BANK OF MAURITIUS

FINANCIAL STABILITY REPORT

December 2020

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FOREWORD

The Bank of Mauritius is issuing its second edition of the Financial Stability Report of 2020, which covers developments taking place in the second and third quarters of 2020, as well as updates related to the COVID-19 pandemic.

In line with its mandate*, the Bank of Mauritius' 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 available on the Bank of Mauritius' website at: https://www.bom.mu.

The Bank of Mauritius welcomes feedback from readers. Please forward comments and suggestions to communications@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 economy continues to suffer from setbacks linked to the COVID-19 pandemic, as many of the leading economies are instigating lockdown periods to contain second round of pandemic shockwaves. The International Monetary Fund (IMF) October World Economic Outlook projects 2020 growth to contract by 4.4 percent, a relatively more benign position than what was projected for the year in June 2020, against a backdrop of some early signs of potential recovery. Authorities worldwide have implemented an arsenal of measures designed to protect the financial sector from the negative offshoots emanating from real sector contraction.

The global financial markets which had initially plunged as the crisis began to unfold in 2020Q1 gradually began to recover in the mid of the year. The global banking sector remained supported by measures designed to sustain the ability of households and corporates to repay their debts, or create leeway for postponing debt repayments through loan restructuring programs. Banks in many parts of the advanced world and emerging market economies had entered 2020 with relatively strong and safe capital buffer and liquidity buffer conditions. The low interest rate environment has compressed net interest margins and may, for some banks, stymie the build-up of capital buffers, going forward. In an environment characterized by growing uncertainties, many banks have earmarked a greater share of their funds towards safer assets. While this move has contributed towards dampening interest spread further (and subsequently, profitability), it has also helped banks build their liquidity buffers and meet regulatory solvency exigencies. Looking ahead, the development of a viable vaccine and its effective administration globally will mark a significant step towards a gradual return to normalcy, but many economic observers argue that this may take several years.

The domestic economy continues to face headwinds due to the COVID-19 pandemic and overall economic activity remains curtailed. The Mauritian economy began to contract as from 2020Q2, following the two-month nationwide lockdown. The manufacturing sector, as well as the accommodation and food service sector - which is, to a large extent, inclusive of the tourism sector - were the most impacted since their activities declined sharply with the closure of borders and disruption in the global supply chains. Travel restrictions had knock-on effects on other domestic industries as well, especially those that are indirectly connected to the heavily impacted sectors. According to Statistics Mauritius (SM), the year-on-year (y-o-y) economic contraction stood at 32.9 percent in 2020Q2. Consumption continues to provide some impetus for sustaining the relatively slow-paced economic activity.

The domestic financial market is gradually beginning to recover, but performance remains sub-par relative to pre-COVID-19 levels. Activity has slowed down on the domestic foreign exchange, as evidenced by daily turnover figures, although the Bank's regular interventions to supply foreign currencies to the market have contributed to stabilise conditions in relation thereto. After significant depreciation during the lockdown, the rupee has remained relatively steady against the US dollar since around May 2020. Rupee excess liquidity remains elevated, partly due to the accommodative monetary policy stance of the Bank. The domestic stock market was quite volatile, based on investors' confidence surrounding the companies' prospects. With many companies reporting reduced earnings and deferring dividends, most stocks performed poorly in 2020Q2 and 2020Q3. The Gross Official International Reserves slightly increased between end-March 2020 and end-September 2020 and are judged to be adequate using a number of traditional reserves assessment metrics.

The authorities have implemented a swathe of measures designed to help borrowers stay financially afloat in the face of sharp income shortfalls, deteriorating economic activity and growing unemployment. Despite these support measures designed to prevent a real shock from propagating to the financial sector, some indebtedness indicators show heightened vulnerability. The growth of household and corporate debt has somewhat lost some momentum during the period under review, in part, reflecting banks' growing aversion to new risky loan expansion. While these heightened vulnerabilities may be temporary and may even out with normalization of income and GDP, going forward, close monitoring of cash flows / incomes and debt servicing ability of households and corporates should continue.

Banks in Mauritius have reported lower profitability during the period March to September 2020 period but continue to remain solvent, in part, thanks to supportive measures taken by the authorities to weather the pandemic storm. Banks entered the COVID-19 period with relatively strong solvency and liquidity positions. The majority, including the systemically-important banks, was well funded with rather stable funding structure. Performance-wise, banking sector indicators were good. Despite the decline in profitability, the Capital Adequacy

Ratio (CAR) of banks remained healthy at 18.6 percent as at end-September 2020. Non-Performing Loan (NPL) ratio of banks slightly deteriorated to 5.5 percent but nonetheless remained relatively well covered. The banking sector stayed liquid during the period under review, with liquidity indicators, namely liquid assets to total assets and liquid assets to short-term liabilities showing a relatively comfortable position. The Liquidity Coverage Ratio (LCR) for the banking sector stood at 262.8 percent as at end-September 2020, well above the regulatory requirement of 100 percent. 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 non-bank financial sector has witnessed a worsening of its profitability situation during the period under review. The sluggish performance of certain economic sectors due to the COVID-19 pandemic is expected to affect life insurance business through lower demand for insurance products, low interest rate environment, higher termination of certain life insurance policies and heightened market and credit risk exposures from investment portfolios. Life insurers have responded to the pandemic by lowering their exposure to equity instruments and by heading for relatively safer instruments towards the end of the first semester of 2020. Compared to life insurers, general insurers were relatively less affected by the economic contraction, being less exposed to equity instruments. Overall, the general insurance sector remains relatively resilient to the impact of the COVID-19 due to the relatively low correlation of their underwriting business with economic activity.

The macro-criticality of the Global Business (GB) sector can be demonstrated by the weight of Global Business Corporations' (GBCs) deposits in funding the banking system (between 30-40 percent) and in supporting the Balance of Payments and international liquidity situation, in addition to its contribution to GDP growth and to employment. The GB sector has been exposed to numerous shocks during the period under review. Mauritius has made a high-level political commitment to work with the relevant bodies to strengthen the effectiveness of its AML/CFT regime and to align the framework with international best practices. So far, over the period under review, the time series of GBC deposits in the banking system does not show any worrying signs of outflows, aside from the usual seasonal fluctuations that echo the versatility of GB funds.

The Bank has undertaken a series of stress tests to assess the resilience of the banking system to macroeconomic and potential event-based shocks. In the latter category was liquidity based stress tests, among which several scenarios were designed to assess the adequacy of high-quality unencumbered liquid assets to meet unexpected runs on deposits. Various severe but plausible scenarios were constructed to assess whether banks would be able to handle potential stresses to the GBC sector, including assuming a withdrawal of the *'high risk - high impact'* categories identified by the Financial Services Commission (FSC). Liquidity stress tests show that the banking system is, in general, very resilient to these shocks, with some banks exhibiting more vulnerability than others. Under some liquidity shock combinations, some banks appear to have worn out their stocks of quality liquid assets and will face heightened liquidity risks.

Solvency stress tests have also been undertaken under various macroeconomic scenarios for the Mauritian economy, going forward. These scenarios have been designed and conceptualized to reflect possible hypothetical shocks to the macroeconomic outlook, while ensuring consistent relationship between several of the macroeconomic parameters that were subject to engineered shocks. Under the baseline scenario which reflects a V-shaped economic recovery in 2021, banks were found to be able to stay financially afloat and solvent, with their capital adequacy staying well above the regulatory limits. Under the moderate and severe scenarios, which assume U-shaped and Nike-Shaped recoveries in 2021, the resistance of some banks are put to test as their capital buffers become eroded and linger below the regulatory limits.

Finally, on a separate note, an important related issue in the watch list of regulators worldwide concerns challenges tied to the pricing of financial contracts. Central Banks globally have rolled out mechanisms for accommodating alternative reference rates in lieu of the London Interbank Offered Rate (LIBOR), which is due to be phased out in the offing. Since the LIBOR is crucial for pricing financial contracts, monitoring ongoing preparatory work for on-boarding alternative reference rates becomes crucial. The Bank has already started preparatory work in this sense by conducting two surveys among its regulatees to assess their state of preparedness. A brief overview of key results of the second survey is provided in this report.

2 | Macro-Financial Linkages

2.1 Global Financial Conditions

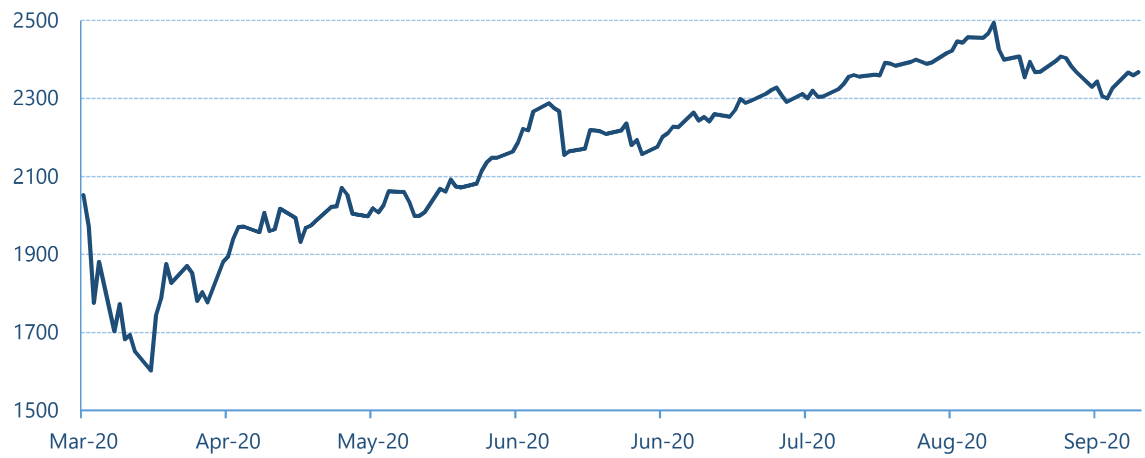
The global financial system has remained relatively resilient to the COVID-19 pandemic, as a result of the unprecedented fiscal and monetary support that has helped maintain the flow of credit in the economy and boosted sentiment in financial markets. The near-term risks to financial stability have been contained, but substantial pitfalls continue to lie ahead considering the uncertain global economic outlook and rising solvency risks borne by the household and corporate sectors.

Global economic activity began to pick up rather sluggishly in advanced and emerging economies in the second and third quarters, with government support measures largely helping keep consumption afloat. Advanced and emerging market economies stepped up stimulus efforts. The European Central Bank (ECB) increased its Pandemic Emergency Purchase Program by EUR600 billion and extended the Program's duration to June 2021. This came on top of the EUR750 billion in bond purchases announced back in March 2020. The US Federal Reserve Board (FED) stayed committed to using its full range of tools to combat the economic impact of the pandemic, including buying corporate bonds, even though the quantum of further fiscal stimulus is still undecided.

The IMF October World Economic Outlook projected 2020 growth to contract by 4.4 percent, a relatively more benign position than what was projected for the year in June 2020 - at a relatively early stage of the pandemic cycle. However, a second wave of infections in the Northern Hemisphere demonstrates that the virus remains the largest risk to the global economic outlook. The resurgence of the virus has been dealt with differently across countries, but has in most cases entailed curfews or localised or national lockdowns to shield the population and reduce stress on health care systems. Restrictions on activity and people movement are likely to slow economic momentum and dent global economic recovery in the fourth quarter. Service-oriented sectors – such as trade, hospitality and entertainment – continue to face headwinds of a larger magnitude than those facing manufacturing, due to higher growth sensitivity and growing propensity to be dented by risk-aversion sentiment.

The swathe of policy measures taken by authorities globally together with the benign US presidential election outcome and hopes for a vaccine have played a key role in supporting market risk sentiment. Indeed, the initial tightening conditions in global financial markets as evidenced by sharp declines in the price of risky assets and sharp hikes in spreads in April 2020 have gradually loosened up. Equity markets have retraced much of the steep decline that occurred during 2020Q1, although the rising cases of coronavirus infections towards the end of 2020Q3 and the uncertainty surrounding another US stimulus package have weighed on investor sentiment (Chart 2.1).

Chart 2.1: MSCI World Index

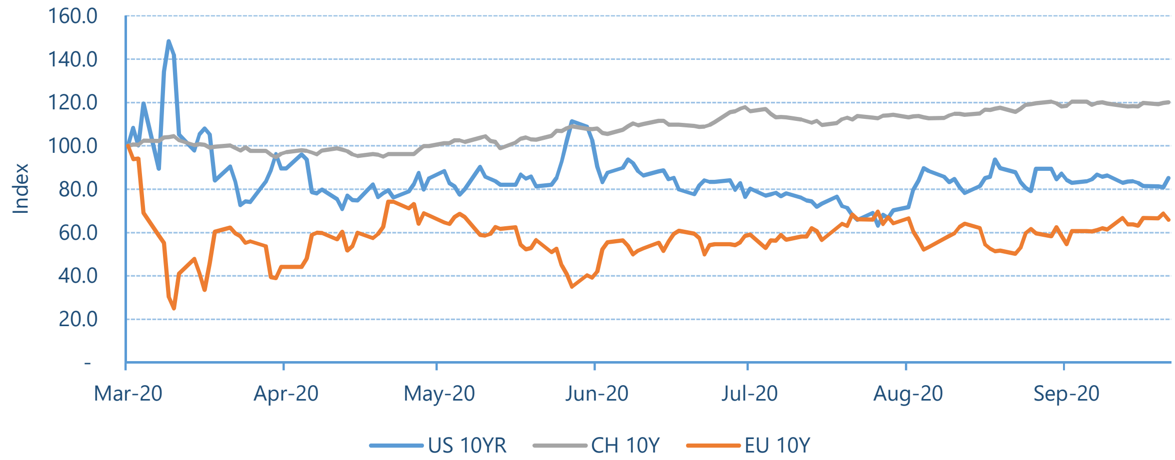


Source: Bloomberg

The bond market also rebounded, with credit spreads continuing to tighten across the board as sentiment improved on the back of monetary and fiscal stimulus. Demand for Investment Grade as well as high-yield corporate bonds remained healthy amidst signs of recovery, ongoing easy money from central banks and news of potential vaccines that buoyed market liquidity. Nonetheless, sovereign yields remained compressed. Many 10-year developed government bond yields now lie below 1 percent and are likely to remain low for the foreseeable future given the subdued growth outlook and generally tame inflation expectations (Chart 2.2).

With the return of risk-on sentiment in the markets, the US dollar has retreated against most currencies. It could potentially lose even more of its safe-haven currency status in 2021 with the effective implementation of a COVID-19 vaccine. The US election outcome had little impact on the US dollar, which has been slightly weaker since then. A failure to pass a new stimulus bill could push the Fed into a more aggressive stance on quantitative easing, a potential negative for the greenback, but it is assumed that a moderately scaled fiscal package will be approved by Congress after the January inauguration.

Chart 2.2: Selected Markets Yields (Base: Mar-20)



Source: Bloomberg

Despite weak real economic conditions, the global banking sector has remained supported by measures designed to sustain the ability of households and corporates to repay their debts, or create leeway for postponing debt repayments through loan restructuring programs. Banks in the advanced world and emerging market economies had entered 2020 with relatively strong capital and liquidity buffers – two upshots of the GFC of 2008. But, different areas of the world have structural features which expose their banks to varying degrees of vulnerability, both pre- and post-COVID 19. Banks in Europe hold a relatively large share of their government's sovereign debt, which makes them largely vulnerable to debt unsustainability concerns, and some European banks had relatively high levels of NPLs in the pre-crisis period. In China, banks have been profitable and have provided forbearance on loans to small and medium enterprises, in part, availing of funding provided by the central bank and of the easing of regulations, including delayed recognition of NPLs. Indian banks had relatively high NPL ratios and low profitability before the pandemic.

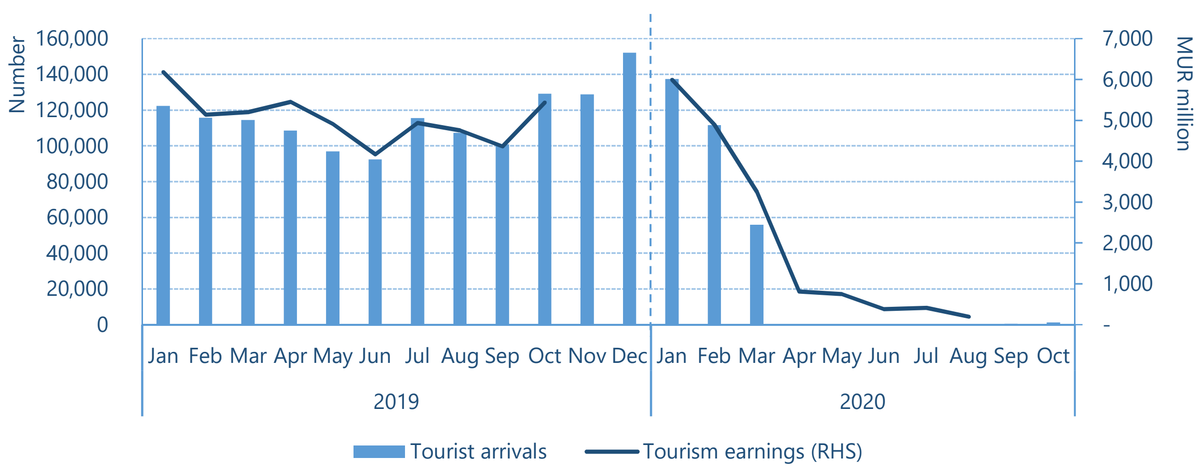
Supervisors have globally allowed banks to take a flexible approach to accounting requirements for provisioning for future losses. Relaxed lending standards against a backdrop of strong public support to shore up the labour market and economic activity, have generally kept credit flowing and stabilised household incomes while limiting the rise in unemployment.

They have largely helped contain the effects of a real sector meltdown from contagiously spreading to the financial sector. Notwithstanding these, substantial downside risks remain. Public support resources are limited and have essentially postponed vulnerabilities. Should the authorities scale back on support measures, the underlying weaknesses plaguing credit sector allocation could come to the fore as expected delinquencies soar and compromise on banks' abilities to continue lending sustainably. Banks that have relatively weaker risk management systems or which entered the COVID-19 crisis with fragile capital and liquidity situations, and with poor loan underwriting standards could face the brunt of these shockwaves.

2.2 Domestic Macro-Financial Conditions

The Mauritian economy began to contract as from 2020Q2, following the two-month nationwide lockdown. The accommodation and food service sector - which is, to a large extent, inclusive of the tourism sector - as well as the manufacturing sector were the most impacted since their activities declined sharply with the closure of borders and disruption in the global supply chains. Tourist arrivals and tourism earnings dwindled to near zero during and immediately after the confinement period (Chart 2.3). Travel restrictions had knock-on effects on other domestic industries as well, especially those that are indirectly connected to the heavily impacted tourism sectors. According to SM, the y-o-y economic contraction stood at 32.9 percent in 2020Q2. The partial reopening of borders since 01 October 2020 may have little effect in the short to middle term due to the resurgences of the pandemic in the island's main markets, notably in Europe.

Chart 2.3: Tourist arrivals and Tourism revenue

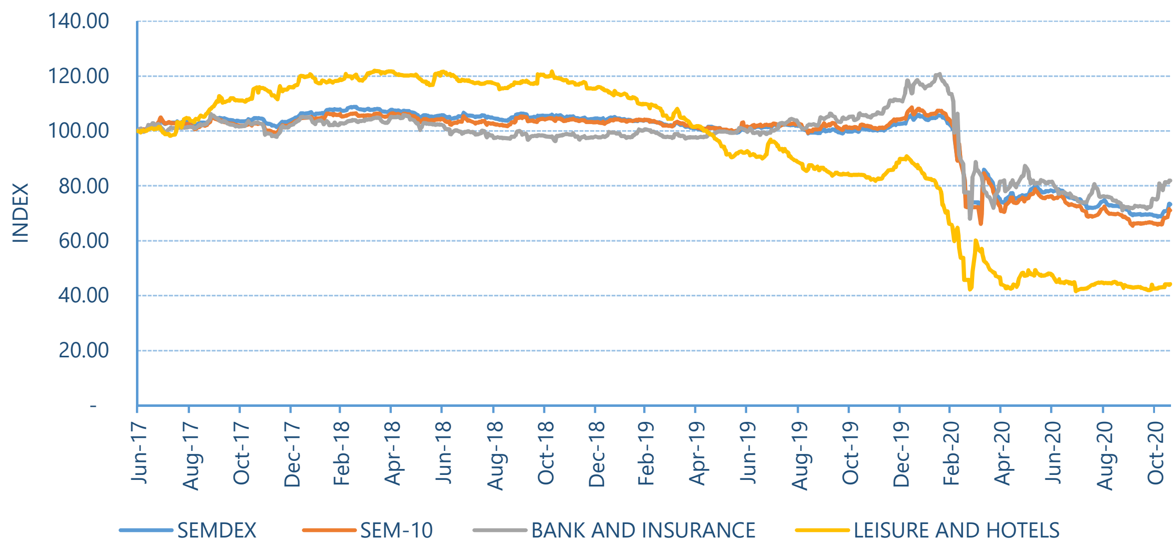


Source: Bank of Mauritius

The economy is projected to suffer a double digit contraction for 2020 owing to weaker domestic and external demand. Growth for 2021 is projected to rebound from the low base although it will settle at a lower rate than the pre-pandemic level in the short term. Recovery is expected to be supported by historically low interest rates, the monetary and fiscal support extended to households and businesses, and the gradual reopening of borders.

The sharp slowdown in domestic economic activity has caused many listed companies to publish reduced earnings and defer dividend payments, undermining investor confidence on the domestic stock market. After the strong decline recorded between March and April 2020, both the SEMDEX and SEM-10 have remained on a downward trend in 2020Q2 and 2020Q3. While hotel stocks continued to record lows, other conglomerates and bank stocks were also hit due to their exposures to the tourism sector (Chart 2.4).

