Financial Stability Report

June 2026

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The Bank of Mauritius (hereafter referred to as the "Bank") is issuing its Financial Stability Report covering the second half of 2025, unless otherwise stated.

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

In line with its mandate to ensure the stability and soundness of the financial system of Mauritius in terms of section 4(2)(b) of the Bank of Mauritius Act, the Bank monitors developments in the banking and financial system to identify any vulnerabilities and risks to financial stability. The Bank makes an overall assessment in this report of the risks that can threaten the stability of the financial system and the measures taken to mitigate these risks. It evaluates the resilience of the financial system to the risks, as a stable and sound financial system is a prerequisite for efficient financial intermediation and for sustaining conducive conditions for economic and financial development.

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Executive summary

Global developments

The global economy remained resilient in the second semester of 2025, underpinned by accommodative macroeconomic policies and financial conditions. Trade tensions have stabilised whilst a surge in investments in technology, including Artificial Intelligence (AI), have supported an expansion in global technology-related exports. These factors have helped to cushion the global economy against downside risks. The International Monetary Fund (IMF) April 2026 World Economic Outlook estimated global growth at 3.4 per cent in 2025 and projected a slowdown to 3.1 per cent in 2026. The projection for 2026 reflected the impact of the outbreak of the war in the Middle East which introduced significant supply shocks to the global economy. Geopolitical tensions have become a key driver of economic risk and global instability in an increasingly fragmented world.

Global inflation moderated further in the second half of 2025, although underlying price pressures persisted in some countries. Disinflation progressed more steadily in advanced economies while price pressures in emerging markets eased. Several central banks adjusted their monetary policy stance against a backdrop of moderating inflation and trade uncertainties. The US Federal Reserve decided on a series of interest rate cuts while the European Central Bank maintained steady policy rates. Emerging market economies showed resilience, supported by policy frameworks that helped the absorption of external shocks.

Fiscal policy was supportive of economic activity in advanced economies, in part through continued public spending, while rising deficits and elevated debt levels heightened concerns over long-term fiscal sustainability. In emerging market economies, fiscal positions were generally more constrained although improved buffers helped mitigate macrofinancial vulnerabilities. The IMF highlighted that persistent deficits could undermine medium-term fiscal sustainability.

While the banking system at the global level held adequate capital and liquidity buffers, the gradual normalisation of interest rate conditions was expected to weigh on future earnings. In addition, the growing role of non-bank financial institutions (NBFIs) increased interconnectedness and introduced additional channels through which financial risks could spread.

Household vulnerabilities stayed relatively low in the second half of 2025, driven by a drop in debt levels and improved debt-servicing metrics. However, the IMF emphasised that stretched real estate valuations and tighter financial conditions contributed to add pressure on households across regions, reinforcing a persistent global risk environment. They also posed affordability pressure across regions worldwide. On the other hand, the global corporate sector benefited from favourable financial conditions, yet underlying fragilities persisted. Despite narrower credit spreads, high leverage – especially among speculative-grade borrowers – kept corporate entities sensitive to interest rate and earnings shocks, which could rapidly transmit stress across financial markets.

Climate change remained a major global financial stability concern. More frequent and severe climate-related events were expected to increase economic losses, reinforcing the need for policies that support resilient and sustainable growth. The cascading effects of climate-related events highlighted the need for proactive risk management, stronger climate resilience policies, and coordinated responses across fiscal, monetary, and financial regulatory frameworks.

Domestic developments

The domestic macrofinancial environment was stable in the second half of 2025, amid moderating economic growth momentum, which contributed to alleviating systemic risk to financial stability. External demand improved and inflationary pressures were contained. However, the outbreak of the war in the Middle East in early 2026 heightened expectations of tighter global financial conditions and elevated geopolitical risks in 2026 which pose downside risks.

Economic activity expanded at a moderating pace, driven primarily by robust performance across service-oriented sectors. Growth remained uneven across sectors, with some industries – such as in the *Manufacturing*, *Construction*, *Agriculture* and *Traders* sectors – adjusting to evolving internal and external demand. The tourism sector performed strongly, supported by higher tourist arrivals in 2025. This momentum boosted tourism earnings and improved foreign exchange inflows, thereby supporting external sector performance.

The labour market improved further in the second half of 2025 and, combined with growing income, continued to support the household sector against adverse shocks. The unemployment rate dropped to 5.4 per cent in December 2025. Labour force participation hovered around 59.0 per cent. Wage growth maintained a positive momentum, with rising Wage Rate Index reflecting robust labour demand and improving income conditions.

Household sector vulnerabilities rose in the second half of 2025. Risks from the household sector edged up, shaped by growing leverage, elevated residential property valuations and weakening debt serviceability metrics. Residential property prices stabilised but remained elevated, thereby sustaining housing affordability pressures. However, labour market conditions were sound with low unemployment whilst nominal wages continued to grow, which helped to preserve the debt servicing resilience of the household sector. Credit risk in the household credit portfolio in the balance sheet of the banking sector stayed low, though increasing impairments in housing loans pointed to emerging repayment challenges, particularly among lower-income households. Looking forward, risk could intensify among highly leveraged households, particularly in an environment of higher interest rates and cost of living pressures during 2026.

The corporate sector remained broadly resilient in the second semester of 2025, underpinned by strong earnings, sustained credit growth and generally stable financing conditions. Corporate leverage was generally at a manageable level. Credit risk dynamics in the corporate credit portfolio were mixed. The asset quality of property-related segments in the corporate credit portfolio deteriorated. Nevertheless, strong capital and liquidity buffers of banks provided a solid cushion for loss absorption. Looking ahead, heightened geopolitical tensions and a more uncertain global environment may weigh on corporate performance, especially for export-oriented firms.

Monetary policy was maintained at a steady stance, with the Key Rate unchanged at 4.50 per cent during the second semester of 2025. The Monetary Policy Committee adopted a cautious approach to containing inflationary pressures and supporting economic growth amid global uncertainties. The Bank actively managed liquidity conditions and intervened in the foreign exchange market to curb excessive volatility and ensure orderly market functioning. The favourable trends on the foreign exchange (FX) market were sustained.

Domestic financial markets showed mixed performance. While equity market activity weakened towards the end of 2025 against the backdrop of subdued investor sentiment and foreign investment outflows, the overall financial system was resilient. Improvements in fiscal and external balances contributed to a gradual easing of macroeconomic imbalances, although vulnerabilities linked to external shocks persisted.

