitivity analysis covered (i) sectoral credit risk (ii) credit concentration risk (iii) liquidity risk and (iv) reverse stress test.

7.2.1 Sectoral Credit Risk

Sensitivity stress tests have been conducted on the banks' sectoral gross NPLs as at end-March 2021, to ascertain their sectoral credit risks resilience. The hypothetical shocks are detailed in Table 7.1.

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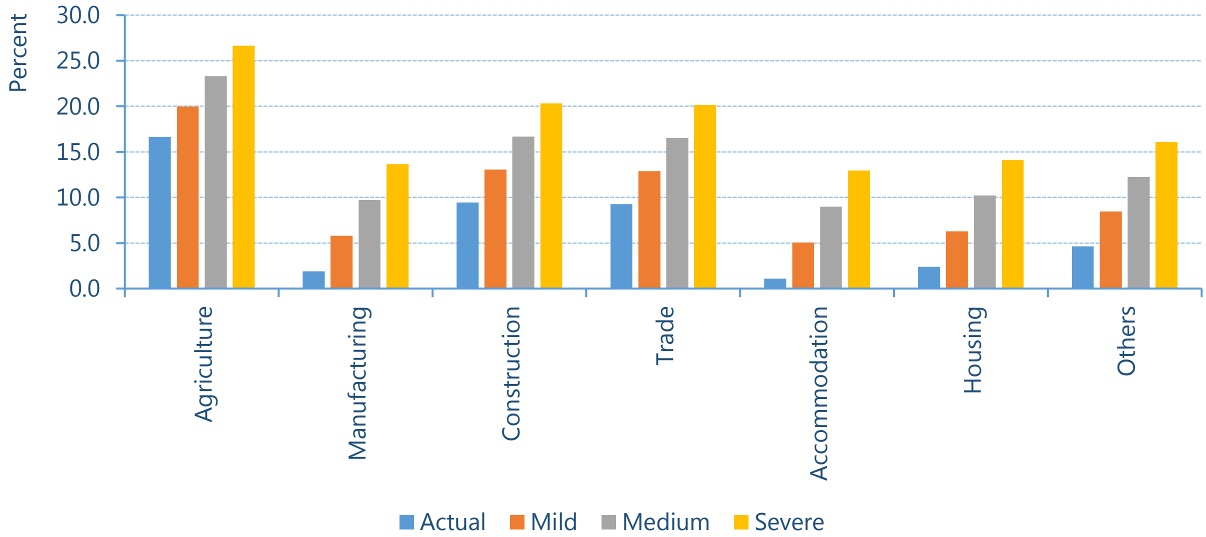
Table 7.1: Sectoral sensitivity assumptions

Scenarios	Mild	Medium	Severe
Percentage of performing loans being classified non-performing	4%	8%	12%

Source: Bank of Mauritius

The results indicated that the 'accommodation and food services' sector recorded the highest increase in NPL ratio, followed by the 'manufacturing' and 'agriculture' sectors. (Chart 7.2)