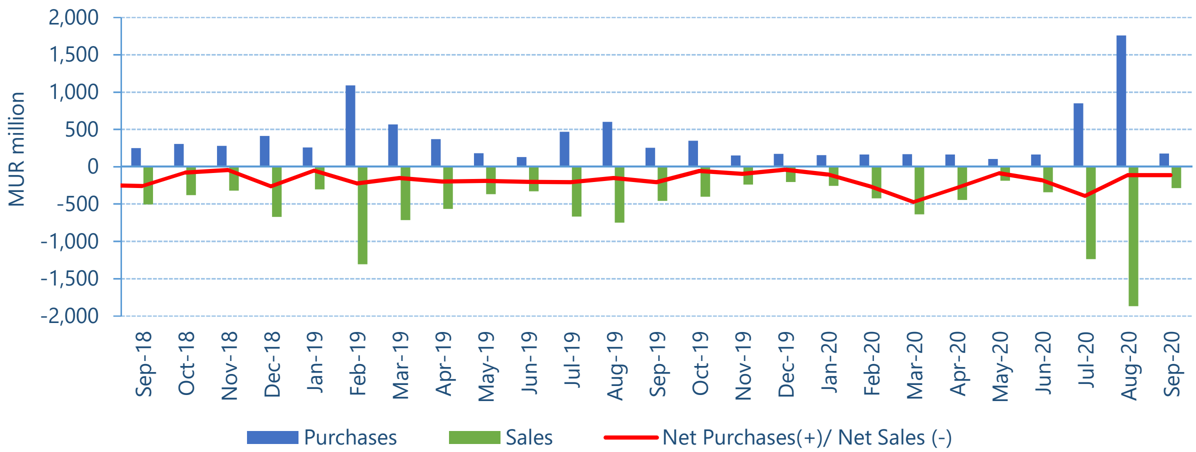
Chart 2.4: Stock Market Indices (Base: Jun 2017)



Source: Stock Exchange of Mauritius

The performance of the domestic stock market was also under pressure from the continuous disinvestment on the part of foreigners in search for risk-adjusted returns (Chart 2.5). In the first three quarters of 2020, foreigners sold an additional net amount of MUR2,009.2 million on the stock exchange, disinvesting mainly from banking stocks.

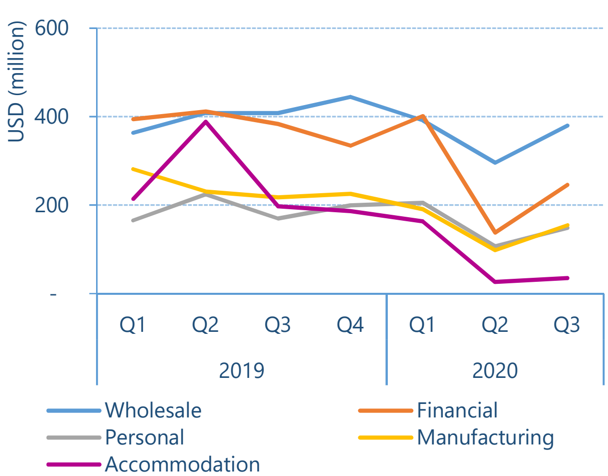
Chart 2.5: Investment by Non-residents on the SEM and DEM

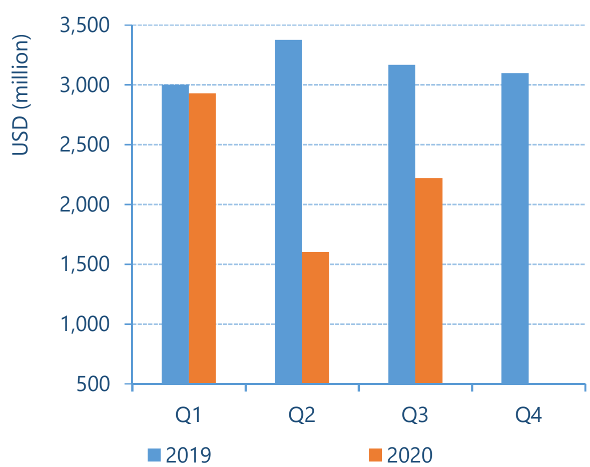


Source: Bank of Mauritius

The loss in tourism earnings and other export proceeds has negatively impacted on activity on the domestic foreign exchange market. While the supply of foreign currencies stalled, the demand for foreign currencies was also thwarted by falls in consumption and activity. Daily turnover of spot and forward transactions in 2020Q2 and 2020Q3 remained much below those recorded in 2019 as transactions fell across sectors, though a small uptick was noted in 2020Q3 as economic activity resumed (Chart 2.6). The Bank's regular interventions to supply foreign currencies to banks, other foreign exchange dealers, and the State Trading Corporation have managed to ease conditions on the market. After significant depreciation during the lockdown, the rupee has remained relatively stable against the US dollar since around May 2020 (Chart 2.7).

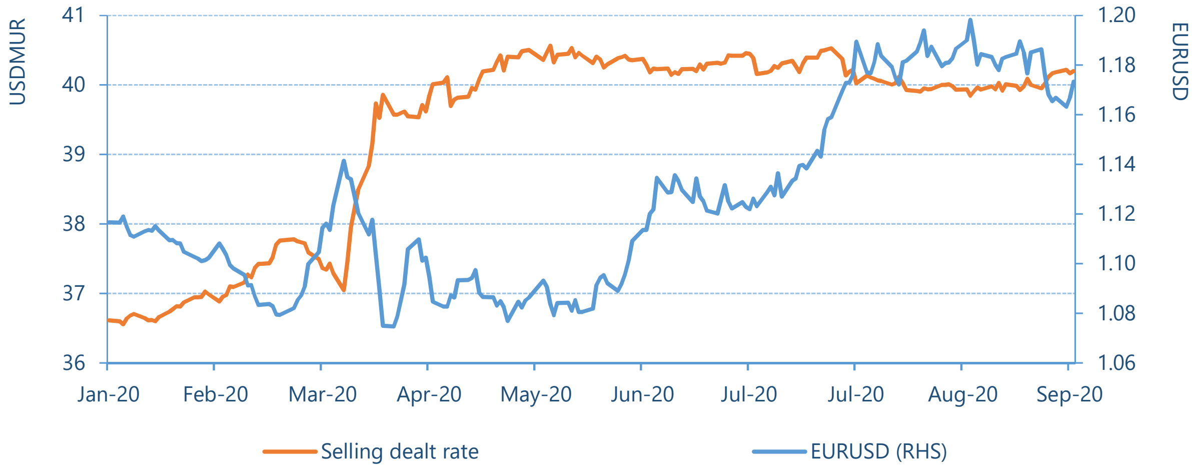
Chart 2.6: Foreign Exchange Turnover





Source: Bank of Mauritius

Chart 2.7: Evolution of EURUSD and USDMUR selling dealt rate



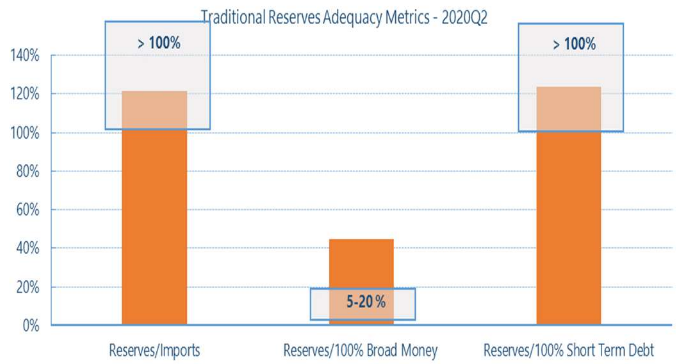
Source: Bank of Mauritius

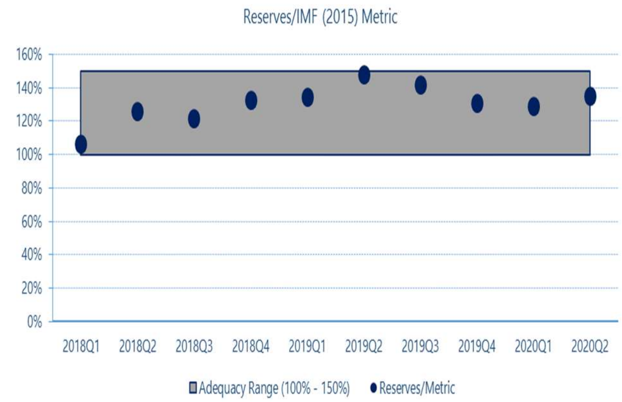
According to the Bank's assessment, the Gross Official International Reserves of Mauritius are adequate to cover for the shortfalls in export revenues in the foreseeable future. Reserves increased by USD171 million in 2020Q2 to reach USD7.2 billion as at end-June 2020 and remained at around that level as at end-September 2020.

From a number of traditional assessment metrics and based on latest official economic data available until end-June 2020, it is estimated that the reserves to import ratio stood at 142 percent - above the 100 percent threshold - and the level of reserves was equivalent to around 13 months of imports of goods and services; the reserves to broad money ratio stood at 45 percent, well above the 5-20 percent adequacy range advocated by the IMF; and the ratio of reserves to short-term debt stood at 124 percent, above the 100 percent threshold advocated under the Greenspan-Guidotti rule (Chart 2.8).

Given the same data set and using a more rigorous methodology that takes into account potential shocks to the balance of payments - given the high degree of openness of the Mauritius economy - as well as the size of the global business sector, it is found that the official reserves is still within the adequacy range of 100 percent-150 percent propounded by the IMF (Chart 2.8).

Chart 2.8: Reserves Adequacy Metrics

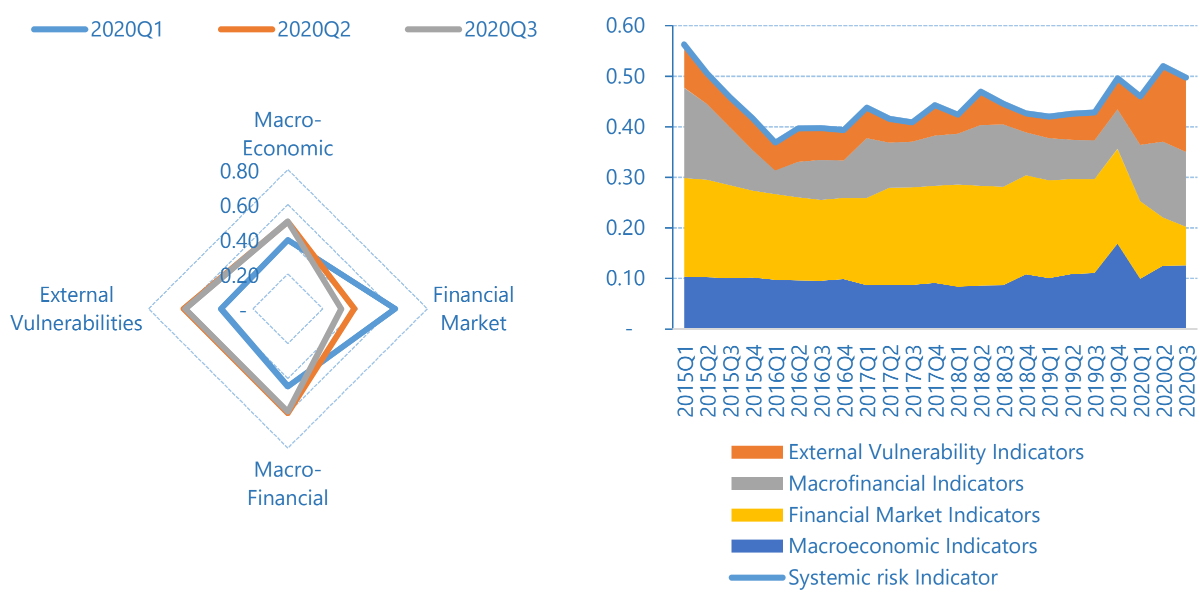




Source: Bank of Mauritius

Risks to the growth and financial sector outlook remain on the downside, essentially stemming from external vulnerabilities spilling over to macroeconomic and macrofinancial realms (Chart 2.9). This could take the form of a second or potentially third wave of COVID-19 infections, which would further mute business sentiment and curtail growth prospects while increasing the challenge for the financial system to sustain the flow of credit and maintain solvency.

Chart 2.9: Systemic Risk Indicator[1]



Source: Bank of Mauritius

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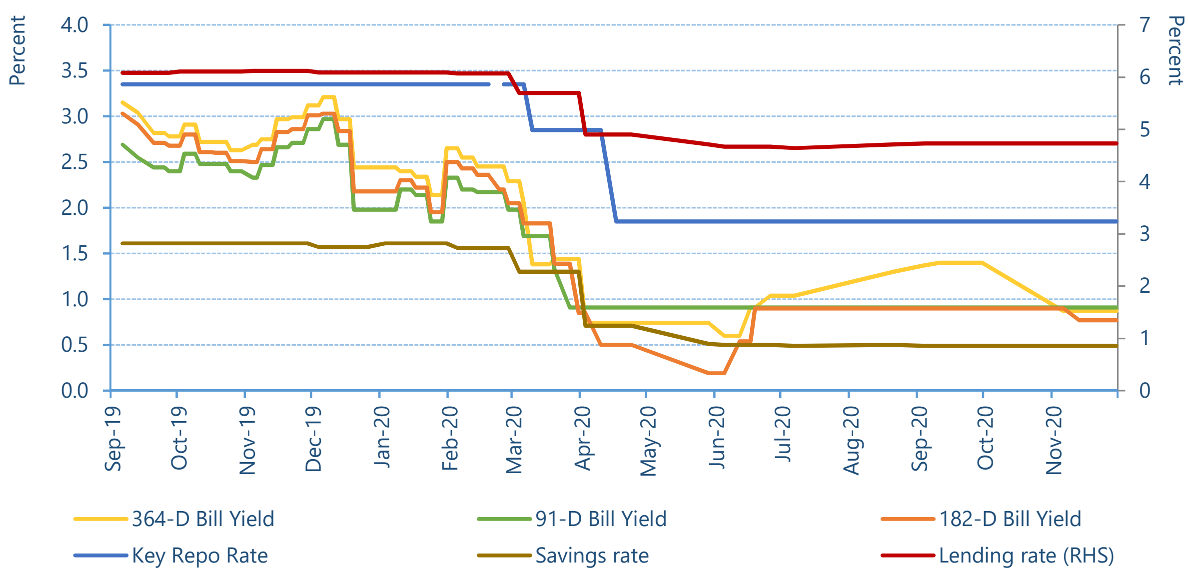
[1] *The systemic risk indicator covers the second and third quarters of 2020. It does not cover subsequent months due to lack of data at the time of writing.*

To support the economy, given the relatively mild inflation environment, and provide a fillip to the banking system, the Bank has continued to pursue a very accommodative stance. The Key Repo Rate (KRR) was cut by another 100 basis points to 1.85 percent on 16 April 2020, and the Bank has ensured that there is sufficient liquidity in the banking system to support economic operators impacted by the COVID-19 pandemic.

The Bank has reduced the issue of its own securities, with issuances since June 2020 aiming to raise an amount of MUR60 billion from the market to fund the one-off contribution to the Government. In this context, the Bank lengthened the maturity structure of its securities with issued tenors of up to 10 years. Concurrently, in view to managing its debt profile, the Government introduced the 119-Day Treasury Bill in April 2020, and maintained the issuance of the 182-Day and 364-Day Bills till the end of June 2020. It did not issue any securities effective July 2020 till the end of September 2020.

Reflecting the reduction of 100 basis points in the KRR and the amount of liquidity in the banking system, short term yields dropped to all-time lows in April 2020. The weighted average yield on the 182-Day Bills dropped to a low of 0.19 percent and the 364-Day yield hit 0.60 percent (Chart 2.10). Banks' weighted average savings deposit rate and weighted average lending rate, also reflective of the accommodative monetary policy stance, reached lows of 0.49 percent and 4.73 percent, as at end-September 2020.

Chart 2.10: Evolution of Market Interest Rates



Source: Bank of Mauritius

Box 1: Second round of COVID-19 measures

This segment provides an overview of the second round of measures implemented by the Bank post COVID-19 pandemic lockdown. Reference can be made to the June 2020 version of the Financial Stability Report for details on the first round of measures taken by the authorities since the beginning of the Lockdown.

The Bank implemented a series of measures to provide flexibility and relief to banks as well as their customers during the COVID-19 pandemic. These measures aimed to ensure continuity of basic banking services to the public, to maintain the flow of credit to stakeholders impacted by the COVID-19 outbreak and to provide appropriate flexibility to banks in this regard.

Supervisory measures taken by the Bank:

- Capital requirements
  The requirements of the *Guideline on Standardised Approach to Credit Risk* with regard to certain risk weights were reviewed.

- Asset classification and provisioning requirements
  The *Guideline on Credit Impairment Measurement and Income Recognition* has been temporarily placed on hold and financial institutions are accordingly applying IFRS 9 for asset classification and provisioning. In this respect, the Bank provided broad guiding principles for consistent application of IFRS 9 in the COVID-19 context.

- Liquidity requirements
  The *Guideline on Liquidity Risk Management* was revised to provide relief to banks in respect of standards for Liquidity Coverage Ratio in foreign currency.

- Payment of dividends
  The Bank introduced a new *Guideline on Payment of Dividend* which offers a forward-looking approach to the preservation of capital of banks and non-bank deposit-taking institutions. It ensures that these financial institutions maintain adequate capital buffers, especially in the current stressed economic environment, to absorb any losses and preserve their financial soundness.

Box 1: Second round of COVID-19 measures (continued)

Supervisory measures taken by the Bank (continued):

- Moratorium period
  The moratorium on loans period had been increased from six (6) to nine (9) months, and subsequently further extended to 30 June 2021.

- Business operations
  The measures introduced to alleviate the supervisory burden on financial institutions and allow them to focus on critical activities during the confinement period, as well as those introduced to facilitate public access to branches and ATM services, were lifted in June 2020.

Extension of specific measures in July 2020:

- The USD/MUR swap arrangement with commercial banks to support import-oriented businesses was extended for an additional amount of USD100 million, to be availed until January 2021. In 2020Q2-Q3, a total amount of USD120.9 million was disbursed under this arrangement.
- The Special Foreign Currency (USD) Line of Credit to banks for funding purposes was raised from USD300 million to USD500 million, repayable one year from the effective date of disbursement.
- The rates applicable to the different schemes under the Support Programme were equally reduced from 2.50 percent to 1.50 percent.
- Special Line of Credits for a total amount of MUR11 billion at preferential rate were put at the disposal of the Development Bank of Mauritius (DBM) Ltd to fund three different Loan Schemes put in place to support economic operators in various sectors, which were impacted by the COVID-19, including Small Medium Enterprises.
- A Special Line of Credit was set up with State Investment Corporation for an amount of MUR3 billion to fund its support programme under its “Plan de Relance and Plan de Soutien”.

3| Financial Soundness of Households and Corporates

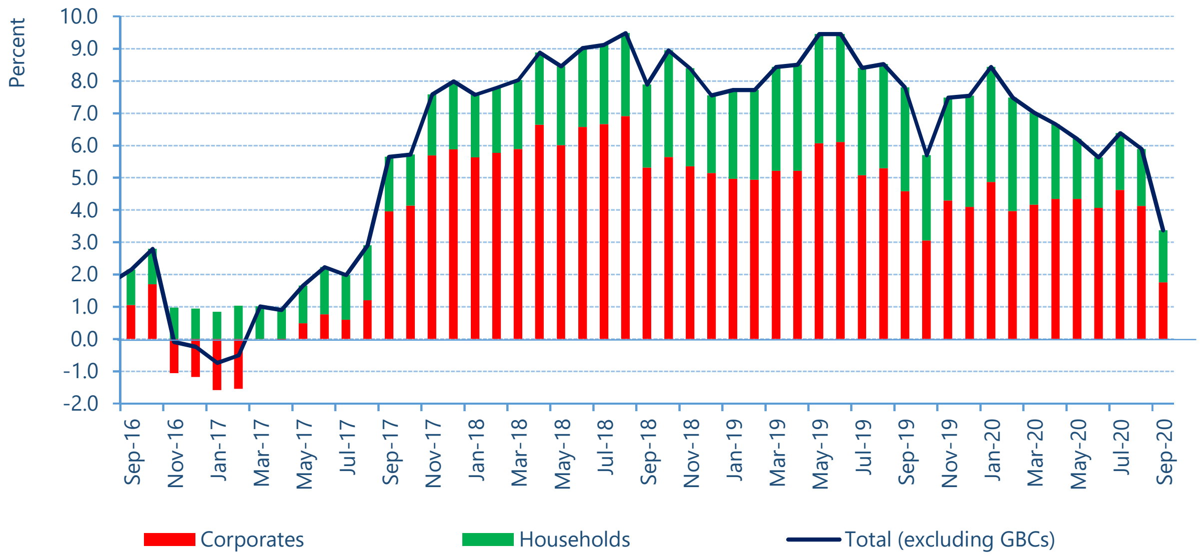
The COVID-19 pandemic triggered a sharp slowdown in domestic economic activity, causing substantial income shortfalls for households and businesses, which in turn impacted credit growth and asset quality. Vulnerabilities in the financial system have increased, but have been manageable so far, as a result of the targeted measures rolled out by the Bank and Government to support households and businesses. Households and businesses impacted by COVID-19 have benefited from moratoriums on loan repayments and other loan restructuring facilities. These, combined with the Wage Assistance schemes provided by Government, several types of concessionary loan facilities made available to small and medium enterprises, and the support of the Mauritius Investment Corporation to large enterprises, have helped to contain borrower default.

3.1 Overall Credit development

The growth of bank credit to the private sector has continued, but has decelerated in 2020Q2 and 2020Q3, reflecting the risk-averse sentiment on the part of banks, households and corporates. Annual growth in bank credit (excluding GBCs) declined from 7.0 percent in March 2020 to 5.6 percent in June 2020 and further to 3.4 percent in September 2020. Corporates, given their contribution to total credit, have been the major driver behind the moderation in bank credit (Chart 3.1). With the fall in output, the credit-to-GDP ratio increased from 72.2 percent in March 2020 to 82.4 percent in September 2020, underlining the higher debt burden of the private sector in the post-COVID era.

Since the onset of the crisis, banks have engaged with their clients impacted by COVID-19 to defer loan repayments either under the Bank of Mauritius scheme or on their own volition. As at end-October, the amount of restructured loans in the banking system amounted to MUR105.6 billion, that is, 15.5 percent of total credit (refer to Box 2 for more details). The Bank has provided banks with broad principles to assist them in applying a consistent approach to the treatment of the moratorium periods, notably: take on board the support measures provided by the Bank and the Government when making an assessment whether there has been a significant increase in credit risk or there is a default; assess loans for impairment after the moratorium period is over; and treat loans that are not expected to remain in good standing accordingly, to reflect the increase in credit risk. The Bank further expects banks to be fully transparent about the material impact of COVID-19 on their financial statements.