The external liquidity buffer of Mauritius strengthened in the second half of 2025, underpinned by foreign exchange reserves accumulation. The Gross Official International Reserve surged to an all-time high of US$10.3 billion in December 2025. Key reserve adequacy indicators were robust. Import cover (exclusive of GBC services imports) improved to 14.3 months, well above conventional benchmarks, while the reserves-to-broad money ratio increased to 45.2 per cent, indicating a stronger buffer against potential FX liquidity pressures. Furthermore, the IMF

Assessing Reserve Adequacy metric was comfortably above its benchmark of 100 per cent, indicating the resilience of Mauritius to adverse external shocks.

The banking sector supported both domestic and cross-border financial flows, culminating to an asset size of Rs2.8 trillion with a deposit base of Rs2.2 trillion. The sector maintained strong capital and liquidity buffers in the second half of 2025. The capital ratios and liquidity buffers were well above regulatory thresholds, ensuring sound shock-absorption capacity of the banking sector. Credit risk stayed broadly contained, supported by declining non-performing loans ratios and stable provisioning. Profitability strengthened, underpinned by robust bank lending activity and effective cost management, enhancing internal capital generation.

Banking activity was characterised by sustained foreign currency lending, cross-border credit exposures and increased interbank placements with foreign counterparties. While these exposures remained relatively diversified, they exposed banks to exchange rate, funding and rollover risks. The robust risk management practices of banks coupled with the sound regulatory regime mitigated potential losses and supported their expansion strategies.

Stress test results confirmed the resilience of the banking sector, exhibiting sufficient capital and liquidity buffers to a range of adverse macrofinancial scenarios. The range of adverse shocks included subdued economic activity, asset quality deterioration, volatile yield curve and unfavourable exchange rate movements. Liquidity stress tests revealed that most banks maintained sufficient buffers to cater for short-term liquidity obligations under baseline scenario while a few banks experienced vulnerabilities under severe stress scenarios.

The NBFI sector expanded further mainly through lending activities, consolidating their footprint in the domestic economy. The sector expanded steadily, with long-term savings institutions remaining dominant, and total assets reaching approximately Rs351 billion in December 2025. The largest players have increased their exposure to foreign markets, with pension funds and insurance companies favouring cross-border investments. This heightened exposures to global market volatility, currency fluctuations and valuation risks. The bank-NBFI exposures remained modest, limiting direct contagion risks. However, growing exposure to international financial markets could amplify spillovers to the domestic system during the episodes of global stress, warranting close monitoring.

The Global Business (GB) sector was resilient during the second half of 2025, amid elevated geopolitical uncertainties, with total asset managed in the Mauritius International Financial Centre (IFC) reaching USD755 billion in December 2025. The GB sector remains systemically important given its strong linkages with the banking sector and its role in channelling cross-border capital flows. As such, it constitutes a key transmission channel through which global financial conditions, capital flow reversals and geopolitical shocks may impact financial stability in Mauritius.

Favourable licensing activity in the GB sector reflected sustained confidence in the Mauritius International Financial Centre (IFC). Investment flows were concentrated to India, though such concentration increased vulnerability to country-specific shocks and shifts in global investor sentiment. While investment flows showed gradual increases, deposit held by the GB sector in the banking system declined temporarily towards the end of 2025. Credit risk from the GB sector was elevated but banks have set aside sufficient provisions. Close monitoring of credit risk from the GB sector was pursued to safeguard financial stability.

Mauritius' role as an IFC underscores the importance of cross-border financial linkages in shaping financial stability outcomes. External exposures – through the GB sector, banks' foreign currency operations and NBFIs' global investments – provide diversification benefits but also amplify the transmission of global shocks to the domestic economy. In periods of heightened geopolitical tensions or financial volatility, these linkages may exert pressure on liquidity conditions, asset quality and investor confidence, reinforcing the need for vigilant risk monitoring and strong macroprudential oversight. Thus, maintaining prudent macroeconomic policies, strengthening fiscal buffers and enhancing macroprudential policy responses are critical to safeguarding financial stability.

The Systemic Risk Indicator went up marginally in the second half of 2025 but remained at moderate level. The key drivers of the uptick in systemic risk were macrofinancial conditions, financial markets developments, and sectoral dynamics. Risk from the household and corporate sectors went up marginally, driven by higher leverage. External vulnerabilities were broadly stable, with notable improvement in FX buffers. Banking sector risks stayed low, supported by narrowing interconnectedness and improved profitability.

While systemic risk stayed moderate in the second half of 2025, the outlook for 2026 points to heightened risk to financial stability arising particularly from the Middle East conflict and its implications for global inflation and economic prospects. High global inflation and cost pressures may weigh on the household and corporate sectors in Mauritius. Therefore, prudent macroeconomic policies and close macroprudential oversight will be critical to safeguarding financial stability and enhancing resilience against emerging risks.

1. Macrofinancial environment

The global economy was resilient in the second semester of 2025, sustained by improved global financial conditions despite persistent risks from high public debt and trade uncertainties. Financial stability risks softened and were moderate across the household and corporate sectors, as accommodative financial conditions masked vulnerabilities. However, climate change and cyber threats had heightened the potential for systemic disruptions. In addition, global growth and inflation prospects were clouded by the outbreak of the war in the Middle East in February 2026.

Domestic macrofinancial conditions were sound in the second half of 2025, with economic activity supported by tourism and key service-oriented sectors despite a moderation in overall growth momentum. Fiscal consolidation efforts were expected to positively support the macrofinancial landscape. Inflation was within the target range of 2 to 5 per cent and labour market conditions improved further. Sound external buffers reduced vulnerabilities. However, systemic risk to financial stability edged up marginally driven by financial markets developments and sectoral dynamics. The outbreak of the war in February 2026 has undermined the economic momentum and systemic risk is expected to pick up. Prudent macroeconomic and financial sector policies would be critical to safeguarding stability amid potential adverse shocks.

Global economic resilience sustained amid persisting volatility

The global economy was notably resilient in the second half of 2025, despite persistent underlying fragilities. Economic growth was supported by accommodative macroeconomic policies and financial conditions. However, key concerns were elevated levels of public debt across several major and emerging economies, heightening fiscal vulnerabilities and the persistent risks associated with trade policy uncertainty and geopolitical tensions.