Chart 7.2: NPL ratio sensitivity results



Source: Bank of Mauritius

7.2.2 Credit concentration Risk

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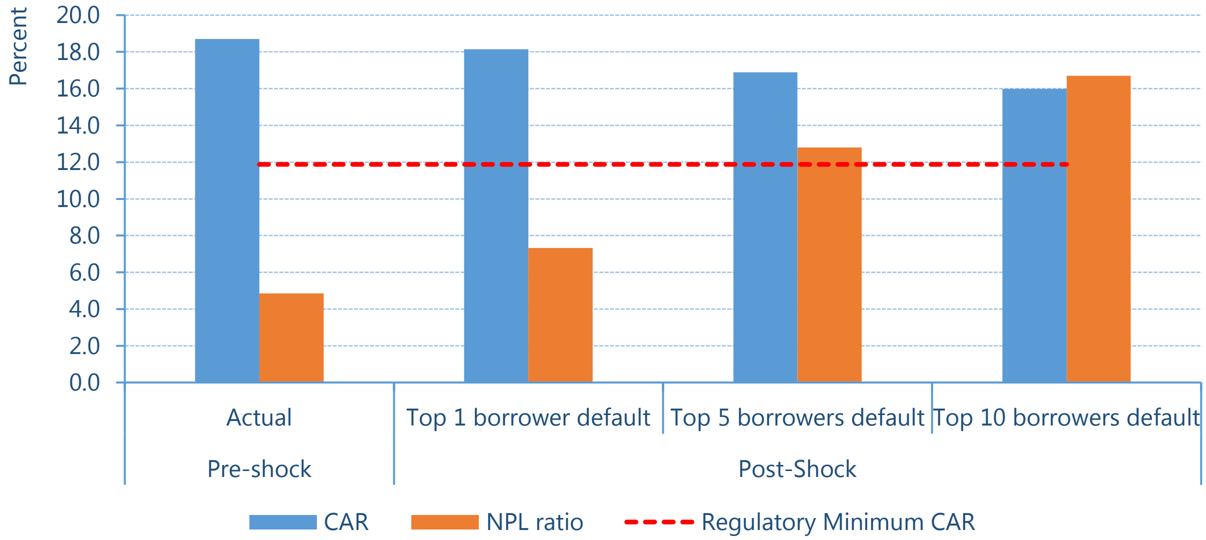
Credit concentration risk was examined by considering the hypothetical impairment of the top ten single borrowers, based on their performing advances, for the respective banks. Three shock scenarios were applied: (a) the first scenario assumes that the top one borrower of each bank defaults, (b) the second scenario assumes that the top five borrowers of each bank default, and (c) the third scenario assumes that the top ten borrowers of each bank default.

The stress test exercise showed that the banks' aggregate post-shock CAR would decline from 18.7 percent (actual) to: (a) 18.1 percent (first scenario), (b) 16.9 percent (second scenario) and, (c) 16.0 (severe scenario). Overall, banks' capital buffers indicate comfortable resilience in the first scenario. Two banks show signs of vulnerability in the second scenario, with one of them still meeting the standard limit of 10 percent. As for the third scenario, three banks' post-shock CAR would be below the regulatory minimum of 11.875 percent, on average by 3.2 percentage points, with one bank meeting the standard limit. (Chart 7.3)

Chart 7.3: Credit concentration risk



Source: Bank of Mauritius

7.2.3 Liquidity risk

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Banks have varying proportions of GBC deposits in their balance sheets, with foreign banks having much higher shares. Liquidity stress tests, as detailed in Table 7.2, have been performed to assess the liquidity position of all banks operating in Mauritius.

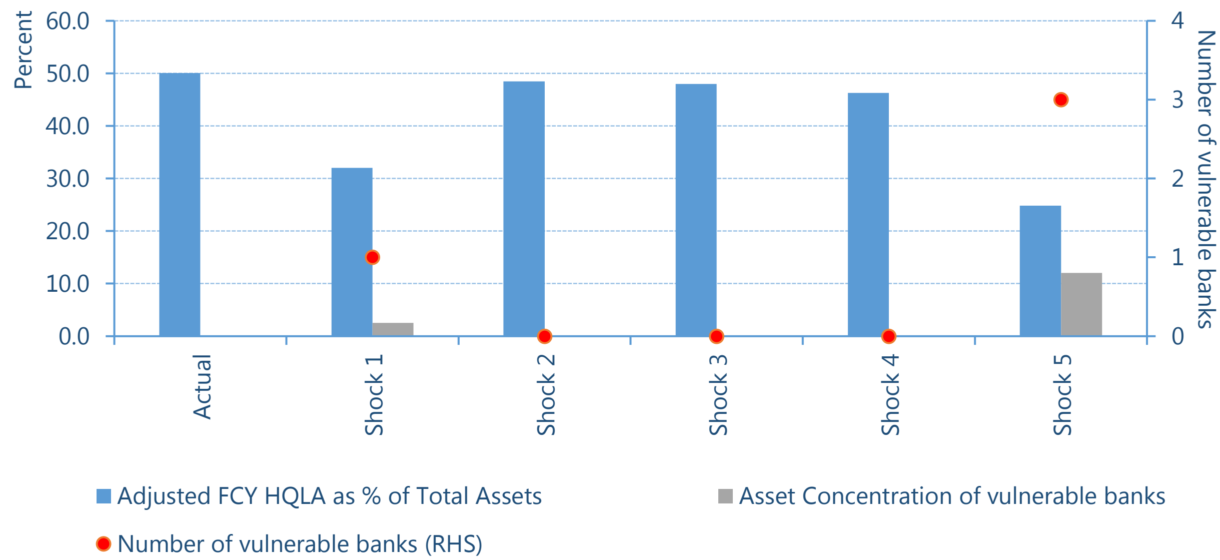
Table 7.2: Liquidity risk – foreign currency deposit withdrawals