Chart 3.1: Growth of Credit to the Private Sector

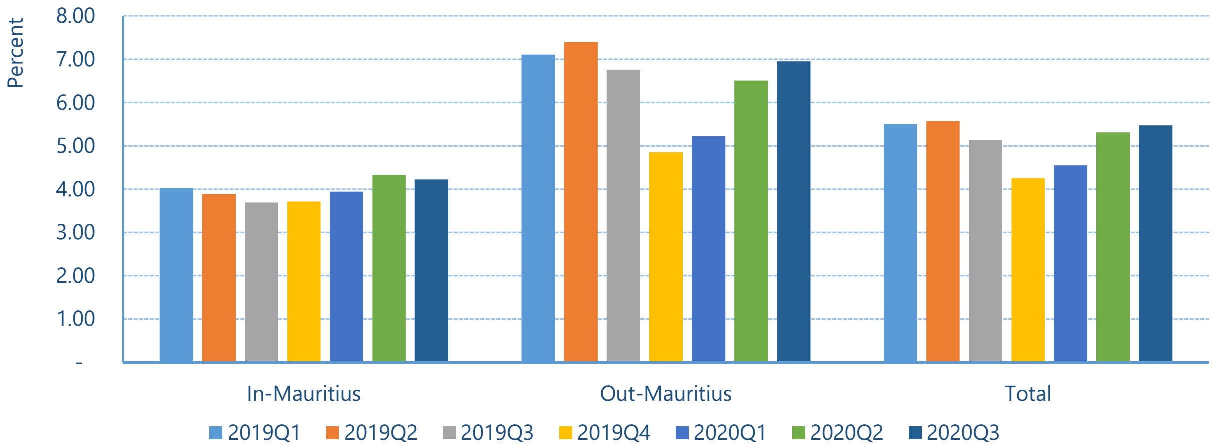


Source: Bank of Mauritius

Considering the on-going loan restructurings, the increase in banks' NPLs has been relatively limited. NPLs went up by around MUR600 million in 2020Q3 to reach MUR41,438 million as at end-September 2020. The NPL ratio, i.e. NPL as a percentage of bank loans, deteriorated slightly from 5.3 percent as at end-June to 5.5 percent as at end-September 2020 (Chart 3.2). Loans granted outside Mauritius accounted for the bulk of the increase in the NPL ratio, especially following impairments in the "Human Health and Social Work activities" sector where the NPL ratio reached 67.5 percent at the end of September 2020. Banks have during the first three quarters of 2020 maintained a coverage ratio of around 52 percent.

The Guideline on income recognition and asset impairment has been temporarily put on hold during the lockdown, and banks have been reporting on impaired assets purely on an accounting basis and according to IFRS9 since then. Thus, a comparison of NPLs and of coverage ratios prior to and post the lockdown period must be undertaken with diligence and care.

Chart 3.2: NPL Ratio



Source: Bank of Mauritius

3.2 Household developments

The share of household credit in total private sector credit remained at around 31 percent in 2020, though the growth in credit to households moderated sharply from 9.2 percent in March 2020 to around 5.0 percent in June and September 2020.

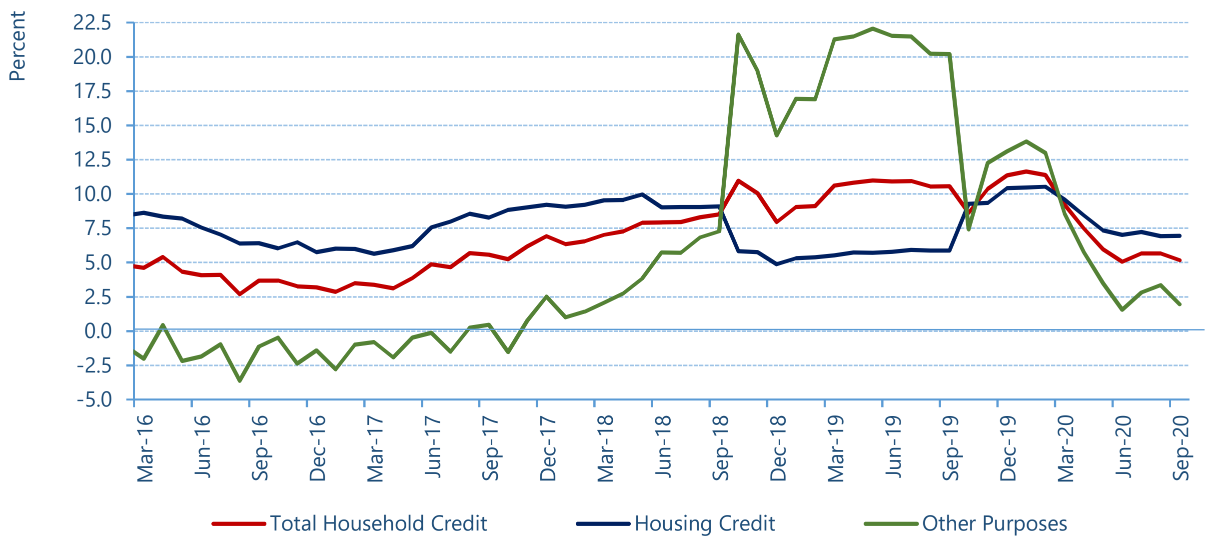
Credit to households is dominated by housing credit, which accounted for 65.5 percent of total household credit in September 2020, while the remaining credit is targeted to other purposes[2]. Housing credit expanded at a slower pace of around 7.0 percent in June and September 2020, compared to 9.6 percent in March 2020. Household credit granted for other purposes grew modestly by 1.5 percent in June 2020 and 1.9 percent in September 2020, against a solid growth of 8.6 percent in March 2020 (Chart 3.3).

The deceleration in household credit is a direct outcome of the COVID-19 pandemic. The imposition of the national confinement and movement restrictions for approximately ten weeks initially led to a temporary pause in most household borrowings. Subsequently, many of those employed in the worst-affected sectors, namely tourism, manufacturing, transport and other indirectly related sub-sectors, have reported income and job losses. Increases in unemployment and falls in income amid the uncertain climate have induced many households

[2] *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.*

to adopt a precautionary stance by postponing housing projects and curtailing consumption of non-essential items.

Chart 3.3: Year-on-year Growth of Credit to Households

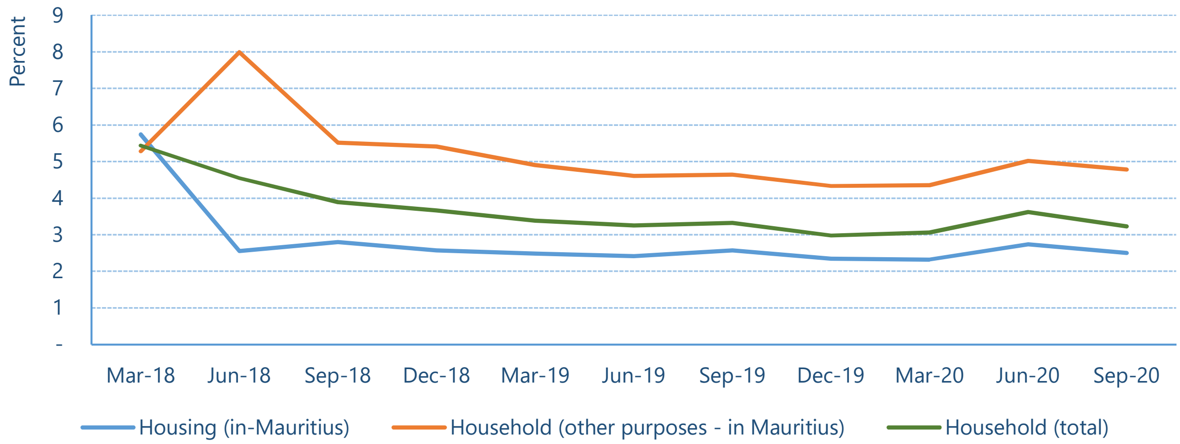


Source: Bank of Mauritius

The Government and Bank of Mauritius support measures have helped households absorb the COVID-19 shock. The Self-Employed Assistance and Wage Assistance schemes have to some extent limited the loss in household income and averted the risk of default. Besides encouraging commercial banks to maintain the flow of credit, the Bank has sought to provide relief to households through imposing moratoriums on housing loans (both capital repayment and interests), incurring the interest expense on housing loans for affected households with income of less than MUR50,000, and temporarily suspending the guideline on Debt-to-Income requirement, which provides flexibility to banks in respect of concessions on credit facilities to individuals whose cash flows have been impacted by the COVID-19 pandemic.

This set of measures together with the fact that some households have temporarily cut down on their expenses or drawn down on their savings to ensure proper servicing of their debt largely explain why household NPLs have not significantly increased in the wake of the crisis. Household NPLs, both on housing credit and on credit for other purposes, have remained within a relatively tight range since 2019 (Chart 3.4).

Chart 3.4: Household NPL on Credit granted by banks



Source: Bank of Mauritius

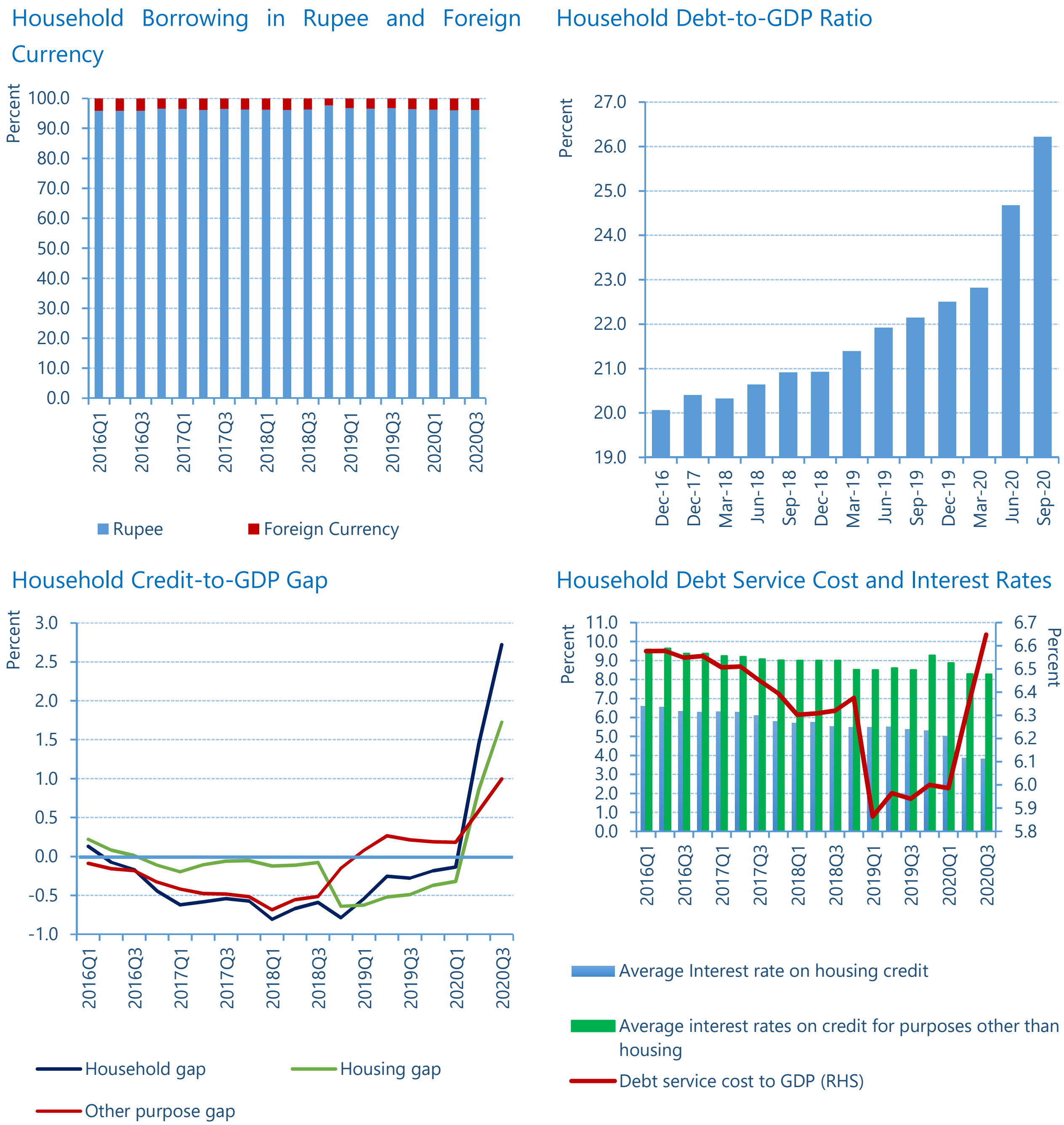
Nevertheless, vulnerabilities in the household sector are mounting from the actual or potential loss in income. The key metrics used in assessing household indebtedness have worsened, mainly driven by the contraction in GDP (Chart 3.5). The household credit-to-GDP ratio increased from 22.8 per cent in 2020Q1 to 26.2 per cent in 2020Q3, leading to a widening of the household credit-to-GDP gap[3]. Household indebtedness, aggregating household credit from banks, non-bank deposit-taking institutions (NBDTIs), insurance and leasing companies, increased sharply from 33.8 per cent of GDP in 2020Q1 to 39.2 per cent of GDP in 2020Q3.

Household ability to repay their debts has deteriorated. The household debt service ratio, computed as a ratio of household debt service cost to GDP, rose from 6.0 percent in 2020Q1 to 6.6 percent in 2020Q3. Lower borrowing costs, on account of the recent cuts in the KRR, was more than offset by the contraction in GDP.

With the uncertain economic outlook and increase in unemployment, the pressures on household income and capacity for debt repayment are expected to prevail. While the banking sector remains exposed to household creditworthiness, the risk is to some degree mitigated by continued accommodative monetary policy, which assures relatively low levels of interest rates, and the host of supportive measures to households.

[3] *The credit-to-GDP gap is estimated as the percentage deviation between the credit-to-GDP ratio and an estimate of its trend using the Hodrick-Prescott filter.*

Chart 3.5: Indicators of Household Indebtedness



Source: Bank of Mauritius

3.4 Corporate developments

The COVID-19 pandemic has stifled domestic economic activity. The resulting disruptions to production and distribution chains, and contraction in demand - both internal and external - for goods and services have impacted corporate cash flows and caused sharp drops in corporate revenues. However, timely measures introduced by the authorities, such as easing of financing costs, the provision to liquidity to the market and moratoriums on loans repayments as well as the Government's wage support scheme have provided relief to corporates.

Bank credit to the corporate sector, which accounts for nearly 70 percent of total private sector credit, expanded at a much slower pace of 2.6 percent as at end-September 2020 compared to growth of 6.0 per cent as at the end of March 2020 (Chart 3.6). However, the corporate credit-to-GDP ratio increased from 49.4 percent in March 2020 to 56.2 percent in September 2020, as a result of the marked decline in national income. As such, the corporate credit-to-GDP gap expanded significantly from -0.9 percent in 2020Q1 to 5.1 percent in 2020Q3 (Chart 3.7). Even though the increase emanates for a large part from the drop in output, it does indicate the potential dangers to which the corporate sector is subjected due to the contraction in domestic and global demand

Chart 3.6: Y-o-y Growth of Credit to Corporates

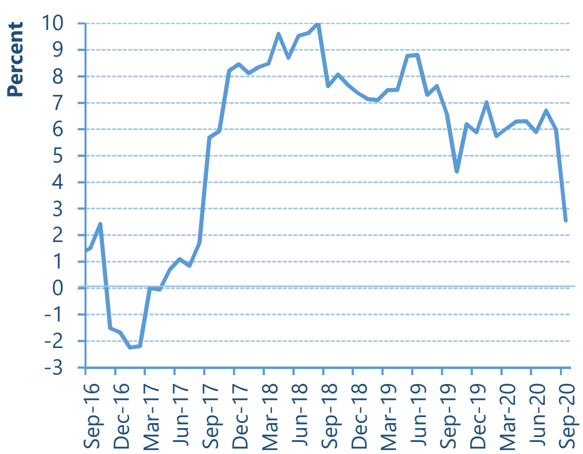
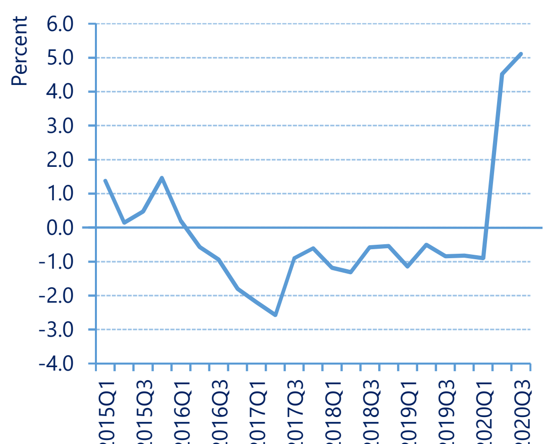


Chart 3.7: Corporate Credit-to-GDP Gap



Source: Bank of Mauritius

Corporates mainly resort to domestic finance for their borrowing requirements. Total domestic debt extended to corporates, which includes credit granted by banks, NBDTIs, insurance and leasing companies, grew by 3.3 percent as at end-September 2020. This was directed to key sectors of the economy including the 'accommodation and food service activities', 'traders', and 'manufacturing' sectors (Chart 3.8). Even though the growth in credit came down in 2020, a much larger proportion was aimed at the 'accommodation and food service activities' sector, which saw its share in total private sector credit rise to some 20 percent.

Chart 3.8: Sectoral Distribution of Corporate Credit

Chart 3.8a: Share in GDP

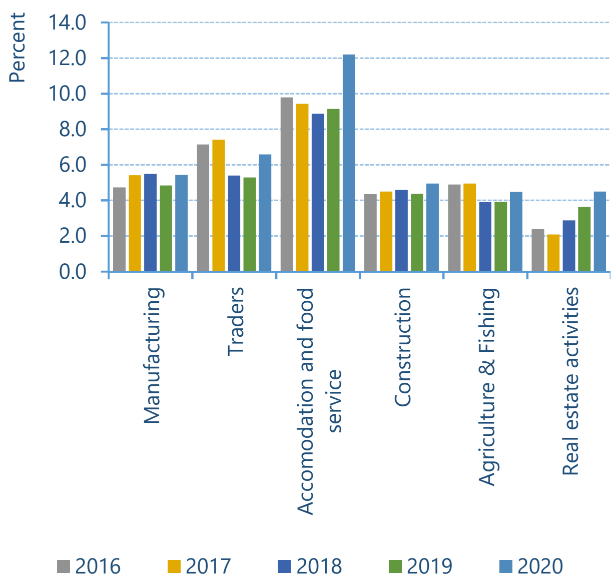
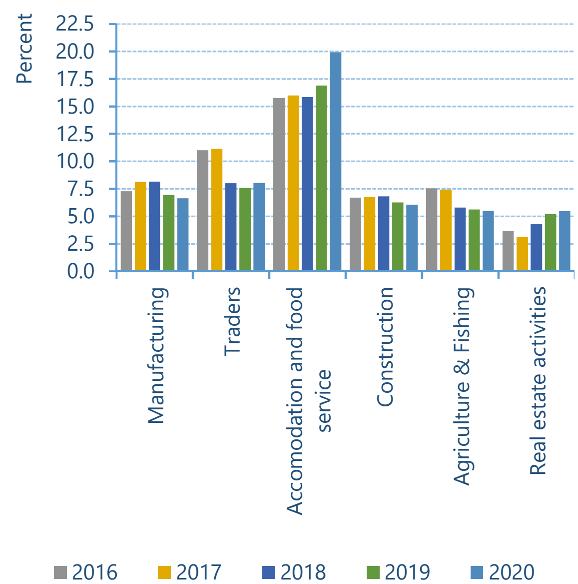


Chart 3.8b: Share in Total Private Sector Credit



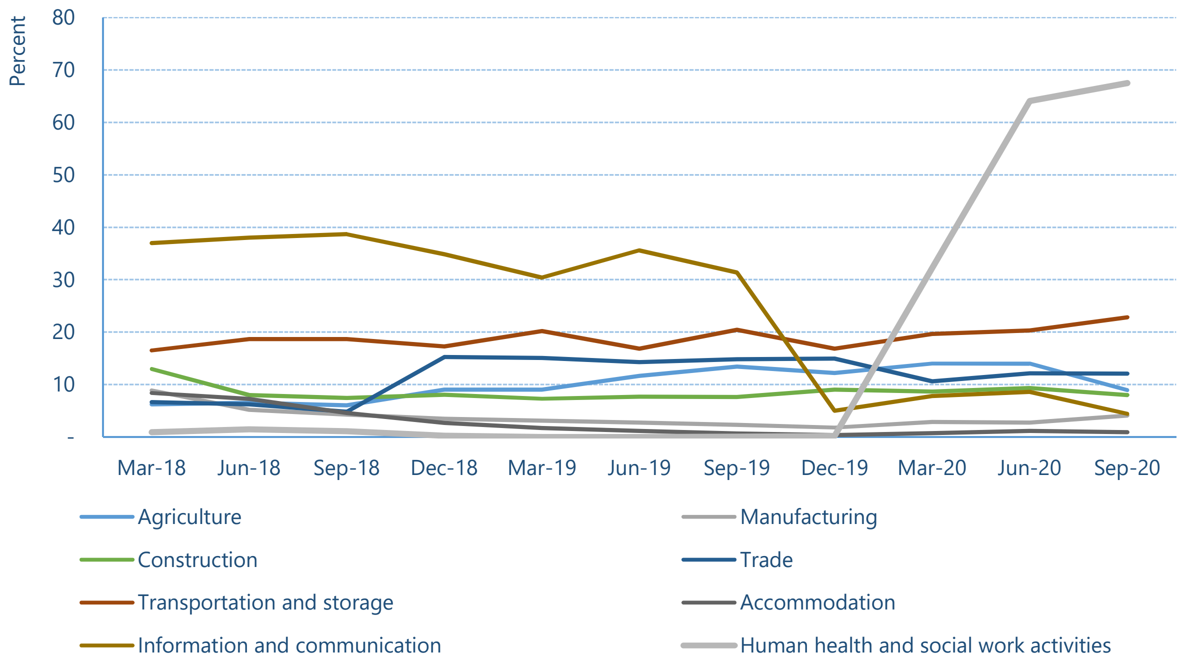
Note: Data for 2016 to 2019 are as at end-December while figures for 2020 relate to end-September.
Source: Bank of Mauritius

The marked slowdown in business activity and ensuing contractions in revenues have increased the risks of insolvencies. However, many businesses that have faced loss of income have been able to defer loan repayments thanks to the moratoriums provided by the Bank and the banking sector. They also benefitted from lower financing costs owing to the low interest rate environment. Those facilities have propped up the sector, enabling them to meet operating expenses and averting significant downsizing of the workforce and outright closures.