The IMF, in its April 2026 World Economic Outlook, has estimated global economic growth at 3.4 per cent in 2025 and projected a slowdown to 3.1 per cent in 2026. The resilience in 2025 was underpinned by robust momentum in several major economies, continued investment in technology – particularly in digitalisation and artificial intelligence (AI). Supportive financial conditions have also helped offset the drag from trade policies causing major trade disruption and lingering geopolitical uncertainties. However, global growth prospects worsened following the outbreak of the war in the Middle East towards the end of February 2026. The conflict intensified global uncertainty, disrupted energy and commodity markets and led to

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heightened financial market volatility. Rising oil prices and supply chain disruptions triggered inflationary pressures and further constrained economic activity.

Global inflation eased in 2025, with headline inflation estimated at 4.1 per cent. The softening of global demand, fall in energy prices and the gradual cooling of the labour market subdued inflationary pressures in 2025. Core inflation, in both the US and the Euro area, were above the 2 per cent target primarily due to elevated services price inflation. Global inflation was expected to increase to 4.4 per cent in 2026, largely due to increases in the energy prices, food and other essential commodities caused by the geopolitical and trade tensions.

Monetary policy was further adjusted across major economies against a backdrop of moderating inflation in the second semester of 2025. The US Federal Reserve cut interest rate three times by 25 basis points, bringing the policy rate to 3.50-3.75 per cent to support employment and keep inflation near its 2 per cent target. In contrast, the European Central Bank kept its key interest rates unchanged, as the economy showed resilience despite global trade uncertainties and geopolitical tensions, with rates on deposit facility, refinancing operations and the marginal lending facility at 2.00 per cent, 2.15 per cent and 2.40 per cent respectively. Emerging market economies (EMEs) showed notable resilience despite global uncertainties, which contributed to favourable inflation expectations.

There was a shift in fiscal policy in the second half of 2025 towards efficiency and fiscal discipline given mounting public debt and trade policy uncertainties. Advanced economies maintained a broadly neutral fiscal policy stance amid high and rising public debt levels. The IMF urged policymakers to adopt fiscal consolidation frameworks, strengthen targeted measures and improve revenue mobilisation and spending efficiency to safeguard public debt sustainability and rebuild buffers. It cautioned that elevated debt, increased sovereign borrowing and greater reliance on short-term financing could heighten risks to global financial stability.

Risk to global financial stability eased despite ongoing geopolitical conflicts

Risk to global financial stability was contained although vulnerabilities persisted in the second semester of 2025. Sound macroeconomic policies, accommodative monetary policy coupled with improved financial conditions, helped stimulate demand across economies. As a result, spillover effects on household wealth and broader financial markets were softened.

The global banking system was broadly resilient but increasingly exposed to underlying vulnerabilities such as fiscal pressures. While banks benefited from strong capital and liquidity positions, concerns emerged about future earnings sustainability. At the same time, the increasing role of NBFIs in credit intermediation heightened interconnectedness within the financial system and amplified potential financial risk.

Risks from the household sector were assessed to be low globally in the second semester of 2025. Household leverage declined, debt servicing capability improved and real home prices registered modest growth in a number of advanced economies. In several emerging economies, house prices remained weak. In the US, risks from the household were moderate as debt levels relative to Gross Domestic Product (GDP) ticked downwards. In the Euro area, household vulnerabilities remained contained. Elevated savings supported resilience and lower debt levels contributed to a stronger financial position of households. The labour market remained robust with unemployment rates lingering near historical lows.

Corporate sector vulnerabilities moderated worldwide. Businesses maintained stable balance sheet, underpinned by strong earnings amid rapid AI adoption and resilient consumer demand. At the same time, firms coped with several challenges including tariff and trade-related shocks, rising input costs, supply-chain disruptions and currency volatility. Nevertheless, despite these headwinds, the corporate sector demonstrated considerable resilience.

However, according to the IMF April 2026 Global Financial Stability Report, financial markets confronted a significantly more fragile environment following the Middle East conflict. As such, global financial stability risks were assessed to be elevated at the start of 2026 and posed notable downside risks, potentially disrupting financial markets, hindering supply chain operations and creating volatility in commodity prices.

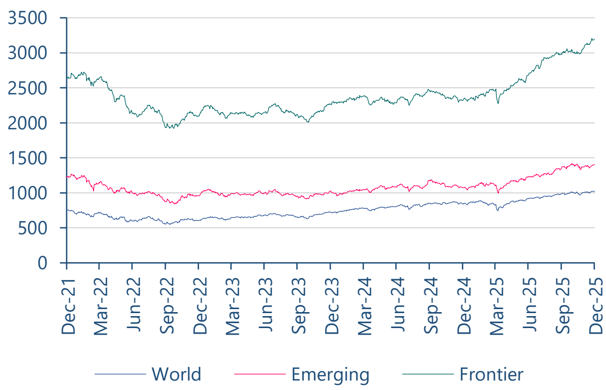
Climate change is a source of global financial stability concerns, with the severity of climate-related events expected to amplify economic losses. Several countries have been impacted by drastic climate events in the second half of 2025, such as severe storms in the US, monsoon flooding in South Asia, heatwaves and wildfires across Southern Europe, and drought in parts of Africa and the Middle East. These events have imposed substantial economic and fiscal costs. They illustrated how climate events could strain public finances and heighten financial system vulnerabilities along with notable implications on inflation, supply chain disruptions and economic growth. Climate change underscores the need for well-designed mix of policies to sustain growth and mitigate shocks.

Cyber threats pose growing risk to financial stability as they can cause major operational disruptions at financial institutions and to financial markets infrastructures. Cyber risk is among the top risks in the financial system and is becoming more frequent and complex. The immense potential of that AI offers can be harnessed to strengthen cyber security but can also be misused to exploit vulnerabilities in digital systems. Advanced AI tools can identify and manipulate vulnerabilities in digital infrastructures and accomplish cyber attacks faster. In addition, increasing reliance by financial institutions on *inter alia* common digital platforms, cloud services and payment networks can intensify risks to the stability of the financial system. The risks range from liquidity to solvency as well as trust in the financial system. To address these risks, sound governance and close oversight as well as stronger international coordination are required. Financial sector regulators must emphasise greater resilience against cyber threats and foster rapid recovery and continuity of critical functions.