Shocks	Description
1	Assume 35 percent one-off foreign currency deposit withdrawal
2	Assume largest GBC depositor withdrawal
3	Assume riskiest GBC depositor withdrawal
4	Aggregate of Shocks 2 and 3 (provided largest GBC depositor is not the riskiest one as well)
5	Aggregate of Shocks 1, 2 and 3

Source: Bank of Mauritius

These scenarios have been designed to examine the ability of the banks' in Mauritius to withstand increasing foreign currency deposit withdrawals against their Adjusted Foreign Currency High Quality Liquid Assets (Adjusted HQLA). The latter has been derived by combining (1) the foreign currency HQLA (as per LCR definition) and (2) foreign currency interbank placements held. In these tests, a bank was considered as 'vulnerable' if its Adjusted HQLA turned negative under stressed conditions. Results showed that one bank would show signs of vulnerability when Shock 1 is applied. As for Shocks 2, 3 and 4, the Adjusted HQLA of all banks would remain resilient. However, three banks would show signs of vulnerability should Shock 5 be applied. (Chart 7.4)

Chart 7.4: Liquidity risk – adjusted FCY HQLA



Source: Bank of Mauritius

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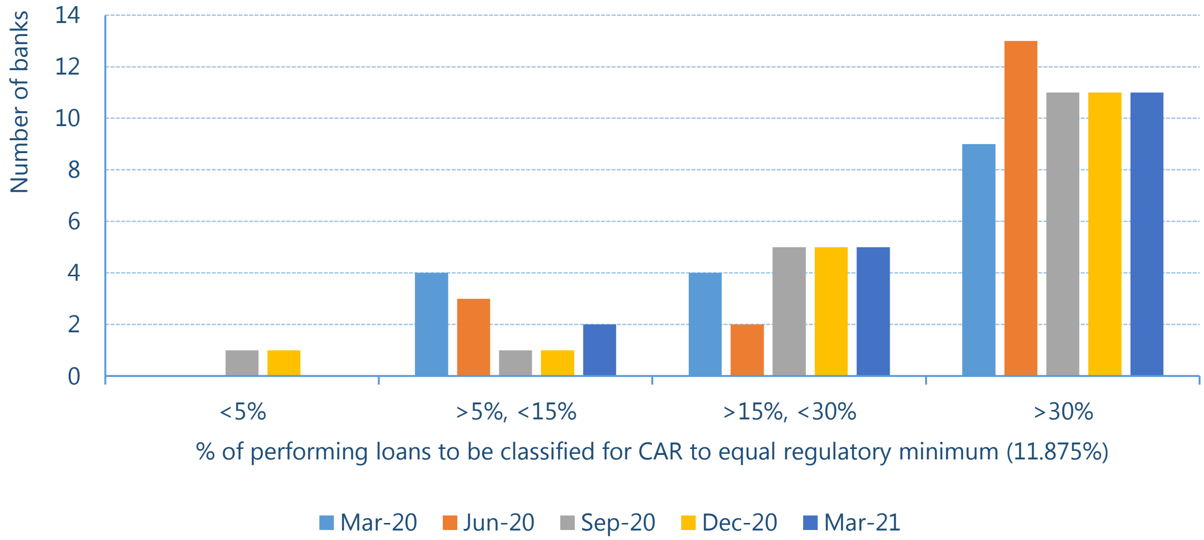
7.2.4 Reverse Stress test

Banks were also assessed based on the regular reverse stress test exercise. The framework examined the maximum amount of additional NPLs that banks' would be able to absorb for their CAR to meet the minimum regulatory CAR of 11.875 percent. The additional NPLs is based on the existing performing loans of each bank.