Corporate NPLs have been relatively constant in most key sectors (Chart 3.9). The NPL ratio of the 'accommodation and food service activities' stood at 0.86 percent as at end-September 2020 while that of Manufacturing was at 4.07 percent. A substantial rise was noted in the NPL ratio of the 'Human Health and Social Work Activities' sector following the impairment of the foreign currency loan of a foreign-owned company, unrelated to COVID-19.

Risks for the corporate sector are elevated, as are the risks that they pose to the financial system and economy as a whole. Appropriate and timely measures to buoy this sector remain important at this juncture.

Chart 3.9: Corporate NPL Ratio

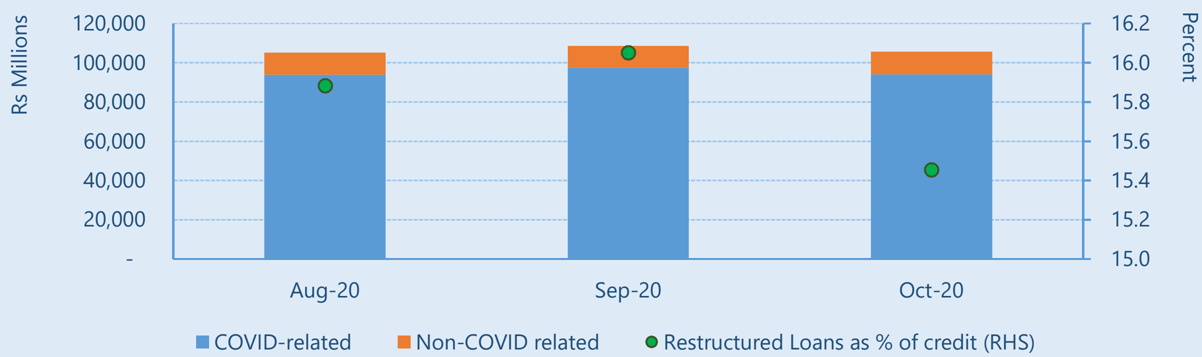


Note: NPLs illustrated relates only to credit provided to corporates by banks in Mauritius.
Source: Bank of Mauritius

Box 2: Restructured Loans and Moratoriums

Total loans restructured by banks stood at Rs105.6 billion as at end-October 2020, a 2.7 percent decrease compared to end-September 2020, mostly on account of customers resuming repayments of their loans. This constituted some 15.5 percent of private sector credit. About 90 percent of the restructured loans in the banking sector are due to COVID-19 (Chart I).

Chart I: Restructured Loans



Source: Bank of Mauritius

Most of the restructured loans in the banking sector are in the form of moratoriums, that is, a total of Rs87.3 billion as at end-October 2020. Of these, Rs61.4 billion were granted as part of the Bank of Mauritius relief package. The remaining moratoriums – approximately 30 percent – were granted by the banks directly to their customers roughly equally split for periods not exceeding 6 months and for periods of more than 6 months (Table I).

Table I: Loans on Moratorium

MUR million

	Aug-2020	Sept-2020	Oct-20
Total Loans on Moratorium	**87,614**	**90,960**	**87,295**
Moratoriums given as part of BOM's relief packages	61,407	64,121	61,361
Moratoriums given directly by banks - not exceeding six (6) months	13,270	13,567	12,014
Moratoriums given directly by banks - exceeding six (6) months	12,938	13,271	13,920

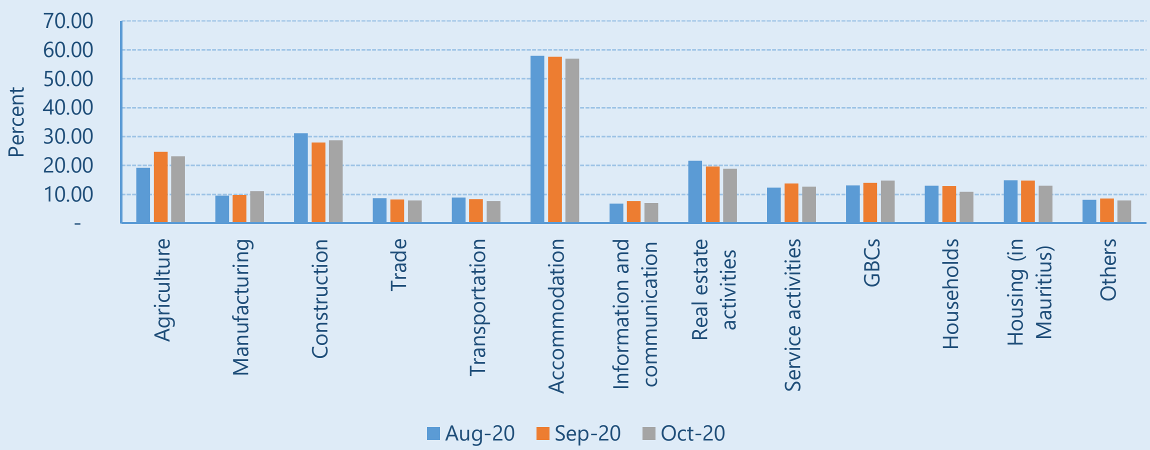
Source: Bank of Mauritius

Box 2: Restructured Loans and Moratoriums (continued)

A slight decrease was noted in October 2020 on the loans on moratoriums that are part of the Bank's relief package. This was reportedly the consequence of some customers reassessing their cash flows and deciding to resume normal payments to their respective banks. Concurrently, it can be seen that longer-term moratoriums given by banks directly to their customers have been on the rise.

Unsurprisingly, about 60 percent of the loans in the "Accommodation and food services activities" sector have been restructured as at end-October 2020. Comparatively, some 30 percent of the loans in Construction, and 20 percent of the loans in Agriculture and Real Estate Activities have been restructured. Households and Housing sectors have seen approximately 10-15 percent of their loans being restructured (Chart II).

Chart II: Sector-wise Restructured Loans



Source: Bank of Mauritius

It is likely that the first round of loan restructurings directly on account of COVID-19 has already taken place. This exercise has had an impact on banks' balance sheets through reduced interest income. It is important for banks to continuously monitor the performance of these loans as well as the financial position of the affected borrowers so that potential defaults can be dealt with early and in such a way as to minimise losses.

4 | Financial Soundness of Deposit-Taking Institutions

As at end-September 2020, nineteen (19) 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. The licence of one bank has been revoked on 24 August 2020. Another bank is currently under conservatorship.

The total assets of the sector represented around 393.8 percent of GDP as at the end of September 2020, compared to 319.3 percent as at end-March 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.

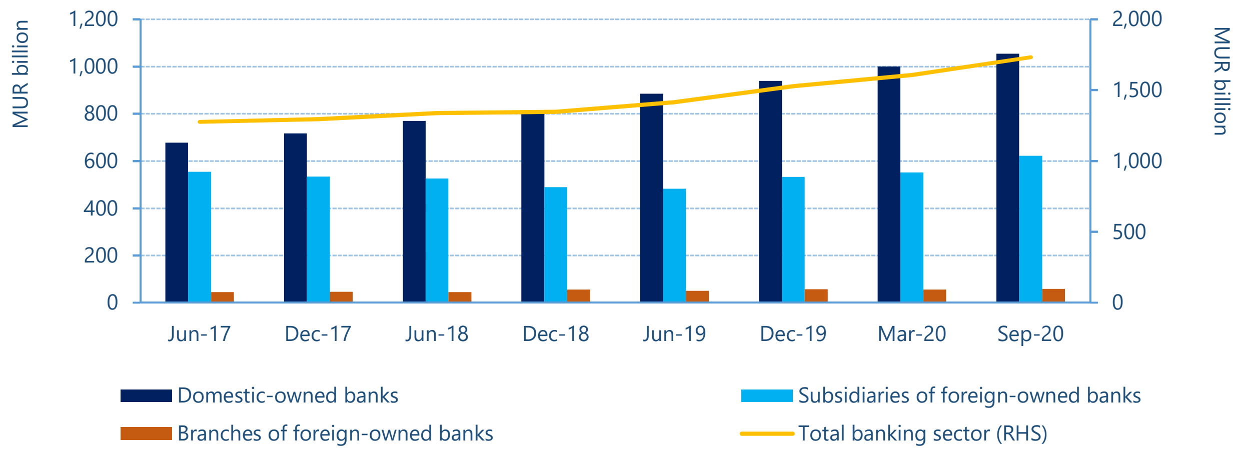
As at end-September 2020, NBDTIs, comprising leasing companies and finance companies, held assets equivalent to 15.0 percent of GDP, an increase of about 2% since end-March 2020.

4.1. Banking Sector Overview

Banks in Mauritius entered the COVID-19 period (and the lockdown which was imposed in Mauritius) with relatively strong solvency and liquidity positions. Banks were relatively well funded with rather stable deposits namely, retail deposits which accounted for about 30 percent of liabilities. GBC deposits – which are, by nature, somewhat more volatile - accounted for nearly 33 percent of total liabilities. Banks channel their funds into loans, followed by placements abroad and investments in domestic and foreign assets. The asset size of the banking system – mostly reflecting growth in domestic-owned banks - has been expanding prior and post the lockdown (Chart 4.1).

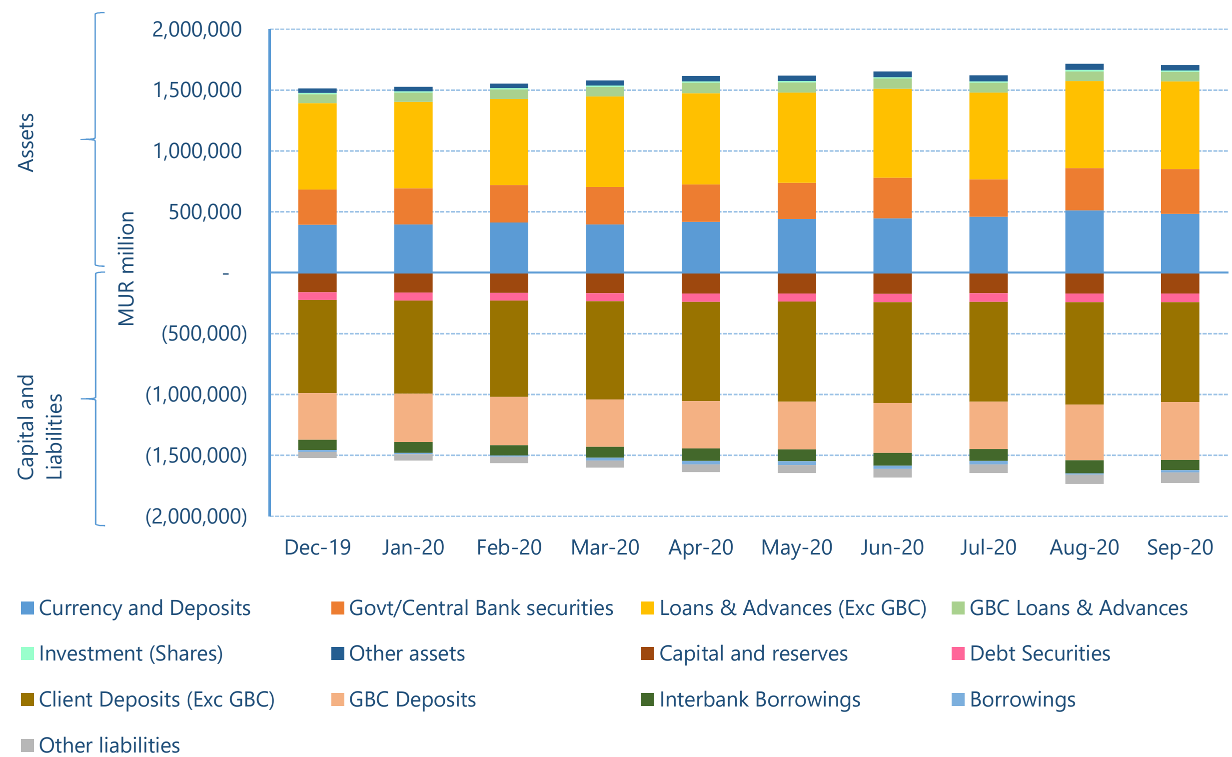
The distribution pattern of assets and of liabilities seem to have remained relatively unchanged post the lockdown (Chart 4.2). Deposits continued as the main source of funds, while, loans and advances constituted most of the uses of funds.

Chart 4.1: Banking Sector Assets



Source: Bank of Mauritius

Chart 4.2: Assets and Liabilities allocation of banks

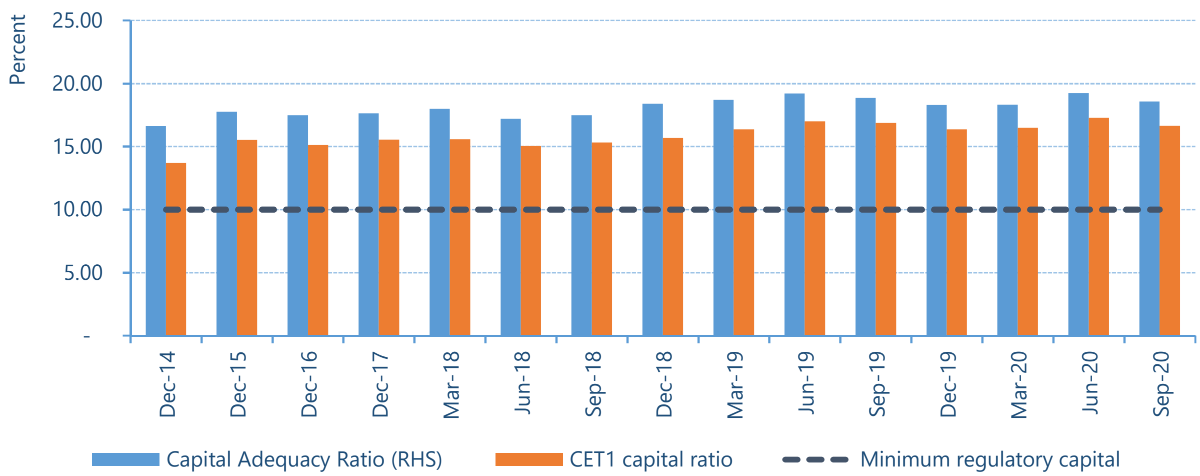


Note: "Assets" and "Capital and Liabilities" are shown in the positive territory and negative territory, respectively, for illustrative purposes only.
Source: Bank of Mauritius

Performance-wise, indicators were good. The Capital Adequacy Ratio (CAR) of banks stood at 18.6 percent as at end-September 2020, compared to 19.2 percent as at end-June 2020. Common Equity Tier 1 (CET1) Ratio, which is indicative of the strength of banks' core capital structure, stood at 16.7 percent, as end-September 2020, representing a 0.6 percentage point decrease compared to the previous quarter. In contrast, compared to end-March 2020, both CAR and CET1 ratio showed a slight improvement of around 0.2 percentage point. (Chart 4.3)

These movements were mostly explained by changes in the Risk-Weighted Assets (RWAs) of banks during the period under review, whilst, total regulatory capital remained quasi stable. Overall, the CAR of banks were above their respective regulatory limit (inclusive of Capital Conservation Buffer and DSIB charges, where applicable).

Chart 4.3: Capital Ratios

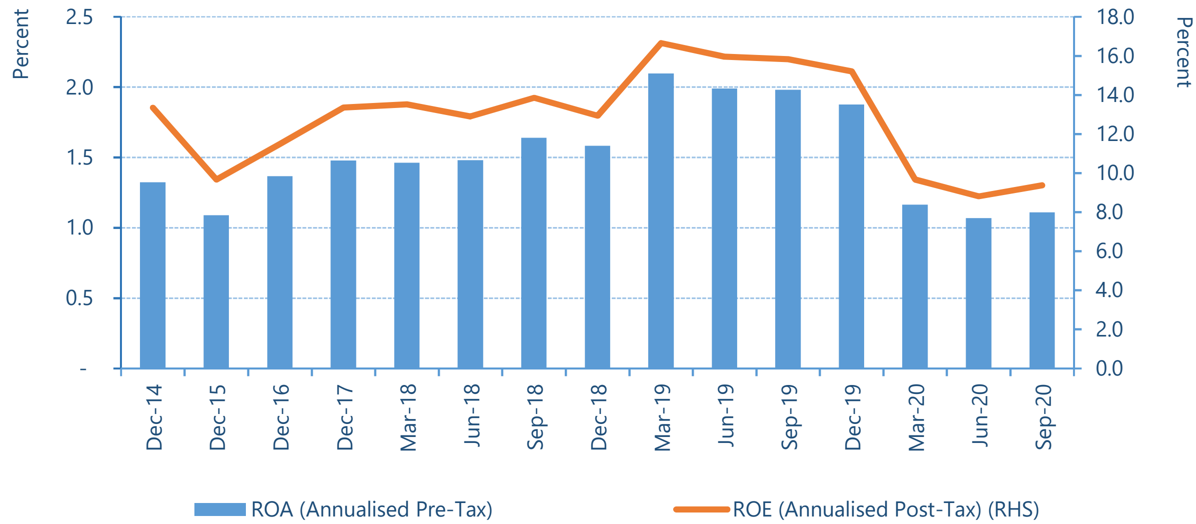


Source: Bank of Mauritius

The banking sector, as a whole, remained profitable. Profitability, as measured by post-tax return on equity and pre-tax return on assets stood at 9.3 percent and 1.1 percent, respectively as at end-June 2020 (Chart 4.4). Both ratios declined rather abruptly in the first semester of 2020 (2020H1), before picking up slightly in the last quarter.

On a quarter-on-quarter (q-o-q) basis, these changes was mostly driven by a decline in the annualised average net interest income margins and higher expenditure pool in the form of higher provisioning level during the quarter ended June 2020. Subsequently, during the quarter ended September 2020, banks registered lower interest-base expenses and provisioning, which countered the continuous reduction of their interest-base income, thus, resulting in the slight improvements of the profitability ratios.

Chart 4.4: Profitability Ratios

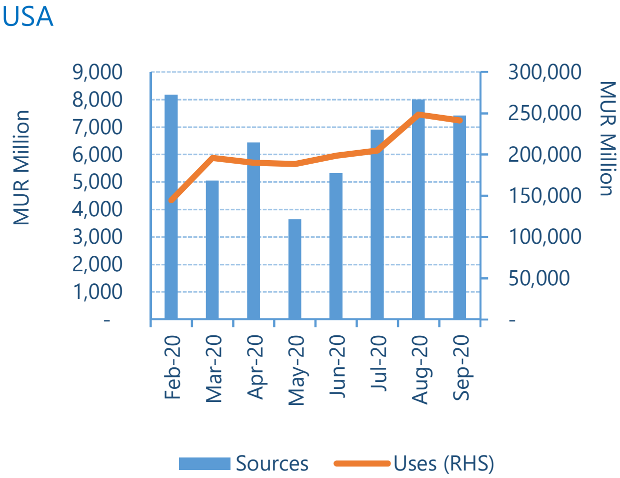


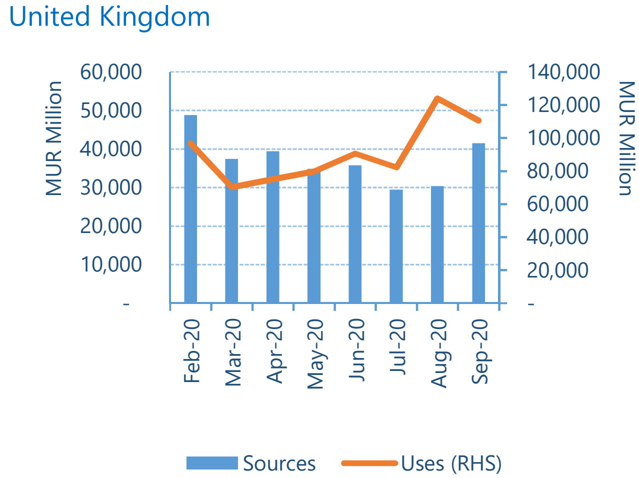
Note: Profitability ratios are based on the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund.
Source: Bank of Mauritius

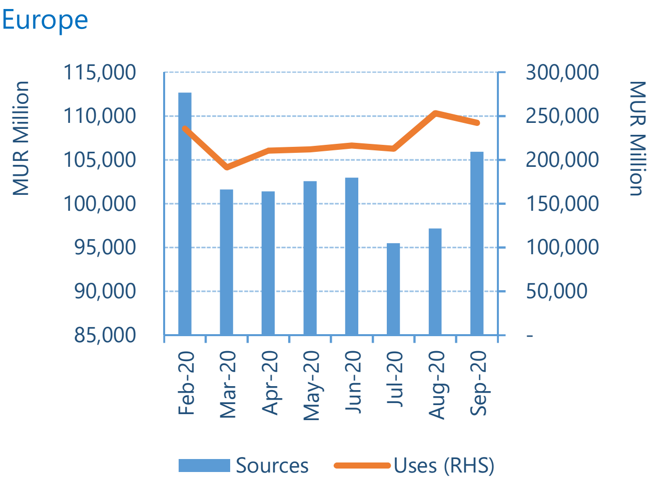
The banking sector remained liquid as at end-September 2020, with liquidity indicators, namely liquid assets to total assets and liquid assets to short-term liabilities standing at 27.8 percent and 31.0 percent, respectively. The Liquidity Coverage Ratio (LCR) for the banking sector stood at 262.8 percent as at end-September 2020, compared to 237.4 percent as at end-March 2020. Taken together, the LCR of banks in, both, MUR 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.