Global markets rebounded and investor sentiment gathered momentum

Global financial markets were resilient despite major shifts in the trading environment, policy uncertainty and intensifying geopolitical tensions during the second half of 2025. Equity markets performed strongly, supported by robust risk appetite and optimism over technological progress. However, sovereign bond yields in most advanced economies steepened on the back of a rise in the term premia that lifted long-term yields.

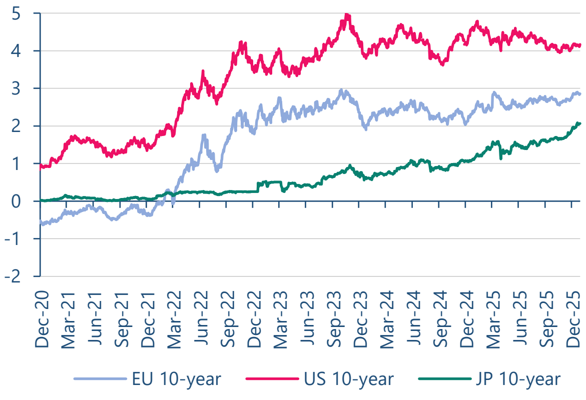
Chart 1.1: MSCI Indices



Source: Bloomberg.

Global equities posted strong gains in the second semester of 2025, supported by a broad risk-on environment, resilient global growth and easing inflation pressures despite ongoing tensions. The Morgan Stanley Capital International (MSCI) World Index rose by 10.5 per cent in the second semester of 2025 amid robust earnings, progress in US-China trade negotiations and enhanced investor confidence. The financial sector's MSCI Emerging Market Index increased by 14.9 per cent in the second half of 2025, driven by capital inflows, currency appreciation and moderating inflation. Furthermore, the MSCI Frontier Market Index rose by 19.6 per cent as frontier economies benefited from economic reforms, low valuations and domestic demand (Chart 1.1).

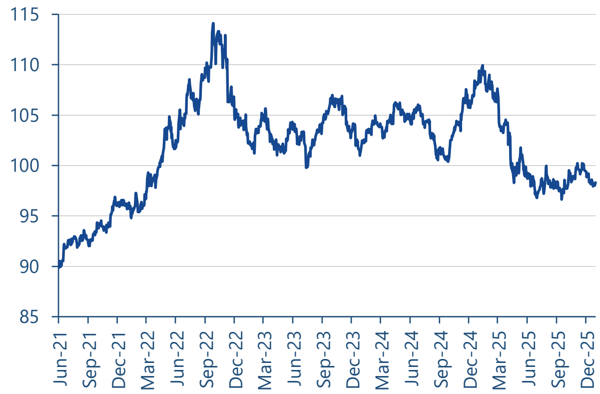
Chart 1.2: Selected government bond yields



Source: Bloomberg.

Sovereign bond yields in major economies recorded a mixed pattern in the second semester of 2025. The US 10-year Treasury yield contracted by 6 basis points to 4.2 per cent in the second half of 2025, reflecting the US Fed cautious approach to rate cuts. Conversely, the EU 10-year yield rose by 25 basis points to 2.9 per cent amid stronger growth in the Euro area and receding recession worries. Japan's 10-year yield surged by 67 basis points to 2.1 per cent, supported by a hawkish view on Bank of Japan’s policy, in anticipation of a rate hike (Chart 1.2).

Chart 1.3: US dollar index



Source: Bloomberg.

The US Dollar Index depicted mixed picture in the second semester of 2025, influenced by shifting risk sentiment and fears of prolonged trade conflicts (Chart 1.3). The index traded at 98.3 at the end of December 2025, an increase of 1.5 per cent compared end-June 2025. The US dollar remained anchored by safe-haven demand and the resilience of US economic activity. Two notable surges in July and October 2025 reflected periods of heightened geopolitical uncertainty and stronger US data. While corrections occurred in August, November and December, they underscored persistent investor preference for US dollar in a volatile environment.

Resilient domestic macrofinancial environment

The macrofinancial landscape in Mauritius showed notable resilience during the second semester of 2025, even though economic growth momentum moderated in the fourth quarter of 2025. The real economy expanded by 3.3 per cent and 2.7 per cent on an annual basis in the third and fourth quarters of 2025, respectively. Growth was largely driven by the strong performance of the *Accommodation and food services* sector, underpinned by resilient tourism activity. A total of 777,341 tourist arrival was recorded in the second half of 2025, reflecting a 5.5 per cent increase as compared to the same period of 2024. Similarly, activities in other service-oriented sectors – notably, the *Financial and Insurance*, *Transportation and Storage,*

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and *Information and Communication* – expanded strongly and contributed to economic growth.

Inflation rose to 3.7 per cent in December 2025, staying within the target range of 2 to 5 per cent and close to the medium-term target of 3.5 per cent. Domestic price dynamics were underpinned by inflationary pressures from abroad, driven by higher global commodity prices. Supply-chain costs also exerted pressures on inflation, with persistent price rigidity in essential food products.

Labour market dynamics improved in the second semester of 2025. The unemployment rate declined to 5.4 per cent in the last quarter of 2025 from 5.9 per cent in the second quarter, reflecting a gradual strengthening in labour market absorption and improved employment opportunities in the economy. Labour force participation was broadly stable, hovering around 59 per cent. On the wage front, the Wage Rate Index rose by 3.2 per cent on an annual basis in the fourth quarter of 2025, indicating upward wage momentum. This improvement in income contributed to enhancing household balance sheet resilience to macroeconomic shocks.

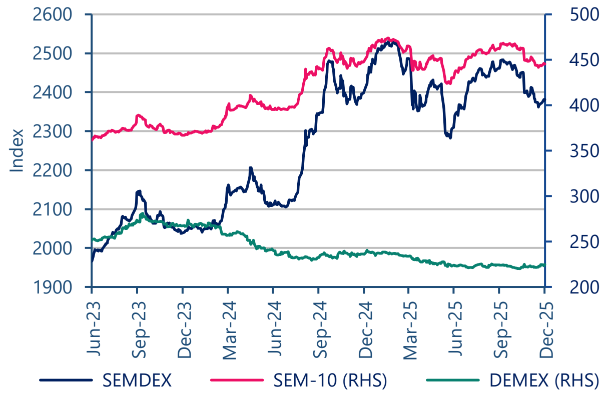
The fiscal consolidation measures initiated in the 2025-26 National Budget showed positive developments, with both the fiscal deficit and the current account deficit narrowing relative to GDP. These developments in the second half of 2025 collectively pointed to a moderation of macroeconomic imbalances and a gradual easing of vulnerabilities associated with the sovereign–bank nexus.