The distribution of the 'proportion of performing loans to be classified as impaired' was positively-skewed over the period under review. As at 2021Q1, the figure ranged from 8.5 percent (2.0 percent as at 2020Q3) to 257.6 percent (195.9 percent as at 2020Q3) (Chart 7.5). This implies that banks have strengthened their capital buffers and they have higher capacity to absorb shocks.

Chart 7.5: Implied percentage of performing loans to be classified as non-performing



Source: Bank of Mauritius

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Annex A: Financial Soundness Indicators

Financial Soundness Indicators[a] of Other Depository Corporations[b]

Percent

(Core)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Capital-based										
Regulatory capital to risk-weighted assets	19.2	19.5	20.0*	19.8	19.6	19.3*	20.4*	19.9*	19.7	19.8
Regulatory Tier 1 capital to risk-weighted assets	17.9*	18.2*	18.5*	18.4	18.2	18.0*	19.0*	18.5*	18.3	18.4
Non-performing loans net of provisions to capital	13.9	13.0	12.7*	11.5	10.4	11.5	12.2*	11.1*	10.2	10.6
Asset Quality										
Non-performing loans to total loans[c]	6.5	6.3	6.3*	5.8	4.9	5.3	5.8*	6.1*	6.2	6.2
Sectoral distribution[d] of loans to total loans[c] :										
Interbank loans	2.1*	3.1	3.6*	2.4*	2.5	4.4	4.6	2.8*	4.3	4.5
Other financial corporations	11.8	11.5*	12.2*	13.0*	12.1	11.7*	11.4	9.8*	9.6	8.9
Non-financial corporations	26.7	26.8	25.7	26.2	26.4	25.9*	27.1	28.3*	27.8	27.3
Other domestic	22.0	22.7*	22.6	23.0	23.4	21.1	20.9	22.0*	22.0	22.3
Non-residents	37.3	35.9*	36.0	35.4*	35.6	36.8	35.9	37.1*	36.3	36.9
Earnings and Profitability										
Return on assets[e]	1.6*	2.2	2.0*	2.0	1.9	1.2	1.1*	1.1*	1.0	1.2
Return on equity[e]	15.1*	19.0*	17.4	17.3*	16.7*	11.0	9.5*	9.7*	8.9	11.4
Interest margin to gross income	72.9	72.7*	73.8*	72.8*	69.3*	71.7*	65.9*	68.2*	69.0	63.1
Non-interest expenses to gross income	39.6	38.4*	40.4	42.5*	41.1*	41.8*	40.0*	43.3*	44.1	44.0
Liquidity										
Liquid assets to total assets	22.5	22.6*	21.0	21.7*	25.3*	24.5*	26.4	27.7*	26.0	29.4
Liquid assets to short-term liabilities	25.5*	25.6*	23.9	24.7*	28.5	27.7*	29.7	31.1*	29.3	32.8
Sensitivity to Market Risk										
Net open position in foreign exchange to capital	2.1	3.6	2.8	1.9	2.1	1.7	1.7	1.6	1.6	1.9

(Encouraged)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Capital to assets	11.5	11.8*	11.9*	11.8	11.3	11.2*	11.0*	10.6	10.8	10.2
Value of large exposures to capital	249.4	232.1*	248.4*	237.9	237.3*	244.8	258.5*	257.7*	242.3	237.5
Customer deposits to total (non-interbank) loans	154.6*	161.2*	159.9*	161.5*	174.7*	179.4*	182.7*	194.8*	197.4	213.0
Residential real estate loans to total loans[c]	10.5	10.7	11.0	11.1	10.8	10.6*	10.6	11.3*	11.5	12.5
Commercial real estate loans to total loans[c]	4.6	4.3	4.2	4.7	5.0	4.7	5.0*	5.1*	5.4	5.5
Trading income to total income	10.2	9.2*	7.7	10.3*	11.7*	13.0*	16.4*	13.3*	11.0	17.9
Personnel expenses to non-interest expenses	49.3	49.0	46.8	46.2	45.4	46.5*	48.0*	45.6	51.1	48.7