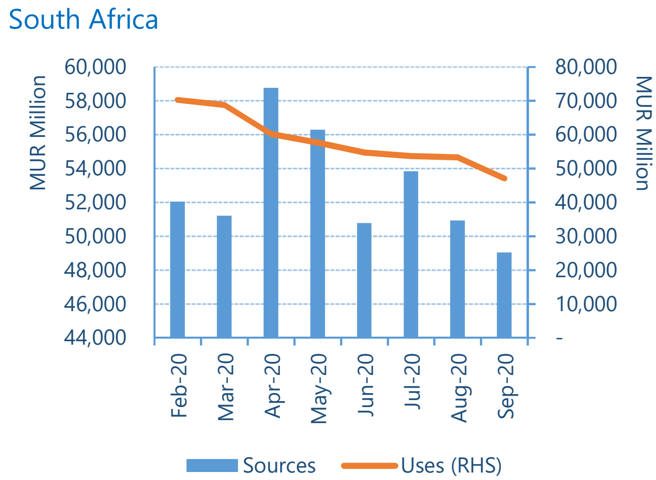
Banks in Mauritius have relatively heavy exposure to foreign countries as funds are routed through the system from abroad to find their way to other destinations. The banking system is a net recipient of funds from China and is thus vulnerable on the funding side to adverse developments taking place 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.

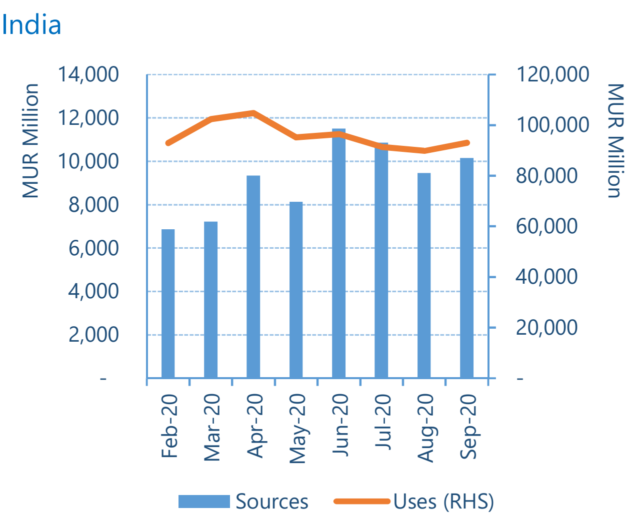
Chart 4.5: Evolution of Cross-country exposure

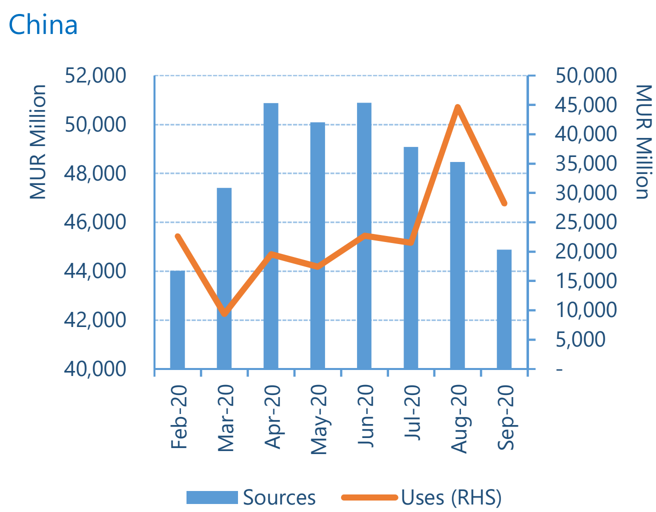










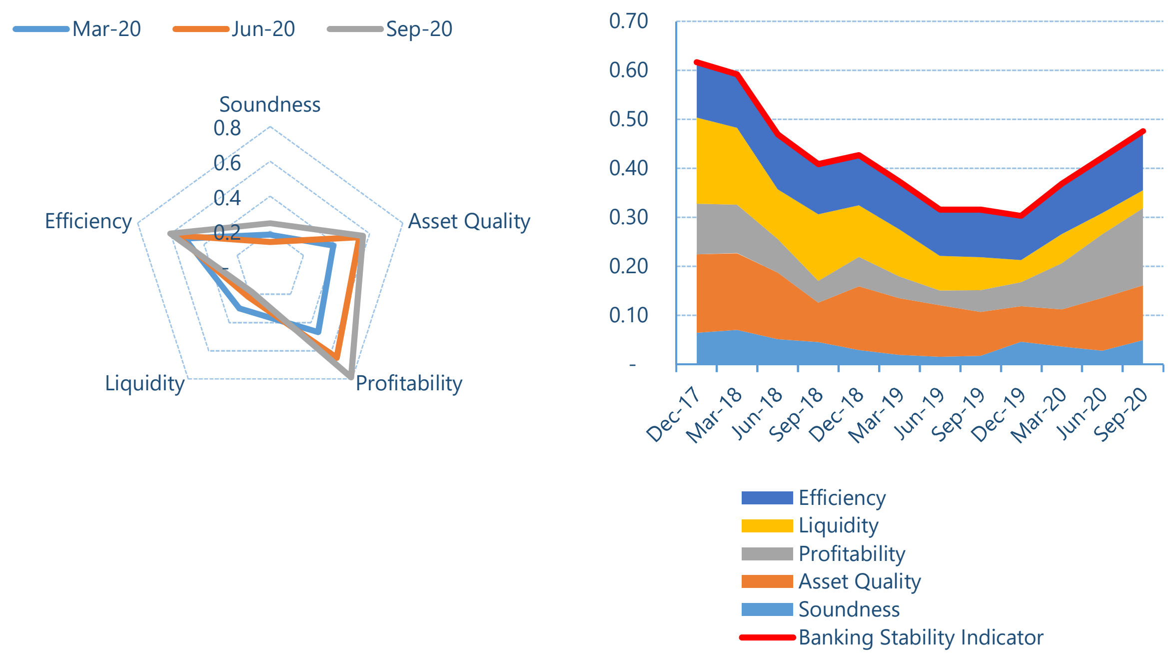


Source: Bank of Mauritius

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 2020Q3, compared to 2020Q1, and was brought mostly through the asset quality and profitability indices.

Chart 4.6: Banking Stability Indicator



Source: Bank of Mauritius

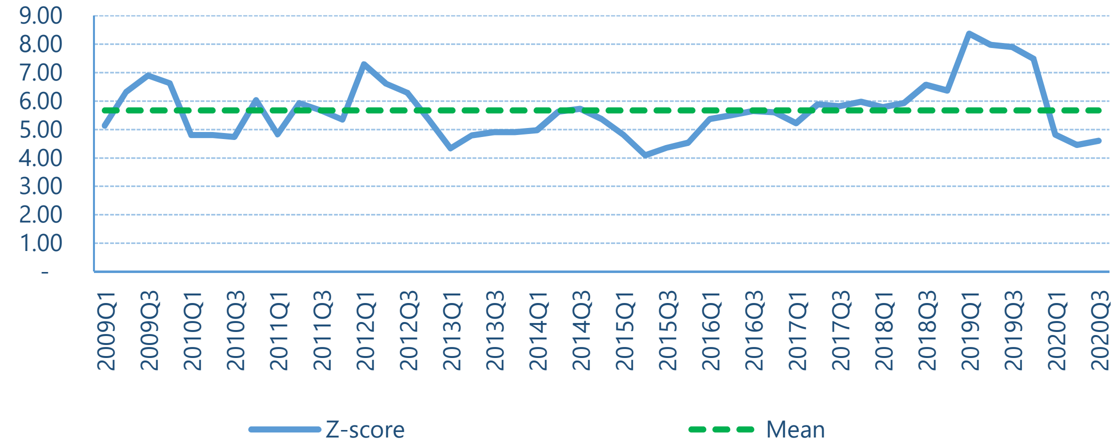
4.3 Z-score

A Z-score approach has been devised for the further monitoring of 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 slightly from 4.81 as at end-March 2020 to 4.61 as at end-September 2020, and continued to stand below its mean of 5.7. This fall is partly explained by a decrease in profitability levels compared to a more than proportional increase in total assets of banks during 2020Q3. (Chart 4.7)

Chart 4.7: Z-Score for banks

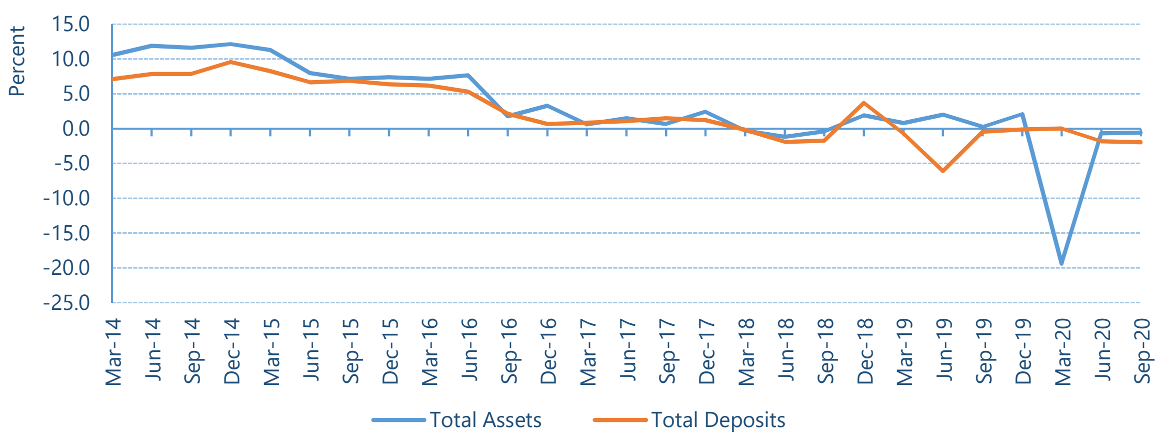


Source: Bank of Mauritius

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 end-September 2020. The growth in total assets and deposits of NBDTIs remained stable, save for the drop experienced following the surrender of license by 2 institutions in 2020Q1 (Chart 4.8).

Chart 4.8: Assets and deposits growth of NBDTIs



Source: Bank of Mauritius

NBDTIs were found to be sound and adequately capitalized during 2020Q3. Their aggregate CAR increased to 50.3 percent as at end-September 2020, from 45.7 percent as at end-March 2020. With the current level of capitalization, NBDTIs continue to have robust capital adequacy position. During 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 26.6 percent as at end-March 2020, decreased to 23.7 percent as at end-September 2020.

4.5 Financial Soundness Indicators[4]

Financial Soundness Indicators (FSIs) have been assessed for all deposit-taking institutions[5] (banks and NBDTIs) over the last two quarters (Chart 4.9). These indicators have been grouped in 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 experienced a slight recovery in their capital positions, with their CAR moving upward from 19.2 percent as at end-March 2020 to 19.7 percent as at end-September 2020. Total Regulatory Capital of deposit-taking institutions remained quasi-unchanged over the period under review and stood at MUR176,591 million. On the other hand, RWAs contracted by 2.3 percent as at end-September 2020, compared to end-March 2020; and stood at MUR896,783 million.

The decline in credit granted by deposit-taking institutions was accompanied with an increase in impaired credit, resulting in a slight worsening of the NPL ratio to 6.1 percent. Adjusted for specific provisioning, the Net NPL ratio also worsened somewhat by 0.9 percentage point to 12.4 percent as at end-September 2020.

Deposit-taking institutions also experienced a 2.2 percent fall in their annualized average net income (before tax) to MUR19,698 million as at end-September 2020. The pre-tax Return on Assets remained unchanged at 1.2 percent as at end-September 2020 compared to end-

[4] *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.*

[5] *These comprise 19 banks and 6 non-bank deposit taking institutions and are all regulated by the Bank of Mauritius.*

March 2020. On the other hand, pre-tax Return on Equity contracted slightly by 0.4 percentage point over the same time frame to 10.6 percent as at end-September 2020.

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 2.6 percentage points. Liquid assets as a ratio of total assets stood at 27.2 percent while liquid assets as a ratio of short-term liabilities stood at 30.5 percent as at end-September 2020.

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

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

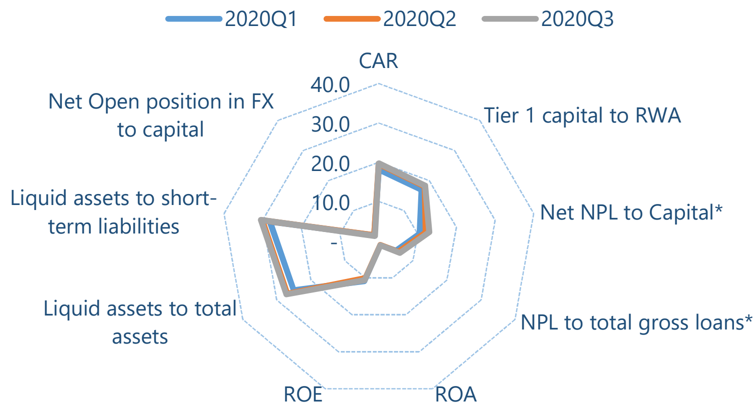
4.6 Preparedness of banks in the transition away from London Interbank Offered Rate

Reforms are underway for the phase-out of the LIBOR, a benchmark interest rate in the international interbank market, beyond the end of 2021. To this effect, the Bank has conducted a survey on the readiness of the Mauritian banking sector thus gaging the impact of the benchmark rate reform on banks and facilitating a smooth transition to an alternative rate. This information-gathering exercise has touched on several important aspects namely governance, transition management program, operational and technology readiness, accounting and reporting, identification and validation of exposures, risk management, development of product strategy, communication strategy as well as the legal element. A summary of the feedback from banks on their LIBOR transition progress can be found in Annex B.

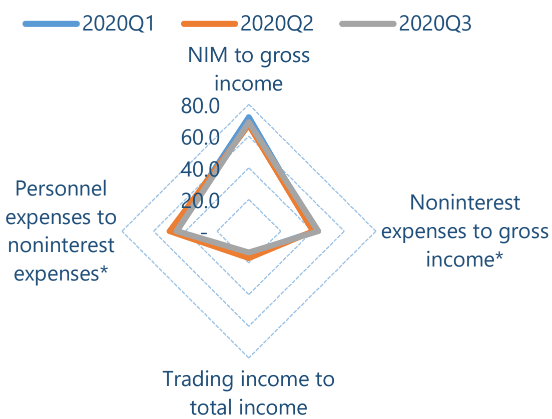
Overall results showed that banks are at various stages of preparedness and progress is being made at different speeds for the respective banks. Most banks have an action plan to manage the phasing out of LIBOR and have put in place an organisational and operational structure to manage the transition. Banks have largely identified LIBOR related contracts that extend beyond 2021, and a number of them have a comprehensive contract inventory. There are existing contracts that do not have suitable fallback language, and some banks have already started to incorporate alternative fallback language in new contracts. A majority of banks have also identified IT systems that would be affected by the transition, but a number of them have yet to start work on developing a process to incorporate new market data sources and calculation methodologies into their IT systems. In general, banks have yet to identify the accounting implications of the transition. Several banks have identified the key risks from the discontinuation of LIBOR, but most have yet to define mitigating actions and set a timeline for offering products based on alternative reference rates while training staff.

Chart 4.9: FSI Radar Panel

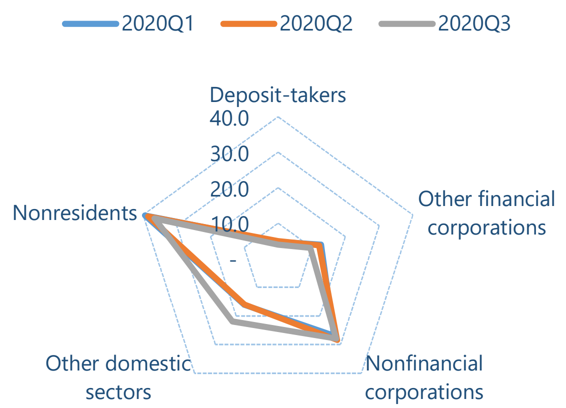
Core FSIs



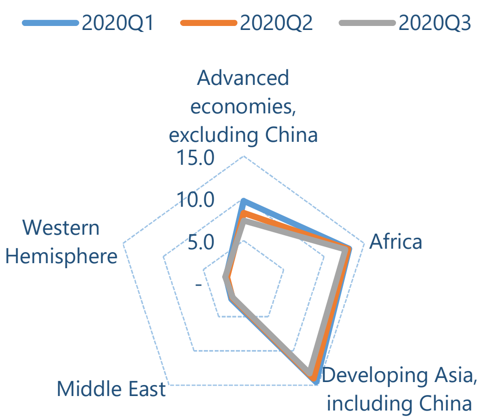
Encouraged Profitability ratios



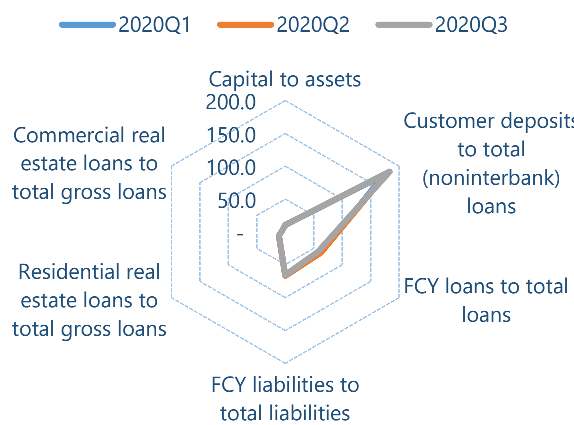
Sectoral distribution of loans



Geographical distribution of loans



Selected Encouraged FSIs



Source: Bank of Mauritius

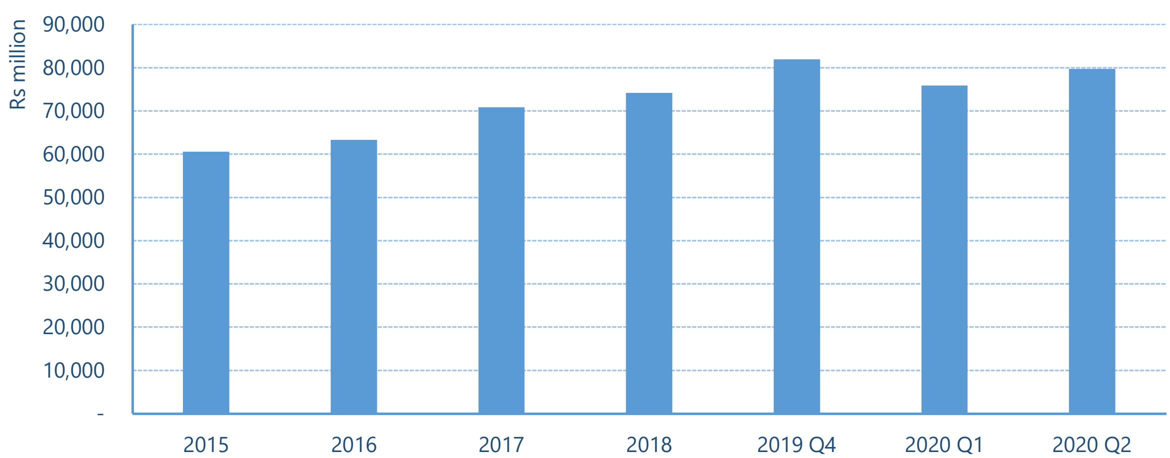
5 | Non-Bank Financial Services Sector[6]

5.1 Life Insurance Industry[7]

The sluggish performance of the economy due to COVID-19 is expected to affect life insurance business in many ways, notably through lower demand for insurance products, higher termination of certain life insurance policies and heightened market and credit risk exposures of investment portfolios. All these factors are likely to deteriorate the balance sheets of life insurers, going forward.

As at the end of June 2020, the long-term insurance industry comprised seven life insurers operating under the domestic regime. The assets value of life insurers contracted by 7 percent q-o-q, as at end-March 2020, and increased subsequently by 5 percent q-o-q, to reach MUR79,706 million as at end-June 2020 (Chart 5.1). This pattern reflects the outbreak of the pandemic towards the end of 2020Q1 and the gradual reopening of the economy as from 2020Q2.