Looking ahead, real GDP was estimated to grow at 2.8 per cent in 2026, underpinned by the potential macrofinancial spillovers from the Middle East conflict that reshaped inflation dynamics. Volatility in global oil prices was expected to weigh on domestic fuel, transport, electricity and production costs. Furthermore, elevated freight, insurance and shipping costs arose from disruptions through key maritime routes such as the Strait of Hormuz could further amplify imported inflation pressures. These pressures were anticipated to erode households' real income and weaken their debt-servicing capacity while corporate earnings – especially in energy-intensive and import-reliant sectors – were expected to be squeezed amid rising input costs.

Stock market activity decelerated

Domestic equity markets picked up in the third quarter but receded in the fourth quarter of 2025. The SEMDEX and SEM advanced by 73 points and 15 points to reach 2,382 points and 445 points, respectively, at the end of December 2025 (Chart 1.4). Market sentiment was largely shaped by the performance of major conglomerates which carried significant weight in the SEMDEX. Overall, investor sentiment remained subdued amid a contraction of market capitalisation, driven by a series of de-listings and mergers. Notably, eight companies exited the Official Market or the Development & Enterprise Market (DEM), thereby reducing market breadth and liquidity. Strategic initiatives aimed at market modernisation were pursued notwithstanding persistent subdued equity market performance.

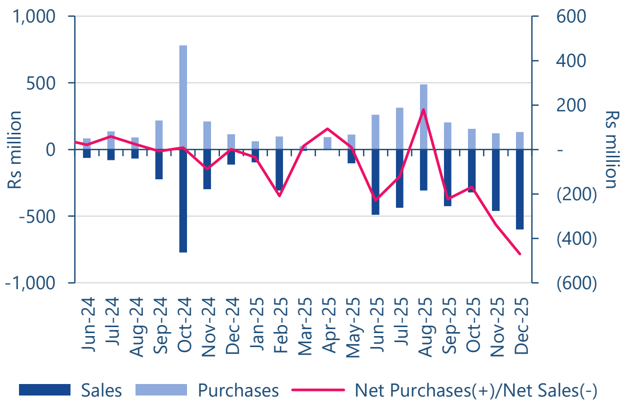
Chart 1.4: Trend of stock market indices



Source: Stock Exchange of Mauritius.

Trading activity by non-residents on the SEM weakened considerably during the second semester of 2025. Foreign outflows persisted, leading to a total disinvestment of Rs1.1 billion in the second half of 2025 (Chart 1.5). Strong grains in global equity markets may have attracted investors to better performing markets.

Chart 1.5: Investment by non-residents on the SEM and DEM

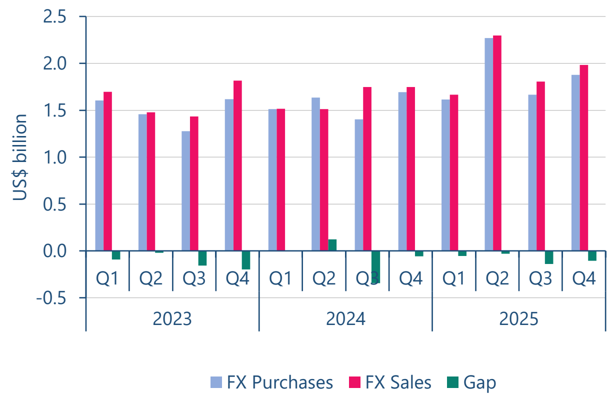


FX market stabilised

The FX market was active in the second half of 2025 and recorded high trading volumes, though turnover was marginally lower than in the first semester. The Bank intervened on several occasions to cater for the seasonal increase in FX demand from importers ahead of the end of year festivities and to mitigate exchange rate volatility. These measures supported market liquidity and contributed to orderly market conditions. Consequently, seasonal pressures on the exchange rate were contained and market confidence continued to improve, as it did in the first semester of 2025.

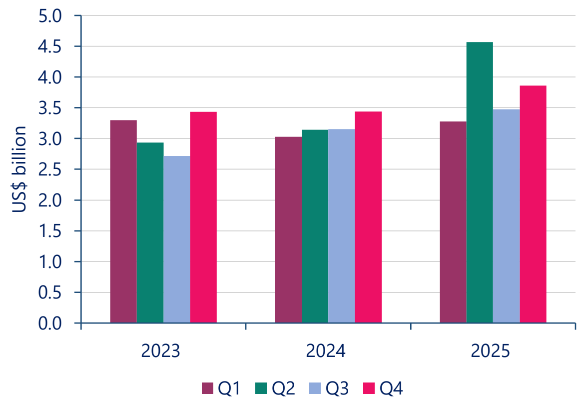
Chart 1.6: Foreign exchange turnover

a. Quarterly FX purchases & sales by banks



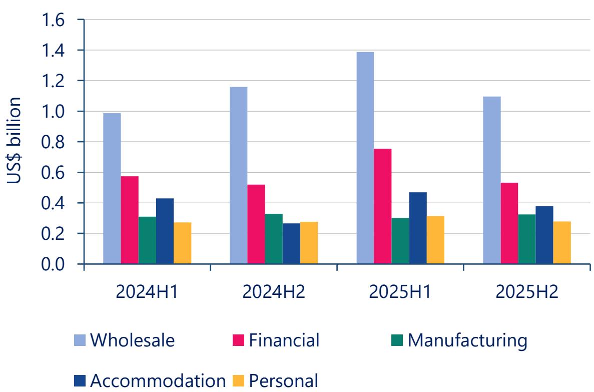
FX market conditions were impacted by tighter liquidity conditions, partly due to US dollar weakness against major currencies. Aggregate turnover by banks and FX dealers increased by 11.2 per cent to US$7.3 billion in the second semester of 2025 compared to the second half of 2024 (Chart 1.6b). Over the same period, FX purchases by banks and FX dealers rose by 14.5 per cent to reach US$3.5 billion while sales rose by 8.3 per cent to US$3.8 billion. Overall, net FX outflows declined to US$246.9 million, from USD402.6 million, over that period (Chart 1.6a).

b. Aggregate



FX turnover was predominantly supported by activities in the *Wholesale and retail trade* sector, which accounted for 28.0 per cent of overall market turnover. The *Financial and insurance activities* and the *Accommodation and Food Service* sectors were the other major contributors to FX activity. These sectors represented 23.2 per cent of total FX turnover in the second semester of 2025 (Chart 1.6c).