[a] *FSIs are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund.*

[b]*Other Depository Corporations refer to Banks and NBDTIs that are all licensed by the Bank.*

[c]*Total gross loans include commercial loans, instalment loans, hire-purchase credit, loans to finance trade credit and advances, finance leases, repurchase agreements not classified as deposits, and overdrafts.*

[d] *With the emergence of new types of economic activities, the return on sector-wise distribution of credit to the private sector has been replaced by a new template based on the United Nations International Standard Industrial Classification (ISIC) of all economic activities, Rev. 4, built on a set of internationally agreed concepts, definitions, principles and classification rules. Hence, data are not strictly comparable with those prior to December 2018.*

[e] *Return on asset and Return on equity are based on Annualised Profit before Tax, which is in accordance with the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund.*

** Revised figures.*

Note: Figures may not add up due to rounding.

Source: Bank of Mauritius

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List of Charts, Tables and Boxes

Charts

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Acronyms

AC	Authorised Company
AML/CFT	Anti-Money Laundering and Combatting the Financing of Terrorism
Bank	Bank of Mauritius
CAR	Capital Adequacy Ratio
CET1	Common Equity Tier 1
DSIBs	Domestic Systemically Important Banks
ECB	European Central Bank
EMEs	Emerging Market Economies
EU	European Union
FATF	Financial Action Task Force
FDI	Gross foreign direct investment
FPI	Gross foreign portfolio investment
FSC	Financial Services Commission Mauritius
FSI	Financial Soundness Indicators
GB	Global Business
GBC1	Global Business Category 1
GBC2	Global Business Category 2
GBCs	Global Business Corporations
GBL	Global Business Licence
GDP	Gross Domestic Product
GOIR	Gross Official International Reserves
HQLA	High Quality Liquid Assets
IFC	International Financial Centre
IMF	International Monetary Fund
KRR	Key Repo Rate
LCR	Liquidity Coverage Ratio
MBA	Mauritius Bankers Association Limited
MSCI	Morgan Stanley Capital International
NBDTIs	Non-Bank Deposit-Taking Institutions
NPL	Non-Performing Loan
ROA	Return on Assets
ROE	Return on Equity
RBS	Risk-Based Supervisory
Rs	Mauritian Rupees
RWAs	Risk-Weighted Assets
SPF	Special Purpose Fund
STC	State Trading Corporation

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UK	United Kingdom
US Fed	US Federal Reserve
USD	US dollar
WAPs	Work Access Permits

Glossary

Corporate credit is defined as credit extended to corporates by banks.

Corporate debt refers to aggregate credit to corporates extended by banks as well as NBDTIs, leasing and insurance companies.

Credit-to-GDP gap is the percentage deviation between the credit to GDP ratio and an estimate of its trend.

GBCs are resident corporations, which conduct business outside Mauritius. GBCs are regulated by the Financial Services Commission (FSC) under the Financial Services Act 2007.

Household credit is defined as credit extended to households by banks.

Household debt refers to aggregate credit to household extended by banks as well as NBDTIs, leasing and insurance companies.

Key Repo Rate is the policy rate used by the Bank of Mauritius to signal changes in its monetary policy stance.

ROA is the annualised pre-tax return on assets and is measured by the ratio of pre-tax profit to average assets.

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ROE is the annualised pre-tax return on equity and is measured by the ratio of pre-tax profit to average equity.

Percentage point is the arithmetic difference of two percentages.

SEMDEX is an index of prices of all listed shares on the Stock Exchange of Mauritius wherein each stock is weighted according to its share in the total market capitalisation.

Tier 1 capital is a term used to qualify eligible capital of a bank and is constituted of the components having the highest loss absorbing capacity.

Y-o-y change compares the value of a variable at one period in time compared with the same period of the previous year.