Chart 5.1: Long-Term Insurance Assets value



Source: Financial Services Commission

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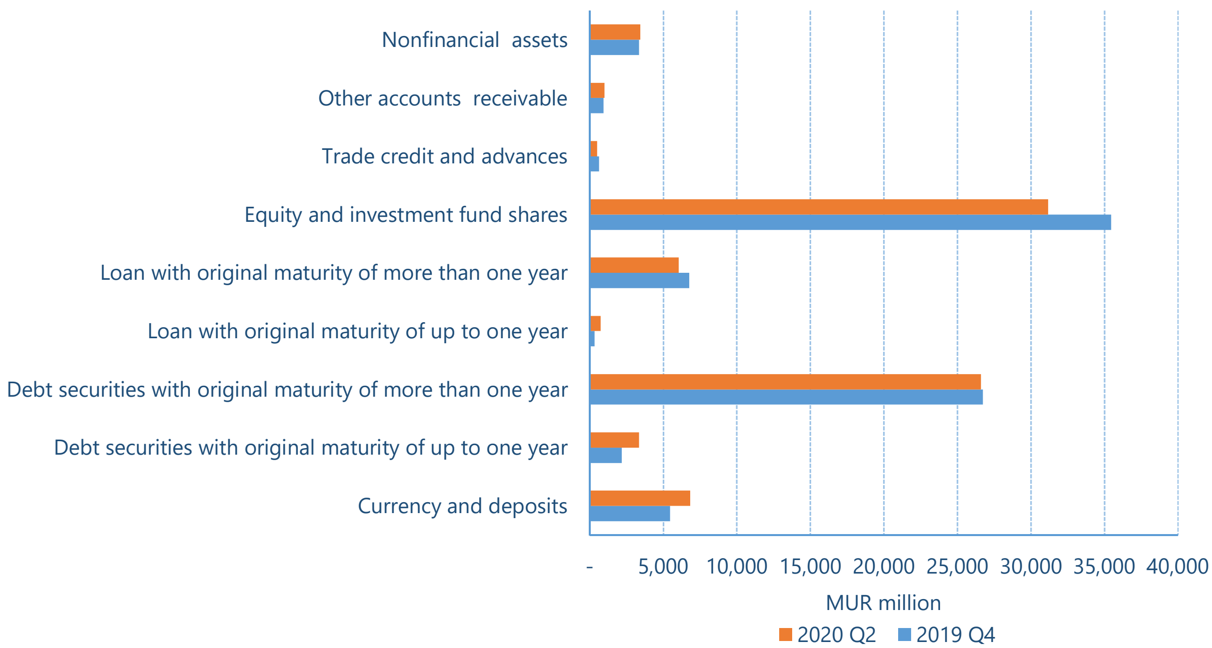
[6] *This chapter is a contribution from the Financial Services Commission (FSC) to the report.*
[7] *Analysis excludes one life insurer whose set of audited financial statements are yet to be filed with the FSC.*

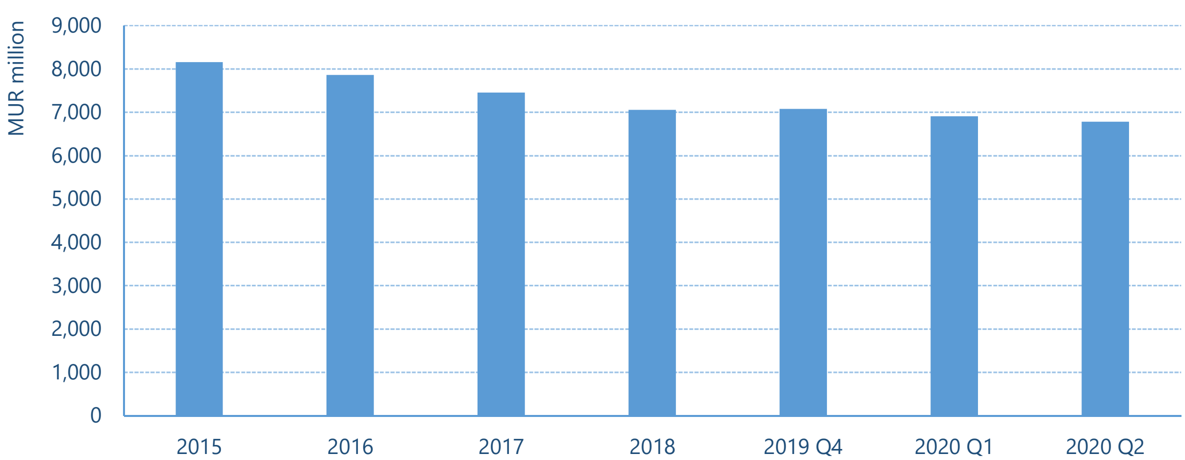
Reflecting market developments in the wake of the pandemic, life insurers reduced their exposures to equity instruments whilst increasing their portfolio allocations to cash and short-term debt instruments in the first semester of 2020 (Chart 5.2). Credit extended by life insurers declined slightly during the first semester (Chart 5.3). The pandemic has, so far, not caused any major uptick in life insurers' NPLs.

Chart 5.2: Distribution of Assets by Class



Source: Financial Services Commission

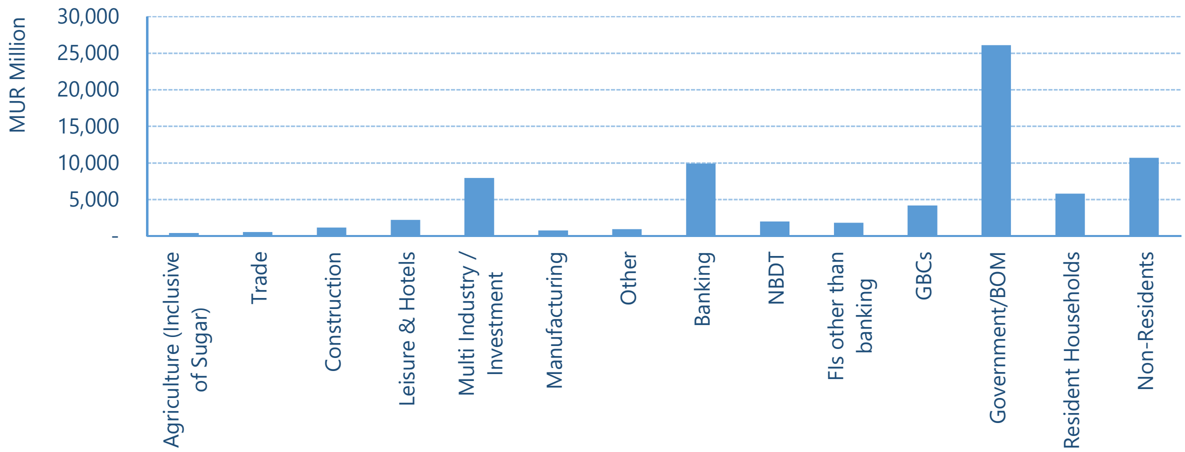
Chart 5.3: Credit Extended by Life Insurers



Source: Financial Services Commission

In terms of sectoral asset allocation, the largest exposures of life insurers remained to Government and Bank of Mauritius debt securities. Investment in these securities increased by 2 percent in 2020H1 and accounted for 35 percent of life insurers' total financial assets as at end-June 2020. Allocations to non-resident and banking sectors accounted for 14 percent and 13 percent, respectively, of total assets (Chart 5.4). Compared to end-December 2019, there has been a slight shift to more secure investments, both, in terms of assets class and industry exposures.

Chart 5.4: Distribution of Assets by sector



Source: Financial Services Commission

5.1.1 Solvency Position

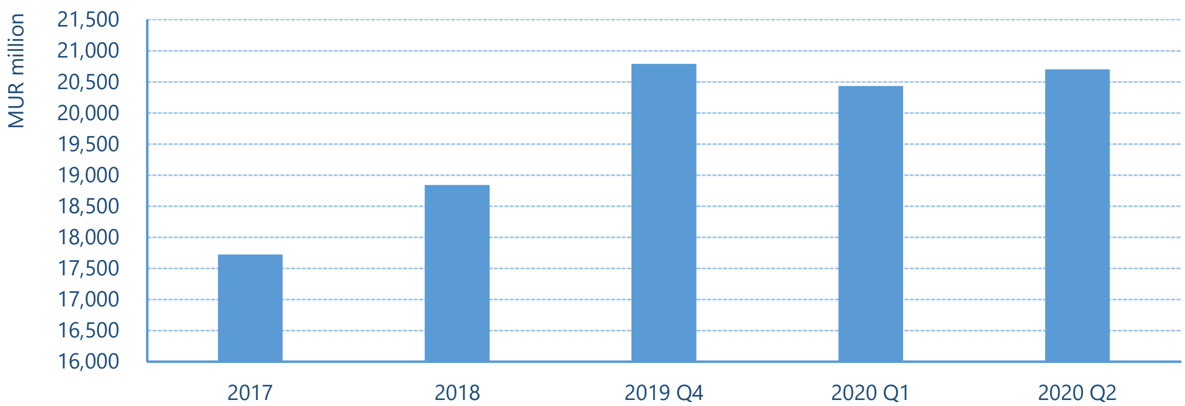
Life insurers are required to keep a risk-based minimum capital, also referred to as solvency margin. Due to the onset of COVID-19, life insurance companies have been facing enhanced market, business and credit risks that could potentially erode their solvency margins.

The FSC undertook a stress testing exercise very early into the COVID-19 outbreak with a view to identifying life insurance companies that were likely to face the greatest risks of insolvency. The largest companies were found to be capable of absorbing plausible losses arising from the pandemic without going into the insolvency zone. However, two small to medium size insurers fell into the highest risk bucket. They were consequently subject to increased monitoring, and a series of actions have been undertaken to address the issue. These comprised capital injection, review of pricing of their products and curtailing non-essential expenditures to restore solvency position.

5.2 General Insurance Industry

The general insurance industry comprised 15 insurers as at end-June 2020. The industry was fairly resilient to the impact of the COVID-19. Total assets of general insurers remained relatively stable in the first semester of 2020, with a slight drop of 1.7 percent as at end-March 2020 being recouped during 2020Q2 (Chart 5.5).

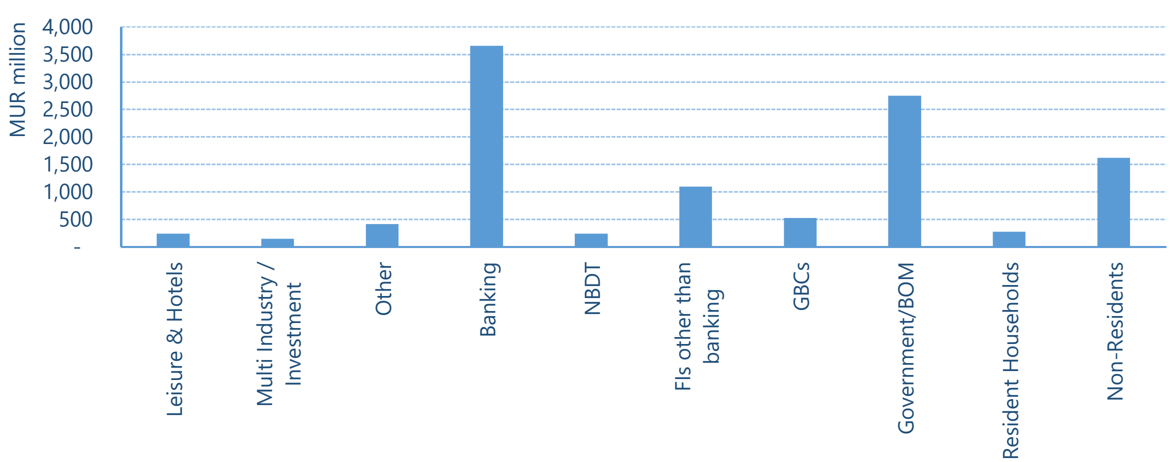
Chart 5.5: General Insurance Asset's value



Source: Financial Services Commission

General insurers are less exposed to equity and debt securities compared to life insurers. They were therefore less affected by heightened stock market volatility during the COVID-19 crisis. Their assets are mainly allocated to Banking, Government/Bank of Mauritius securities and non-residents (Chart 5.6).

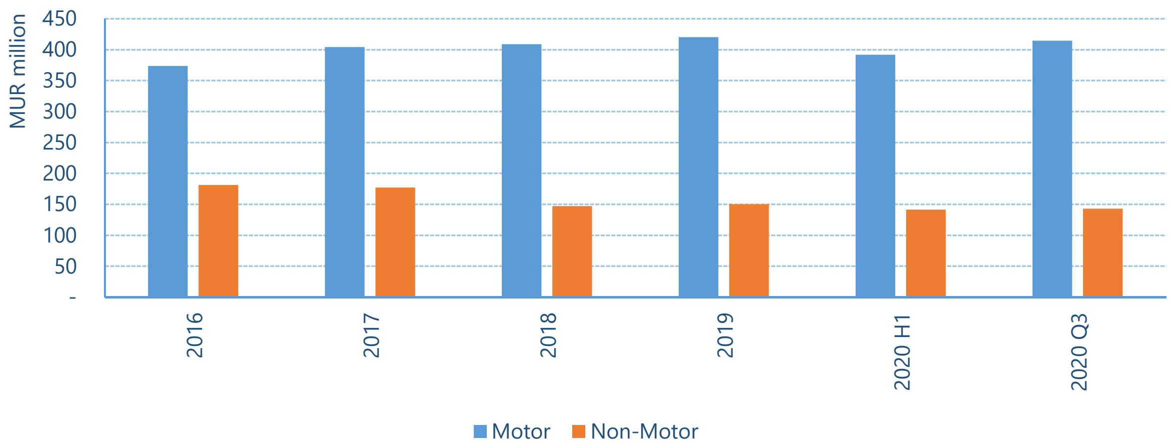
Chart 5.6: Exposure of Equity and Debt Assets of General Insurers by Industry as at 30 June 2020



Source: Financial Services Commission

General insurance policies for motor and non-motor insurance contracts decreased by 6.8 percent and 5.7 percent, respectively, in 2020H1, but picked up in 2020Q3, likely fuelled by the uplift in economic activity. This points to stability in the sector, though the renewal of policies generally occurs after a period of one year and it may still be too early to measure the real impact of the pandemic (Chart 5.7).

Chart 5.7: General Insurance – Number of policies in force



Source: Financial Services Commission

6 | Global Business Sector

6.1 Global Business Sector Developments

The Global Business (GB) sector is one of the pillars of the Mauritian economy. In 2019, the sector contributed 5.8 percent to national GDP, with a y-o-y growth of 3.7 percent. As at 31 December 2019, direct employment by the GB sector was estimated at approximately 6,000.

The GB sector has been facing a number of challenges over the years, including from the review of the Double Tax Treaty Agreement with India and increased competition from other international centres, such as Singapore. The authorities as well as the operators in the sector have taken extensive measures to diversify the sector, especially towards Africa, and to improve its standing in general.

The year 2020 brought in additional challenges insofar as the pandemic affected global capital flows and increased the risk that lesser flows might transit through the country. Moreover, in February 2020, Mauritius was included in FATF list of countries under increased monitoring, commonly known as the 'grey list'[8]. As a direct consequence of being classified in the FATF grey-list, the European Commission announced on 7 May 2020 that Mauritius would be included on the European Union's (EU) list of high-risk countries having strategic deficiencies in their AML-CFT Framework, the so-called EU 'blacklist'. The list became effective on 01 October 2020.

Following the FATF grey listing and EU black-listing, Mauritius made a high-level political commitment to work with the FATF and Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to strengthen the effectiveness of its AML/CFT regime and align the framework with international best practice. Swift actions have been undertaken in this perspective, notably: Mauritius agreed with the FATF to implement a detailed Action Plan within an agreed timeline to be removed from the FATF grey-list and subsequently from the

[8] *Grey-listed countries are assessed to have deficiencies in their anti-money laundering regimes with regard to compliance with FATF standards, but are cooperating with FATF to address these deficiencies.*

EU list; a first report on the progress made was submitted to the FATF in July 2020 followed by a face-to-face meeting in September 2020; Parliament passed the "Anti-Money Laundering and Combatting the Financing of Terrorism Act 2020" on 7 July 2020 to ensure closer compliance with the recommended international best practices of the FATF. During the virtual Plenary session held with the FATF between 21-23 October 2020, Mauritius was commended for the tremendous progress made with respect to putting its jurisdiction at par with best practice norms for the fight against money laundering, terrorist financing and proliferation financing.

Considering the ongoing commitment of the authorities to exit the FATF process and demonstrate the effectiveness of the Mauritius AML/CFT regime, the impact on the GB sector has to this point been relatively contained.

6.2 Licencing Trends

The number of live Category 1 GB Companies and GB Corporations (both referred to as GBCs) with a valid licence has remained almost unchanged over the year to end-September 2020, although there are usual short-term fluctuations. As at 30 September 2020, the GB Sector counted 11,868 GBCs compared to 11,809 a year earlier (Chart 6.1). A contraction of 19 and 18 percent was observed in the number of applications received and the amount of newly licensed companies, respectively, over this period while the number of non-live cases[9] remained around the same (Chart 6.2). It seems that for now, the pandemic and the grey- and black-listing of Mauritius have affected new incorporations relatively more than existing businesses.

Africa is distancing India as the main target investment region, in line with the diversification efforts of the sector. For the last four years, the number of newly incorporated GBCs targeting India has been on a declining trend. For the year end 30 September 2020, 142 new India-Focused GBCs have been licensed compared to 206 for the same period a year earlier. New incorporation of entities targeting Africa remains much higher than those targeting India, but has come down somewhat most likely due to the COVID-19 crisis (Chart 6.3). Thus, the number of GBCs targeting Africa reached a total of 4,781 GBCs as at end of September 2020,

[9] *Non- live cases include GBCs which have either wound up, converted to another regime or whose licence has been surrendered, revoked or has lapsed*.

representing around 40 percent of the total GBCs. Indian-focused entities GBCs aggregated to 4,042, representing around 34 percent of total GBCs (Chart 6.4).

Chart 6.1: Evolution of Live GBCs

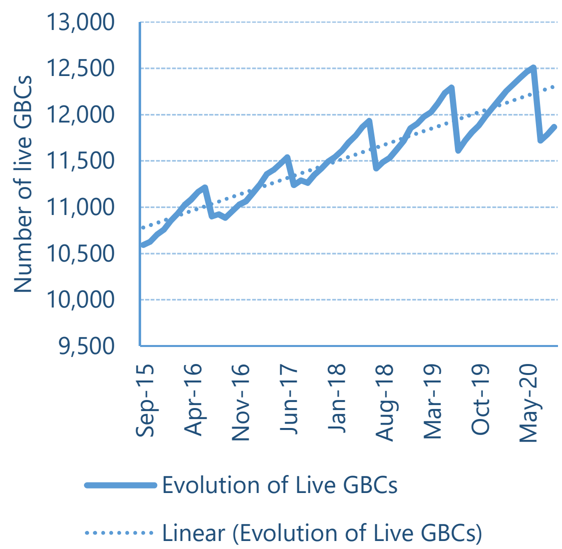


Chart 6.2: GBCs Licenses

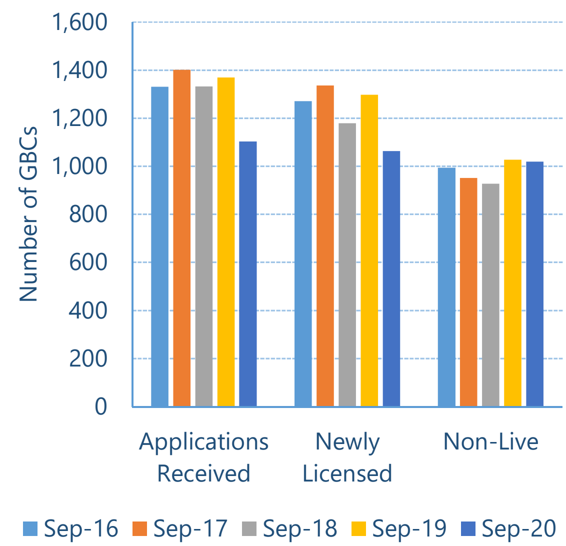


Chart 6.3: Newly Licensed GBCs

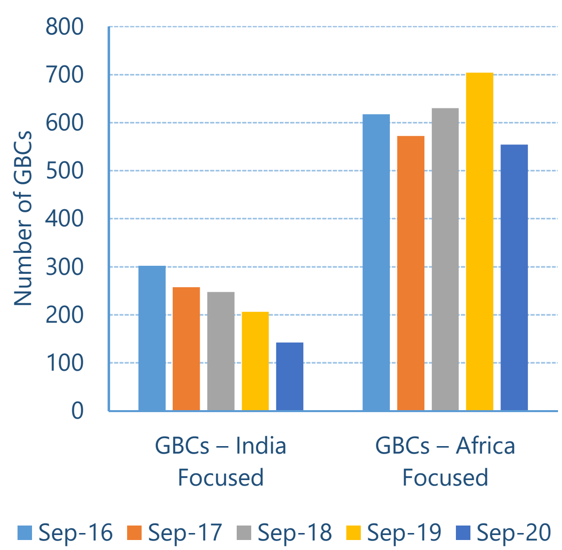
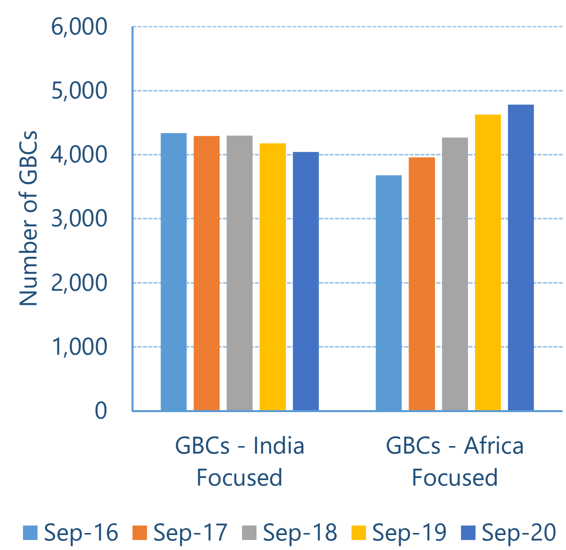


Chart 6.4: Live GBCs

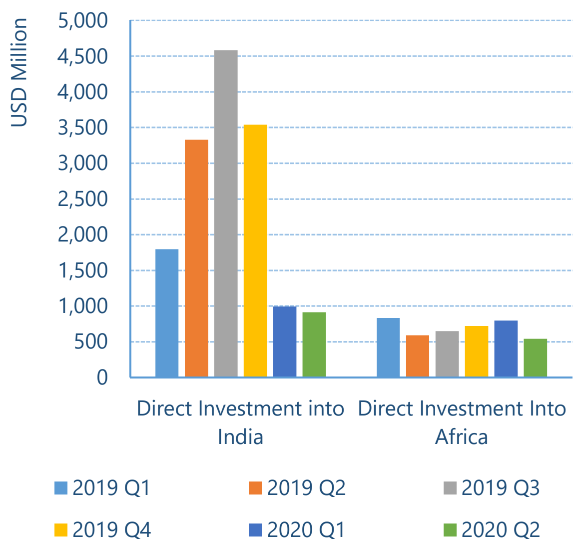


Source: Financial Services Commission

6.3 Investment Trends

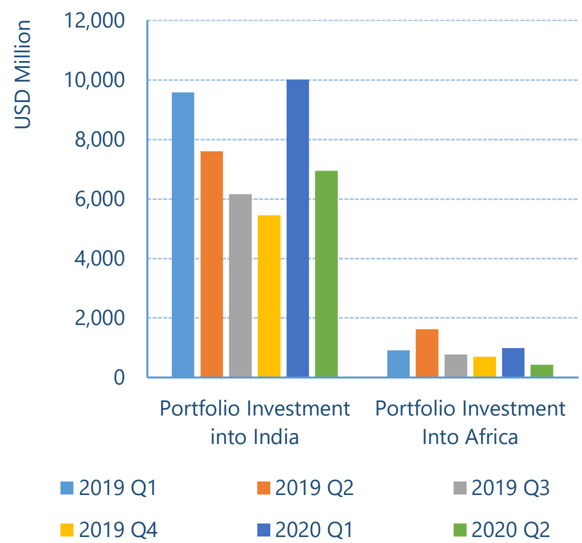
Whilst there is a greater number of Africa-focused GBCs, they still represent much less in value terms compared to India-focused GBCs (Charts 6.5 and 6.6). Gross foreign direct investment (FDI) and gross foreign portfolio investment (FPI) flows into India amounted to USD7,856 million as at end-June 2020. This compares to total FDI and FPI flows of USD957 million into Africa. GBC investment into Africa, in particular FPI into listed equities, remains constrained by the relatively less deep and liquid stock markets in Africa.