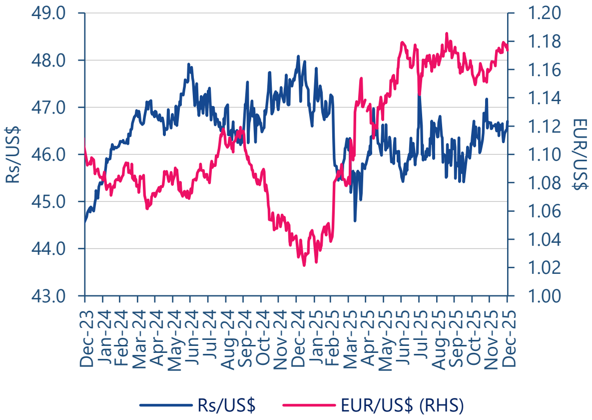
c. Sector-wise



Source: Bank of Mauritius.

The exchange rate of the rupee was on a broadly depreciating trend during the second semester of 2025, driven by domestic demand and supply conditions and international FX movements (Chart 1.7). The Rupee depreciated by 2.5 per cent against both the US dollar and the Euro, in terms of weighted average selling dealt rates. The Bank intensified its interventions – notably to address the seasonal increase in FX demand from importers and help contain undue exchange rate volatility – by selling an aggregate amount of US$170 million in the second semester of 2025.

Chart 1.7: Evolution of RS/US$ selling dealt rate and EUR/US$



Source: Bank of Mauritius.

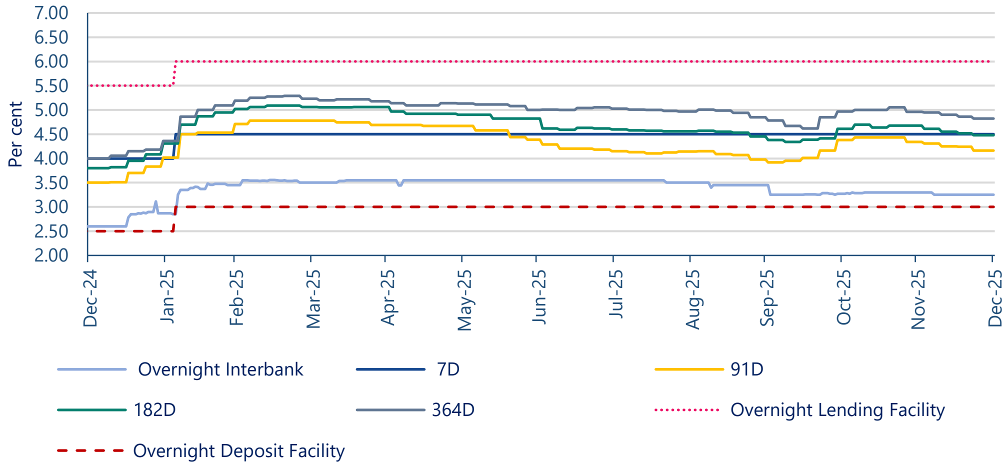
Monetary policy stance unchanged

The Monetary Policy Committee (MPC) maintained the Key Rate at 4.50 per cent at its meetings held on 13 August and 12 November 2025. The MPC adopted a cautious approach amid lingering global and domestic uncertainties. Accordingly, the Overnight Lending Facility (OLF) and the Overnight Deposit Facility (ODF), one of the main tools for monetary policy implementation, were unchanged at 6.00 per cent and 3.00 per cent, respectively. Similarly, the 7-Day Bank of Mauritius Bill was issued at a fixed rate of 4.50 per cent.

The Bank resumed issuance of central bank securities maturing up to one year as part of the longer-term operations in addition to the daily ODF. The ODF remained the key instrument for liquidity management, allowing banks to place surplus funds on a daily basis and steering the overnight interbank interest rate within the interest rate corridor around the Key Rate. Additional liquidity was mopped up through FX interventions. Government securities were issued across a broad spectrum of maturities, including Treasury Certificates issued on tap.

The overnight interbank rate evolved within the lower bound of the interest rate corridor between 3.25 per cent and 3.55 per cent. The 91-Day, 182-Day and 364-Day average yield dropped by 23 basis points, 34 basis points and 18 basis points to 4.16 per cent, 4.48 per cent and 4.82 respectively as at end-December 2025 (Chart 1.8).

Chart 1.8: Evolution of market interest rates



Source: Bank of Mauritius.

International reserves adequate

Mauritius maintained strong external liquidity position, supported by further accumulation of foreign exchange reserves. The Gross Official International Reserves (GOIR) increased to an all-time high of US$10.3 billion at the end of December 2025. This expansion provided additional policy space to absorb external pressures and contributed to a more resilient macro-financial environment.

The reserve position remained comfortably above commonly used adequacy indicators. The import cover rose to 14.1 months exclusive of Global Business Corporations (GBC) services imports and to 10.3 months inclusive of GBC services imports, reflecting a substantial buffer relative to traditional benchmarks for small open economies. The reserves-to-broad money ratio also strengthened to 45.2 per cent, indicating enhanced capacity to meet potential liquidity demands from the domestic financial system.

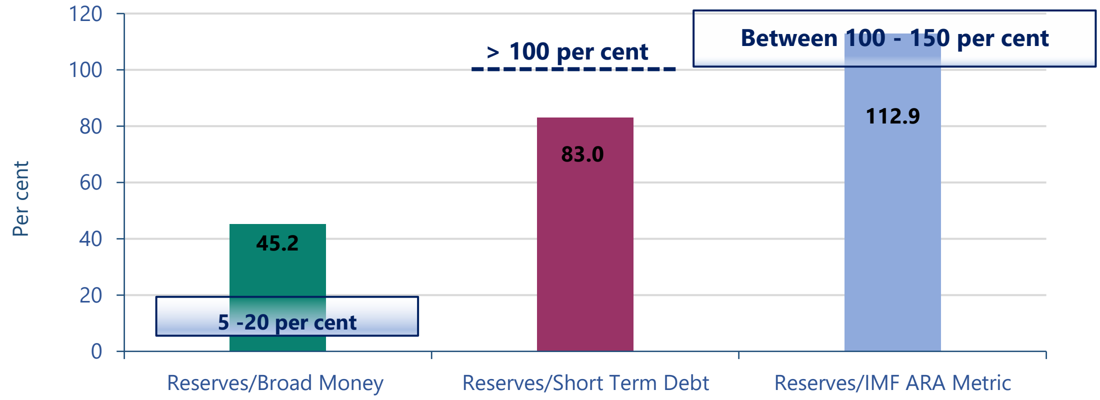
Reserve adequacy assessment using more rigorous external vulnerability metrics provided a nuanced picture. The reserves-to-short-term external debt ratio (Greenspan Guidotti rule) was at 83.0 per cent, remaining below the conventional 100-per-cent threshold.[1] Nevertheless, the broader IMF Assessing Reserve Adequacy (ARA) metric pointed to a satisfactory level of

[1] *The reserves-to-short term external debt ratio measures the potential short-term demand for foreign assets from domestic sources.*

external buffers.[2] [3] The GOIR-to-ARA ratio increased to 112.9 per cent, comfortably above the IMF's adequacy benchmark of 100 per cent. This suggests that, when accounting for the specific external risks faced by Mauritius – including its role as an IFC – the reserve holdings were sufficient to withstand adverse external conditions.

Overall, the improvement in reserve metrics during the second semester of 2025 contributed to mitigate external sector risks. The sustained accumulation of reserves, coupled with favourable adequacy indicators, reinforced the country's resilience to global financial volatility and supported confidence in the domestic financial system.

Chart 1.9: Select reserve adequacy metrics



Source: Bank of Mauritius

Systemic vulnerabilities edged up marginally

The Systemic Risk Indicator edged up marginally in the second half of 2025, though staying at moderate level, following an increase in risk from the macrofinancial environment, financial markets, and sectoral dynamics. Systemic risk from the external segment and banking system moderated, contributing to contain systemic risk at moderate level (Chart 1.10).

Macrofinancial risk went up mainly driven by an uptick in the private sector credit-to-GDP gap and a rise in inflation. Risk from the financial markets rose slightly as equity prices climbed further. External vulnerabilities maintained a declining path, supported by a rise in the country`s FX reserves and a favourable increase in the interest rate differential between the Rupee and the US dollar.

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[2] *The ARA takes account of several economic variables, namely exports of goods and services, short-term external debt, broad money liabilities, non-GBC portfolio and other investment liabilities position, as well as GBC deposits of non-DSIBs (https://www.imf.org/en/Publications/CR/Issues/2025/06/18/Mauritius-2025-Article-IV-Consultation-Press-Release-and-Staff-Report-567835).*

[3] *Refer to Box 1 in the Financial Stability Report December 2025 (https://www.bom.mu/sites/default/files/financial_stability_report_december_2025.pdf).*

Risk in the banking system eased with lower linkages of banks with other segments of the financial system along with a rise in profitability of banks. In contrast, household sector vulnerabilities maintained an upward trajectory. The sustained increase in household borrowings has led to a deterioration in debt sustainability and serviceability metrics of the sector. Similarly, risk from the corporate sector went up as business leverage increased whilst the exposure of the banking system to the Commercial Real Estate (CRE) segment also witnessed an uptick.

Going forward, the onset of the Middle East conflict is expected to weigh on macrofinancial conditions, potentially heightening financial stability risks in 2026.

Chart 1.10: Systemic Risk Indicator

Source: Bank of Mauritius

2. Financial soundness of households and corporates

Risk dynamics in the household and corporate sectors evolved differently in the second half of 2025. Household borrowing continued to grow firmly, supported by a resilient labour market, but was accompanied by a deterioration in debt sustainability and serviceability metrics in the sector. In contrast, corporate conditions were broadly stable, sustained by solid earnings among large firms and steady access to bank financing, although pockets of weakness persisted in property-related activities. Credit risk from both sectors were contained, with emerging pressures largely confined to specific borrower groups and sectors. Overall, these developments point to a macrofinancial environment where vulnerabilities remained manageable in the second half of 2025, though developments in early 2026 could amplify pressures to macrofinancial conditions.

Risk dynamics in the household and corporate sectors evolved unevenly in the second half of 2025. Household borrowing continued to expand at a strong pace. The resilient labour market conditions supported household financials, even as debt-servicing pressures edged up and early signs of strain emerged in mortgage repayments. In contrast, corporate sector conditions remained broadly stable at the aggregate level. Strong corporate earnings among large firms supported steady demand for bank credit, although pockets of weaknesses persisted in property-related activities.

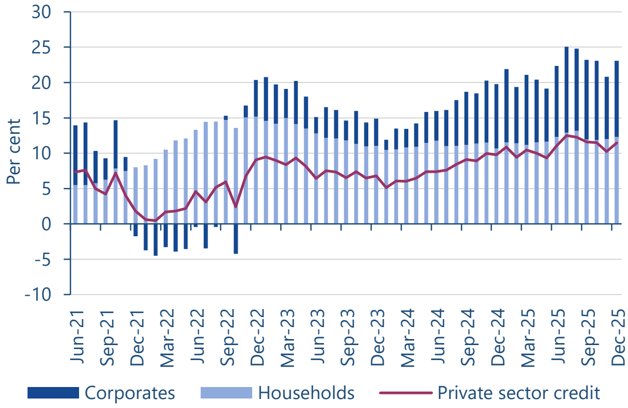
Financial conditions in the household sector were shaped by sustained demand for credit facilities and rising leverage in the second semester of 2025. Borrowing remained strong, driven largely by housing and motor-vehicle loans, even as fiscal policy adjustments effective as from the second half of 2025 were expected to constrain demand for credit. Debt-serviceability metrics deteriorated further, reflecting higher borrowing costs and slower income growth. Whilst residential property prices have stabilised in the last two quarters of 2025, annual increase in house prices continued to exceed growth in wages, contributing to heightened housing affordability pressures. Although overall asset quality of the sector remained sound, the marginal rise in housing loan impairments highlighted emerging repayment challenges for a subset of borrowers, especially those at the lower end of the income bracket.