Chart 6.5: Gross FDI flows



Source: Financial Services Commission

Chart 6.6: Gross FPI flows



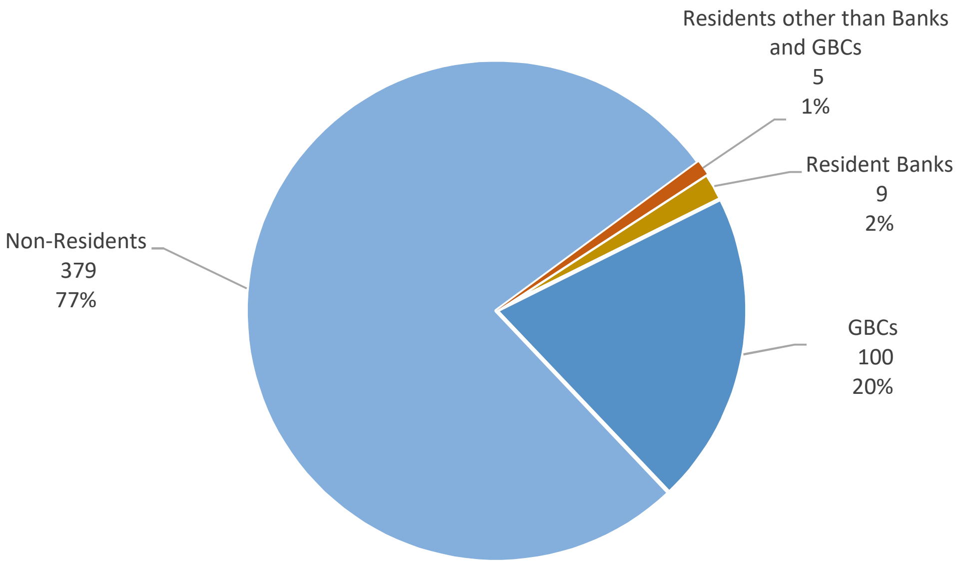
Source: Financial Services Commission

FDI flows into India dropped sharply in the first two quarters of 2020. While direct investment flows are intrinsically volatile, the figures recorded in the first semester of 2020 are likely to have been influenced by the adverse effects of COVID-19 and listings of Mauritius. FPI flows into India also declined significantly in 2020Q2, albeit on a lesser scale than the fall in FDI. One possible explanation is that FDI generally requires patents/licences and more stringent forms of clearances than FPIs from the target investment country. This is because FDI mainly takes the form of private equity investment, and that the investor has controlling or significant influence over the investee company. Thus, FDI flows would have likely been more impacted than FPI flows by the pandemic and lockdowns.

6.4 Linkages between GB Sector and Banking Sector

Considering its business nature, the largest GBC exposure is with non-residents, which represent 77 percent of the total monetary and financial assets of GBCs. This is followed by cross-holding assets between GBCs due to the presence of group structures operating in the sector. The largest exposure with residents other than GBCs is in the form of deposits placed in local banks (Chart 6.7).

Chart 6.7: Exposure of Monetary and Financial Assets of GBCs by Institutional Sectors (USD Billion)

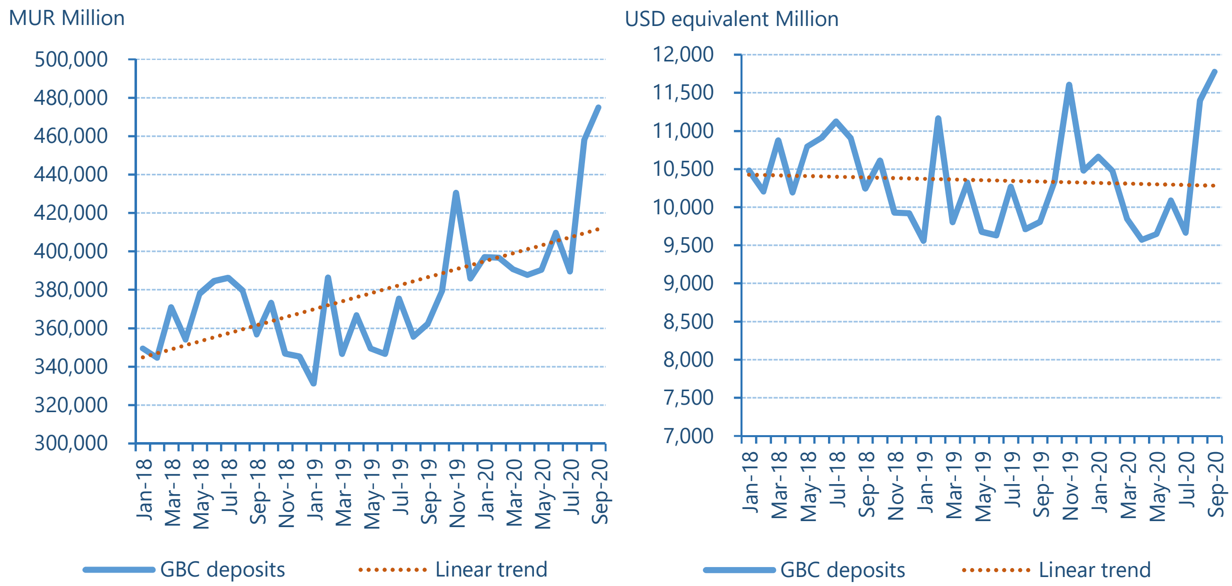


Source: Financial Services Commission

Despite COVID-19 and the recent developments in the GB sector, GBC deposits have recorded substantial growth. As at end-September 2020, GBC deposits reached a high of MUR475 billion (approx. USD11,775 million), from MUR362 billion (approx. USD9,808 million) recorded as at end-September 2019, representing around 108 percent of the GDP (Chart 6.8). GBC deposits with banks accounted for approximately one-third of total banking deposits and one-quarter of total banking assets as at end-September 2020.

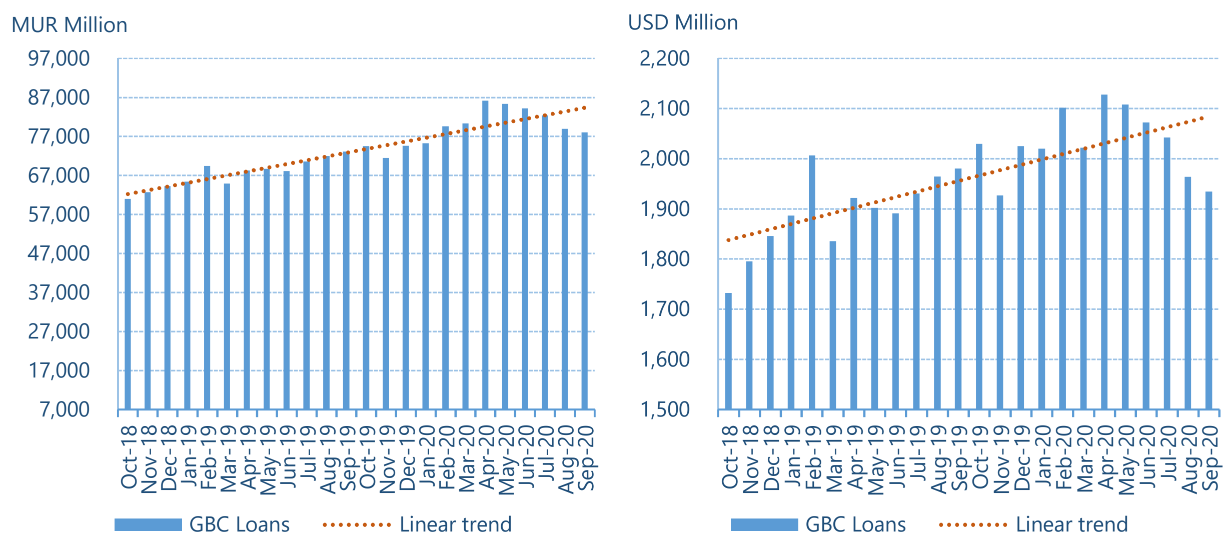
As at end-September 2020, GBC loans and advances stood at MUR78,024 million (approximately USD1,934 million), compared to MUR73,111 million (USD1,980 million) as at end-September 2019. GBC loans peaked at MUR86,175 million as at end-April 2020, but thereafter declined continuously (Chart 6.9). Loans and advances to GBCs averaged 10 percent of total loans and advances provided by banks and 5 percent of total assets of the banking sector as at end-September 2020.

Chart 6.8: Evolution of GBC Deposits



Source: Bank of Mauritius

Chart 6.9: Evolution of GBC loans

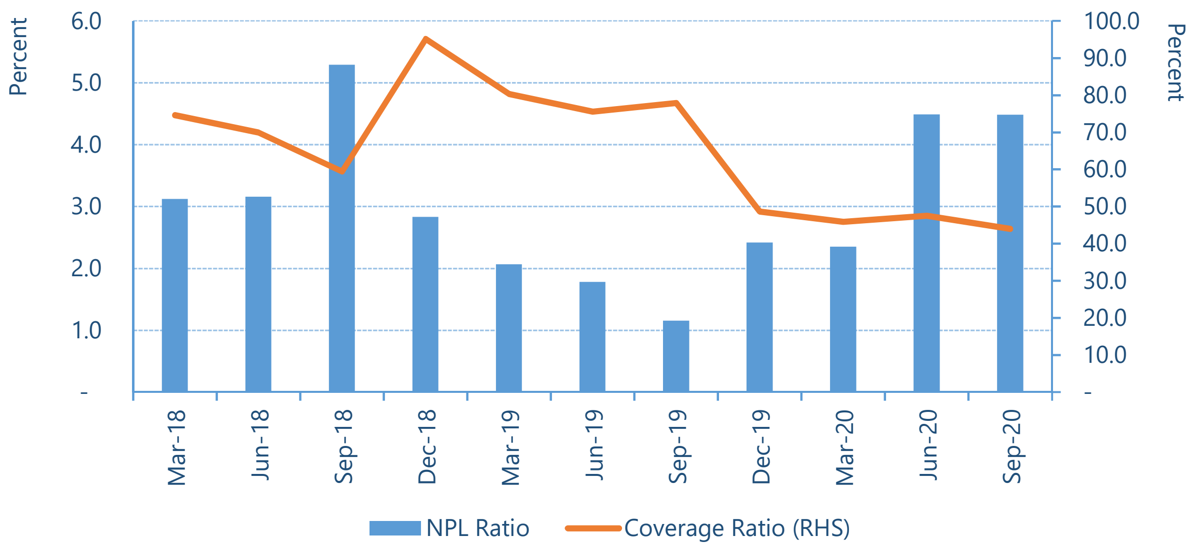


Source: Bank of Mauritius

NPLs of the GB sector increased as at the end of June 2020 mainly as banks classified the impairment of the loan of one GBC in the Health and Social Activities sector. NPLs fell thereafter in 2020Q3, down by 8.5 percent to Rs3,499 million as at end-September 2020. They represented around 9 percent of the total banking sector's impaired credit. The GBC NPL ratio, that is, GBC NPLs as a percentage of credit to the sector, was almost unchanged at around

4.5 percent in 2020Q1 and 2020Q2, mainly as a result of the contraction in credit allotted to the sector. Banks have made specific provisions for around 44 percent of the NPLs in the GB sector (Chart 6.10).

Chart 6.10: Evolution of GBC NPLs



Source: Bank of Mauritius

Risks for the GB sector continue to emanate from reviews of the India-Mauritius DTAA, recent developments regarding the FATF and EU classifications, as well as competition from other jurisdictions. The potential relocation of existing GBCs into other jurisdictions could threaten the business models of some banks while exposing the domestic banking system to liquidity risk and impacting the economic outlook.

With a view to better monitor the GB sector and the risks they pose to the country, the FSC developed a risk map to evaluate the likelihood of GBCs leaving the jurisdiction and measure its impact on the banking sector in terms of withdrawal of deposits. The model incorporates a component to measure the risk of exit of EU-funded GBCs from the jurisdiction. Based on data as at 30 June 2020, it is noted that between 5 - 20 percent of the GBC deposits have been classified under the higher risk - higher impact categories (Table 6.1).

The risk map indicated that about 13.0 percent of GBC deposits are viewed to be at high risk of leaving the jurisdiction while 18.8 percent of GBC deposits would have a high impact, in the event of an outflow from the jurisdiction. Overall, it is estimated that 1.8 percent of total

GBC deposits are both at high risk of leaving the jurisdiction and having a high impact (Table 6.1).

Table 6.1: Risk Map - Percentage of Total GBC Deposits

		Sub-Total Risk scores					
Risk Score	**High Risk**	**13.0%**	0.0%	**3.5%**	**5.4%**	**2.4%**	**1.8%**
	Medium-High Risk	**10.5%**	0.1%	5.5%	5.0%	0.0%	**0.0%**
	Medium-Low Risk	**20.5%**	0.1%	8.2%	8.7%	2.2%	**1.3%**
	Low Risk	**55.9%**	0.3%	20.8%	14.4%	4.6%	**15.8%**
		Sub-Total Impact Score	**0.5%**	**38.0%**	**33.5%**	**9.2%**	**18.8%**
			Low Impact	**Medium Low Impact**	**Medium Impact**	**Medium High Impact**	**High Impact**
		Impact Score					

Source: Financial Services Commission

7| Stress Testing the Mauritian Banking System

The resilience of the Mauritian banking system against macroeconomic shocks was assessed through several stress testing exercises. The model developed by the Bank enables detailed scenario analysis as well as sensitivity analysis to be performed, i.e., an assessment of how banks fare with shocks engineered to credit portfolios, interest rate, exchange rate and liquidity. Plausible scenarios have been designed to assess the resilience and soundness of the banking sector. The stress testing framework has been applied to all operational banks in Mauritius.

Results from the Bank's credit and liquidity stress testing frameworks show that, so far, the banking system has remained resilient. The risks facing our tradeable sectors such as tourism, trade and manufacturing have been relatively contained, given the promptitude with which the authorities intervened to prevent a snowballing effect. Stress test results show that banks can handle the offshoots of the crisis by drawing on from their buffers and that there is still some room for manoeuver, although some banks appear to be more vulnerable than others. However, on a note for caution, the stress test results also show that, the more protracted the recession, the more the banking system will eventually be subject to severe strains. The Bank will continue beefing up its framework by incorporating more high frequency data into scenarios for effective monitoring of the situation.

7.1 Scenario Analysis

The banks had robust capital position during the period under review. The CAR of banks stood at 18.6 percent as at end-September 2020. To assess the resilience of banks to macroeconomic shocks, three scenarios have been built, namely: a baseline, a moderate and a severe risk scenario. These scenarios have further been investigated through adverse macroeconomic shocks to the GDP, interest rate and exchange rate, as detailed in Table 7.1.

Table 7.1: Scenarios assumptions

Scenarios	Baseline	Moderate	Severe
GDP	GDP is expected to recover from its 2020 level	GDP does not recover relative to 2020, but will do so as from 2022 onwards	GDP contracts further in 2021 but will gradually recover as from 2022 onwards
Interest rates	Interest rates are lowered by 50 basis points	Interest rates are reduced by 100 basis points	Interest rates are reduced by 125 basis points
Exchange rates	The rupee depreciates by 7 percent vis-à-vis the dollar	The rupee is assumed to depreciate by 10 percent vis-à-vis the dollar	The rupee is assumed to depreciate by 15 percent vis-à-vis the dollar

Source: Bank of Mauritius

The underlying rationale for the "baseline" scenario is that recovery would start soon in 2021. It also assumes that growth is expected to be in positive territory as from 2023 onwards, that is, a "V-Shaped Recovery". The second scenario, "Moderate", assumes that the recession would prolong in 2021 and that recovery will only start as from 2022, whilst GDP level is expected to reach its pre-COVID level as from 2024 onwards, that is, a "U-Shaped recovery". As for the "Severe" scenario, it is expected that the recession would aggravate in 2021 and implying that recovery would only start afterwards with GDP reaching its pre-COVID level as from 2025 onwards, that is, a "Nike-Shaped recovery".

To better reflect the constraints and realities of the Mauritian macroeconomic situation, a Vector Auto-Regression model in its various formats, reduced-form, recursive-form and structural-form, was executed to provide basis for the statistical relationships between macroeconomic variables. Based on these findings, the directions of shocks as applicable to the stress testing exercises under medium and severe scenarios were worked out. However, the magnitudes of the proposed shocks were all hypothetical and reflect possible developments to macroeconomic variables, going forward.[10]

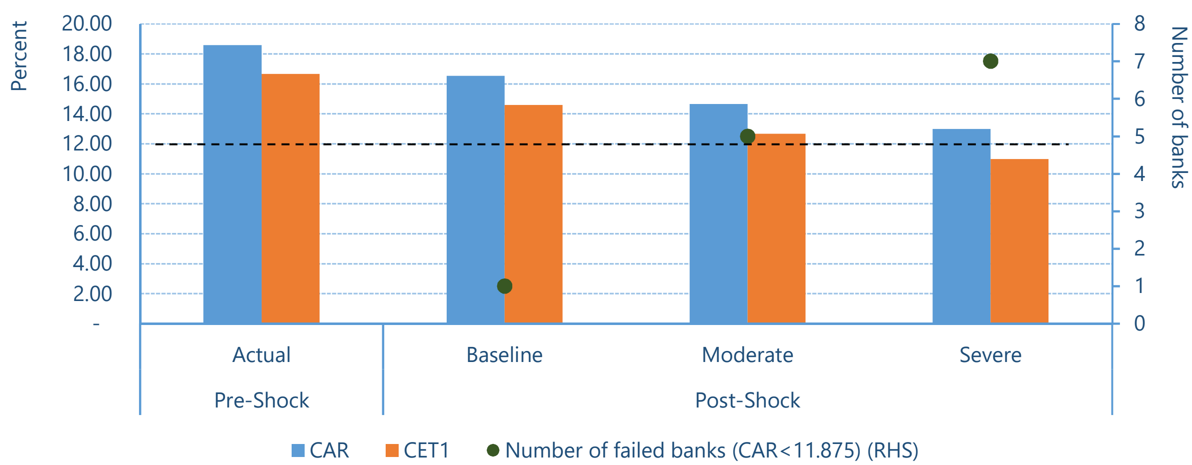
[10] *It is interesting to note that econometric regression results would typically fail to yield robust results in times of severe crisis such as the COVID-19 pandemic. This is because they are based on historical data which may or may not have an autoregressive feature. During the COVID-19, there are two effects: first, the economic relationships between variables may fundamentally change. This is the foundation of the so-called 'Lucas Critique' in the literature; and second, historical data will be of rather limited use for future analysis. At the time of running the stress tests, the lockdown period was over in Mauritius and, as reported in the previous sections, there were no major disruptions noted among banks. However, risks are still there and may uncover in future months. The Vector Auto-Regression model used in this setup was simply to help affirm the statistical relationship between the key economic variables (which did not change by much*

Chart 7.1 provides a diagrammatic illustration of the outcomes on the banks' post-shock CAR and CET1 ratio, following the materialization of combined shocks for each given scenario. As is apparent, notwithstanding the magnitude of the impact, the Mauritian banking sector remains resilient. All three case studies indicate a decline in system–level CAR.

The system-level CAR under the severe stress scenarios declined as follows: from 18.6 percent to: 16.5 percent (baseline scenario); 14.5 percent (moderate scenario) and; 13.0 (severe scenario). It was, nevertheless, noted that a minimum of 1 banks (baseline scenario), and up to 7 banks (severe scenario) could find their CAR below the regulatory minimum of 11.875 percent (10 percent minimum plus phased-in 1.875 percent CCB.

Chart 7.1 also illustrates the impact of the combined macroeconomic shocks on the CET1 ratio under each of the three case studies. The outcome demonstrated that most banks displayed resilience even in the harshest scenario.

Chart 7.1: Scenarios Results



Source: Bank of Mauritius

7.2 Sensitivity Analysis

A number of single-factor sensitivity stress tests, based on September 2020 data, were carried out on banks to assess their vulnerabilities and resilience under various scenarios. Their resilience with respect to credit, interest rate and liquidity risks was studied. Stress tests to the

during the lockdown) in the post-lockdown period. All shocks are calibrated to represent possible evolution of macroeconomic variables, going forward.

banks' credit portfolios include shocks to (a) sectoral advances and (b) large borrowers (i.e., it is assumed that a given number of large borrowers have defaulted on their loans). As for liquidity stress tests, the impact of hypothetical deposit run-offs on banks' overall liquidity situation has been assessed.

7.2.1 Sectoral Credit Risk

Sensitivity stress tests have been conducted on the banks' sectoral gross NPLs as at end-September 2020, to ascertain their sectoral credit risks resilience. The hypothetical shocks have been detailed in Table 7.2.

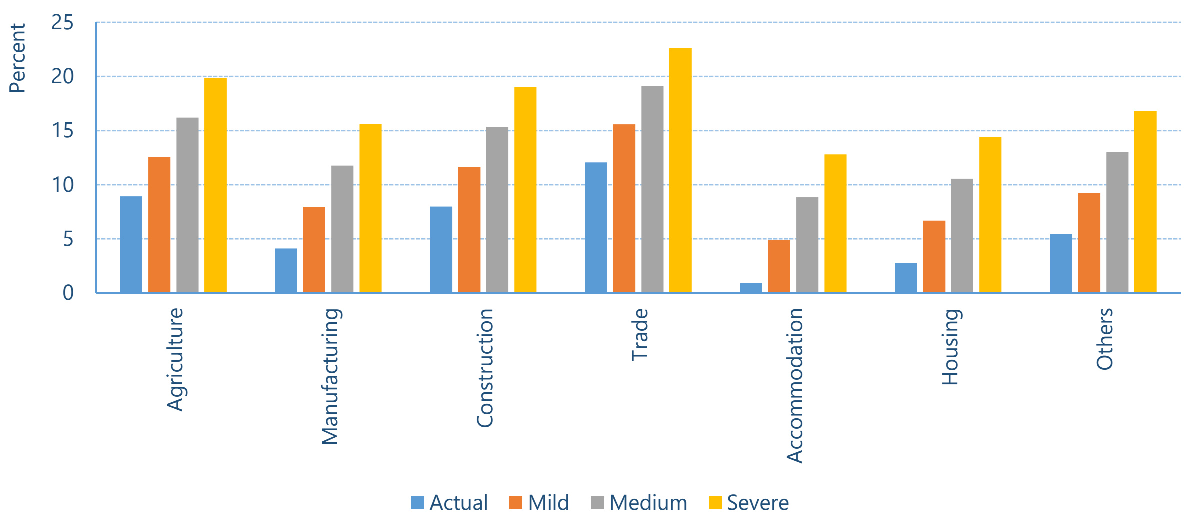
Table 7.2: Sectoral Sensitivity Assumptions

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

Source: Bank of Mauritius

The 'Trade' sector registered the highest sector wise NPL ratio at 22.6 percent under the severe stress scenario, building on its already high NPL ratio of 12.0 percent. Nevertheless, the results of the exercise demonstrated that the highest increase in NPL ratio was for credit allotted to 'Accommodation' and 'Manufacturing', both of which rose by almost 12.0 percentage points. (Chart 7.2)

Chart 7.2: NPL ratio sensitivity results



Source: Bank of Mauritius

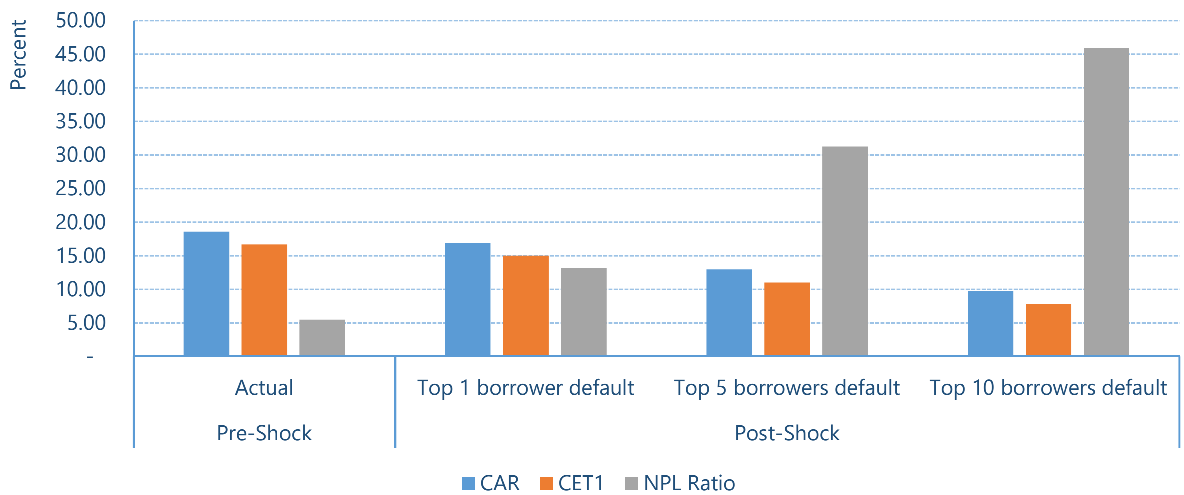
7.2.2 Credit concentration Risk

Credit concentration risk was examined by considering the impairment of the top individual borrowers according to their non-exempt advances (after set-off) for the respective banks.

Three shock scenarios were applied, whereby (a) the first scenario assumes the top 1 borrower of each bank defaults, (b) the second scenario assumes the top 5 borrowers of each bank default, and (c) the third scenario assumes the top 10 borrowers of each bank default.

The stress test exercise showed that the banks' aggregate CAR and aggregate CET1 ratios would decline. A minimum of 1 bank would find its post-shock CAR below the regulatory minimum of 11.875 percent in the first scenario. The number of failed banks would hike up to 10 banks in the last scenario, which would bring the banking sector CAR at 9.7 percent. (Chart 7.3)

Chart 7.3: Credit Concentration risk



Source: Bank of Mauritius

7.2.3 Liquidity risk

Various banks (especially the foreign banks) have higher a proportion of GBC deposits in their balance sheet. Liquidity stress tests, as detailed in Table 7.3, have been performed to assess the liquidity position of the banks.

Table 7.3: Liquidity risk – Foreign currency deposit withdrawals

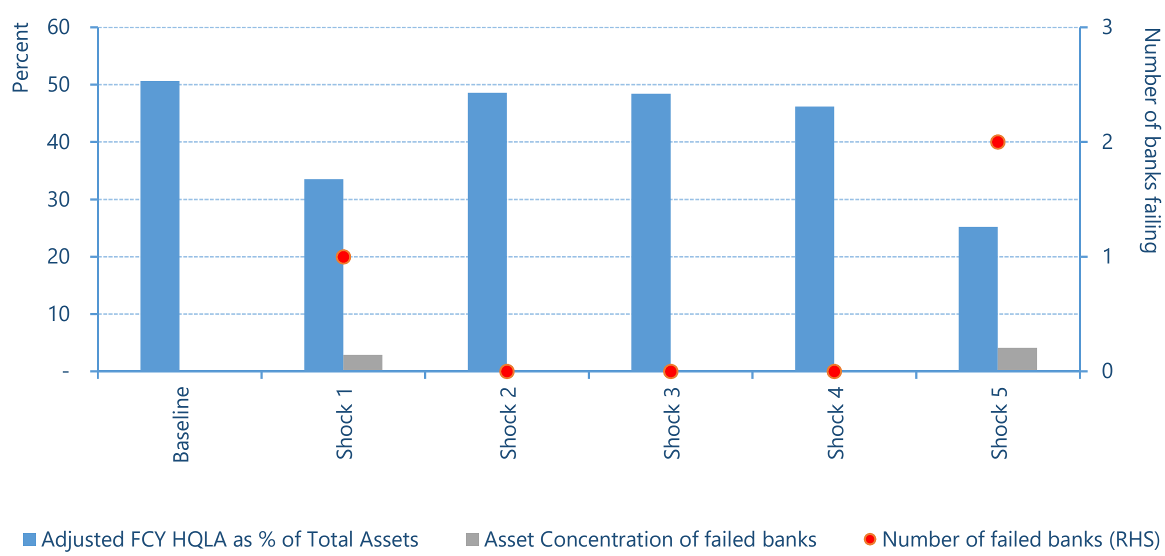
Shocks	Description
1.	Assume 35 percent one-off foreign currency deposit withdrawal
2.	Assume largest GBC depositor withdrawal
3.	Assume riskiest GBC depositor withdrawal
4.	Aggregate of Shocks 2 and 3 (provided largest GBC depositor is not the riskiest one as well)
5.	Aggregate of Shocks 1, 2 and 3

Source: Bank of Mauritius

Indeed, these scenarios have been designed to have a focus on 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 having 'failed' if its Adjusted HQLA turned negative under stressed conditions.

Results showed that one bank would be vulnerable when Shock 1 is assumed. As for Shocks 2, 3, and 4, the Adjusted HQLA of all banks would remain resilient. However, two banks seem to be vulnerable should Shock 5 be assumed. These banks consisted of around 4.1 percent of the banking sector's asset concentration. (Chart 7.4)

Chart 7.4: Liquidity risk –Adjusted FCY HQLAs



Source: Bank of Mauritius

7.2.4 Reverse Stress test

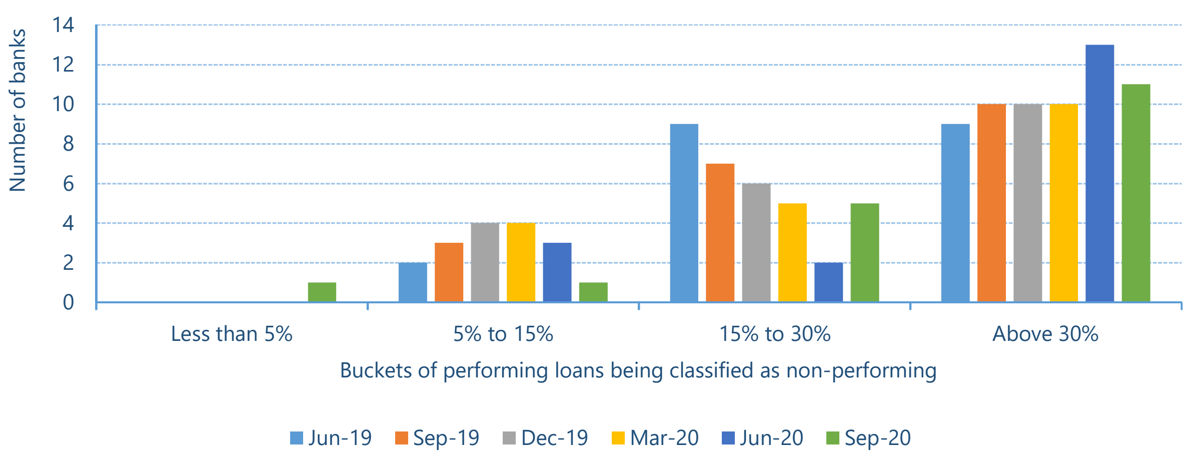
In order to have a more rigorous stress testing framework, a reverse stress test exercise was performed. The reverse stress test investigated the proportion of performing loans that would need to be classified as impaired for a bank's CAR to decline to the minimum regulatory limit.

During 2020Q1-Q2, it was noted that a contraction in the RWAs of four banks would have enabled them absorb higher provisions from more than 30 percent of their performing loans to be impaired, whilst being able to maintain their CAR at a minimum of 11.875 percent.

As at end-September 2020, for sixteen (16) banks, more than 15 percent of their performing loans portfolio would need to turn into impaired mode for their respective CARs to fall to the regulatory minimum of 11.875 percent. The two banks that were respectively in the 'Less than 5 percent' and '5 to 15 percent' buckets accounted for approximately 3.6 percent of the market asset share.

During 2020Q2-Q3, a dilution of the capital adequacy ratio has pushed two (2) banks back into the '15-30' percent bucket from the 'above 30' percent bucket. This was mostly driven by an increase in RWAs of these banks. In contrast, one (1) bank had experienced a contraction in its regulatory capital, along with its RWA, over the last quarter. This helped increase its capacity to absorb additional NPL shock and it moved forward from the '5-15' percent bucket to the '15-30' percent bucket. (Chart 7.5)

Chart 7.5: Implied percentage performing loans being classified as non-performing resulting in bank-wise CAR to be at minimum regulatory minimum



Source: Bank of Mauritius

Annex A: Financial Soundness Indicators

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

Percent

Financial Soundness Indicators (Core)	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Capital-based									
Regulatory capital to risk-weighted assets	18.6	19.2	19.5	19.8	19.8	19.6	19.2	20.5	19.7
Regulatory Tier 1 capital to risk-weighted assets	17.3	17.8	18.1	18.3	18.5	18.2	17.9	19.1	18.4
Non-performing loans net of provisions to capital	16.6	13.9	13.0	12.8	11.6	10.4	11.5	12.9	13.0
Asset Quality									
Non-performing loans to total gross loans[c]	7.0	6.5	6.3	6.0	5.8	4.9	5.3	5.9	6.2
Sectoral distribution[d] of loans to total loans[c]:									
Interbank loans	1.6	2.2	3.1	4.3	3.1	2.5	4.4	4.6	3.9
Other financial corporations	3.8	11.8	11.4	11.4	12.2	12.1	11.9	11.4	9.7
Non-financial corporations	33.1	26.7	26.8	25.7	26.2	26.4	25.7	27.1	27.9
Other domestic sectors	21.8	22.0	22.6	22.6	23.0	23.4	21.1	20.9	21.9
Non-residents	39.7	37.3	36.0	36.0	35.5	35.6	36.8	35.9	36.6
Earnings and Profitability									
Return on assets	1.6	1.7	2.2	2.1	2.0	1.9	1.2	1.2	1.2
Return on equity	16.0	15.0	18.4	17.4	17.2	16.4	11.0	10.1	10.6
Interest margin to gross income	69.6	72.9	73.7	73.7	73.3	70.3	72.1	67.0	68.7
Non-interest expenses to gross income	42.9	39.6	38.9	40.4	42.8	41.3	41.4	40.9	43.7
Liquidity									
Liquid assets to total assets	22.1	22.5	22.4	21.0	21.6	25.2	24.6	26.4	27.2
Liquid assets to short-term liabilities	28.9	25.6	25.5	23.9	24.5	28.5	27.8	29.7	30.5
Sensitivity to Market Risk									
Net open position in foreign exchange to capital	3.3	2.1	3.6	2.8	1.9	2.1	1.7	1.7	1.6

Financial Soundness Indicators (Encouraged)	**Dec-17**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**
Capital to assets	10.1	11.6	11.9	12.0	11.8	11.3	11.3	11.1	10.6
Value of large exposures to capital	224.4*	249.7	232.5	250.6	237.9	238.1	244.8	257.5	260.6
Customer deposits to total (non-interbank) loans	153.4	147.7	151.5	151.4	154.0	163.6	167.8	172.7	183.4
Residential real estate loans to total loans[c]	10.2	10.5	10.7	11.0	11.1	10.8	10.5	10.5	10.7
Commercial real estate loans to total loans[c]	3.9	4.6	4.3	4.2	4.7	5.0	4.7	4.6	4.7
Trading income to total income	10.2	10.2	9.3	7.7	10.4	11.9	13.8	15.8	13.4
Personnel expenses to non-interest expenses	49.5	49.3	49.0	47.2	46.2	45.4	46.6	48.3	45.6

[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 Non-Bank Deposit-Taking Institutions 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.*

** As from December 2017, the measurement of credit concentration ratio has been revised to aggregate large credit exposure (above 10 percent of Tier 1 capital) as a percentage of aggregate Tier 1 capital. Based on previous Guideline, the corresponding ratio for large exposures would have been 171.8 percent for the quarter ended December 2017.*

Note: Figures may not add up due to rounding.

Source: Bank of Mauritius

Annex B: LIBOR Survey

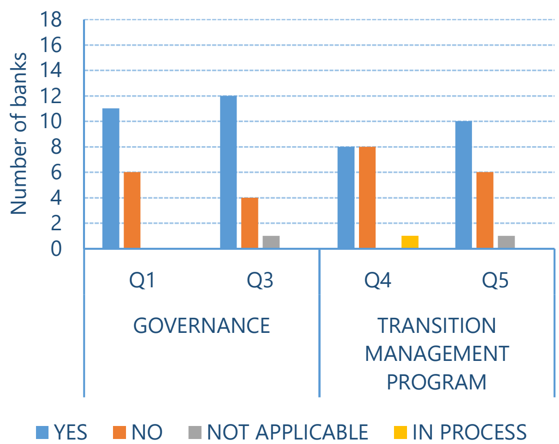
Table A: LIBOR Survey Questions

Governance and Transition Management	
Q1	Does your bank have an action plan to manage the phasing out of LIBOR?
Q3	Has your bank put in place an organizational and operational structure to manage the transition?
Q4	Has your bank conducted a comprehensive impact assessment across key focus areas such as financial products, contracts, business process including IT systems and valuation models?
Q5	Has your bank identified the resources and budget needs to implement the transition, including the assistance of external consultants, if required?
Legal aspect	
Q29	Has your bank identified risks related to reputation and litigation as a result of renegotiation/repapering of contracts?
Q30	Has your bank identified all LIBOR related contracts that extend beyond the end of 2021?
Q31	Does your bank have contracts that do not have suitable fallback language?
Q32	For new contracts that reference LIBOR, has your bank already started to incorporate alternative fallback language catering for the cessation of LIBOR?
Operational and technology readiness	
Q20	Has your bank already identified all IT systems that would be affected by the transition?
Q21	Has your bank already identified related models and historical database that would require modifications as a result of benchmark rate reforms?
Q22	Has your bank already started work on developing a process to incorporate new market data sources and new calculation methodologies into its IT system?
Q24	Has your bank already built testing plans for new product capabilities, models/ validation?
Accounting and Reporting	
Q25	Has your bank identified all instruments that might be affected by accounting issues?
Q26	Has your bank identified impact on fair value accounting and impairment to profit & loss?
Q28	Has your bank carried out an assessment of the impact on modification of existing contracts?
Exposure identification and Risk management	
Q11	Has your bank already carried out a product exposure analysis to determine all LIBOR-linked products for each line of business?
Q12	Does your bank have a comprehensive contract inventory which includes all contracts directly or indirectly linked to a benchmark?
Q16	Has your bank identified the key risks resulting from the discontinuation of LIBOR, including business impacts, financial (accounting treatment and valuation) and legal risks?
Q18	Has your bank identified the mitigating actions to all identified risks?
Product development and Communication Strategy	
Q15	Has your bank set a timeline for offering new alternative reference rate linked products?
Q8	Has your bank already established a communication strategy to be used both internally and externally with counterparties, product issuers and industry bodies?
Q10	Does your bank have a training plan for all relevant staff?

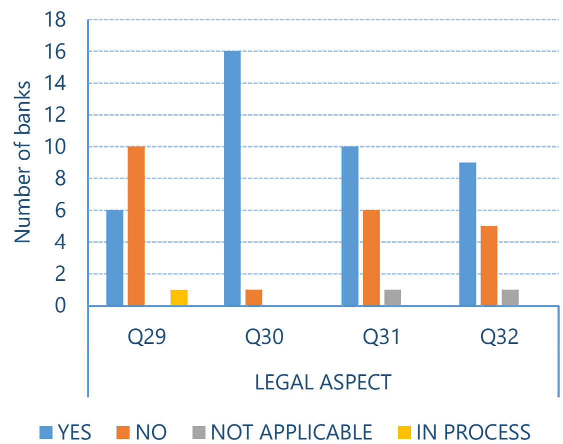
Source: Bank of Mauritius

Chart 4.10: LIBOR Survey Panel

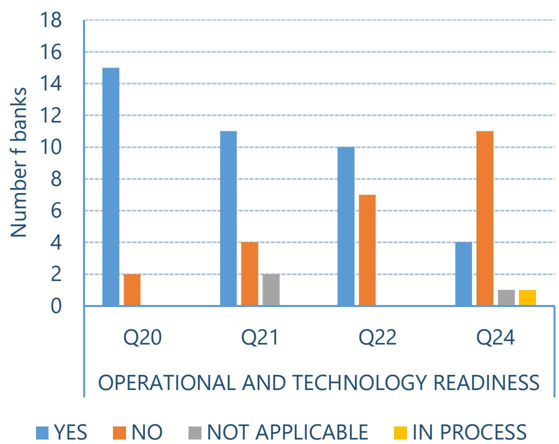
Governance and Transition Management



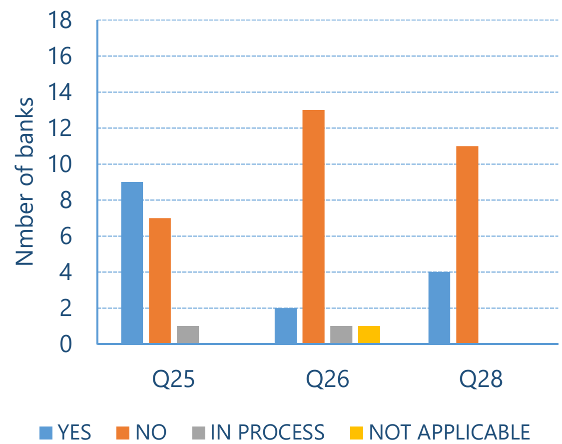
Legal aspect



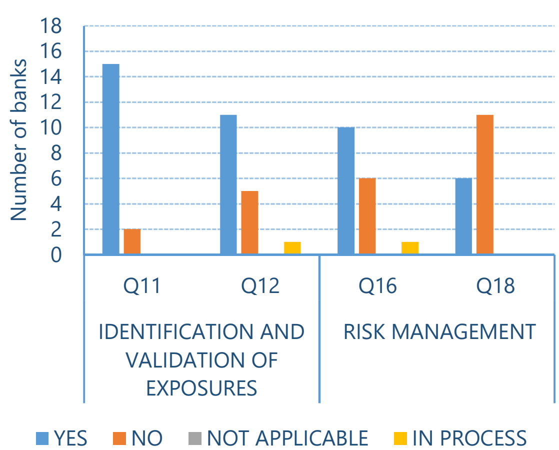
Operational and technology readiness



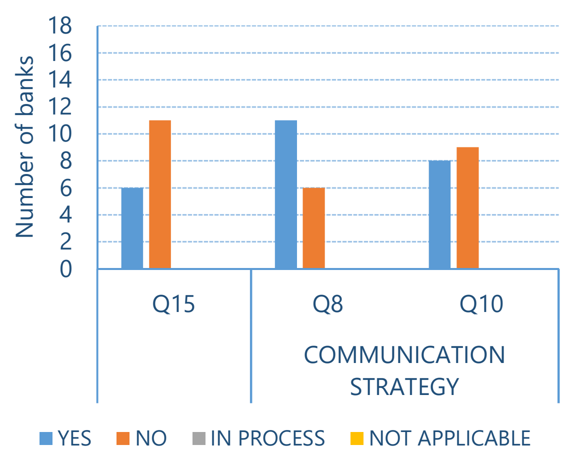
Accounting and Reporting



Exposure identification and Risk management



Product development & Communication Strategy



Source: Bank of Mauritius

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Acronyms

2020H1	First semester of 2020
Adjusted HQLA	Adjusted Foreign Currency High Quality Liquid Assets
AML-CFT	Anti Money Laundering and Combating the Financing of Terrorism
Bank	Bank of Mauritius
CAR	Capital Adequacy Ratio
ECB	European Central Bank
ESAAMLG	Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FDI	Gross foreign direct investment
FED	US Federal Reserve Board
FPI	Gross foreign portfolio investment
FSC	Financial Services Commission
GB	Global Business
GBC	Global Business Corporations
GDP	Gross Domestic Product
GFC	Global Financial Crisis
IMF	International Monetary Fund
KRR	Key Repo Rate
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
NBDTIs	non-bank deposit-taking institutions
NPL	Non-Performing Loan
q-o-q	Quarter-On-Quarter
RBI	Reserve Bank of India
SM	Statistics Mauritius
WEO	World Economic Outlook
Y-o-Y	Year-on-Year

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 NBDTI's, 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 NBDTI's, 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.

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.

SEM-10 is an index launched by the Stock Exchange of Mauritius on 02 October 2014. It is designed to meet international standards and provide a larger and more attractive investible benchmark for both domestic and foreign market participants and comprises the ten largest eligible shares of the Official Market, measured in terms of average market capitalization, liquidity and investibility criteria.

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 the previous year.