Corporate sector vulnerabilities were contained in the second half of 2025, supported by firm earnings and relatively stable financing conditions. However, emerging pressures became visible across some sectors, with property-related activities – particularly *Construction* and *Real Estate activities* sectors – recording a deterioration in credit risk. Other sectors also showed signs of strain, even as the aggregate Non-performing loan (NPL) ratio was contained by robust credit growth. Nonetheless, corporate leverage remained manageable, with borrowing supported by operating surplus, and banks' exposure to CRE stayed limited. Looking ahead, heightened geopolitical tensions may weigh on corporate activity. Still, the ample capital buffers of banks provided sound safeguard, enabling banks to continue supporting credit intermediation even under less favourable macrofinancial conditions.

Credit to the private sector was steady

Bank lending to the private sector maintained strong momentum in the second half of 2025. Credit facilities extended by banks to the sector grew at an annual rate of 11.4 per cent in December 2025, affirming strong demand for funding from both households and corporates (Chart 2.1). Bank credit to the corporate sector expanded by 10.8 per cent, at a roughly similar pace as in June 2025, while household credit growth was broadly steady at 12.3 per cent.

Chart 2.1: Annual growth of private sector credit

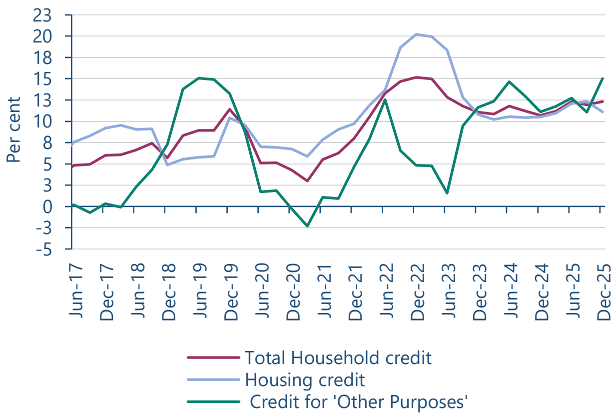


Source: Bank of Mauritius.

Household borrowing maintains strong momentum

Borrowing activity of households was robust in the second half of 2025 (Chart 2.2). Demand for credit facilities from households was supported by favourable labour market conditions, namely, low unemployment and rising wages. Housing credit growth moderated to 11.1 per cent on an annual basis in December 2025 whilst credit for *'other purposes'* grew by 15.0 per cent in December 2025.

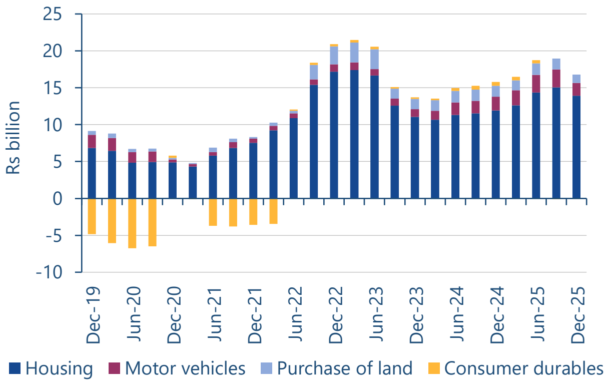
Chart 2.2: Annual growth of credit to households



Source: Bank of Mauritius.

Household borrowing patterns eased marginally relative to June 2025. The expansion of housing loans remained elevated relative to recent years, partly driven by higher construction costs, rising property prices and sustained appetite for residential real estate investments. The dynamics in housing loans suggest that underlying demand for housing finance has stayed strong despite the repeal of fiscal support measures targeting the residential real estate sector in the National Budget 2025-2026.[4]

Chart 2.3: Annual change in household credit



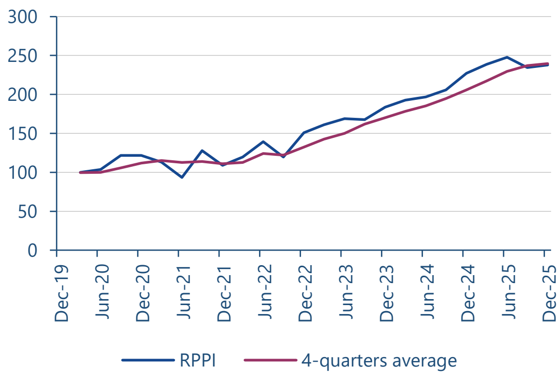
Source: Bank of Mauritius

The introduction of additional excise duties on motor vehicles announced in the National Budget 2025-26 contributed to moderate motor vehicle loans in the second half of 2025. Bank credit for the purchase of motor vehicles rose by 18.9 per cent on an annual basis in December 2025, down from 28.4 per cent in June, and stayed above its average in recent years. The strong momentum observed in the second quarter of 2025 in the growth of motor vehicle loans was partly influenced by anticipatory behaviour of households to front-load borrowings before the rise in motor vehicle prices.

Residential property prices broadly stabilised

Residential property prices softened in the second half of 2025. The Residential Property Price Index (RPPI) declined to 237.7 in December 2025 (Chart 2.4). The drop, however, reflects a shift in the composition of transactions rather than a broad-based decline in property prices. The transaction mix moved toward a higher share of standard properties and fewer high-end units, pulling down the aggregate index. On an annual basis, the RPPI rose by 4.7 per cent in December 2025, underscoring persistent price pressures.

Chart 2.4: Residential Property Price Index

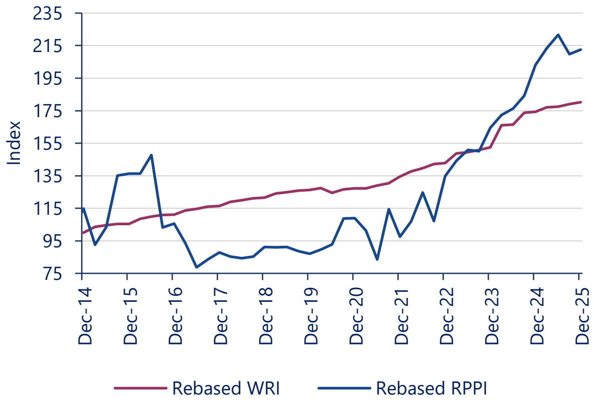


Source: Statistics Mauritius and Bank of Mauritius

[4] *The VAT Refund Scheme for the construction or purchase of a residential property from a VAT-registered developer was discontinued as of 30 June 2025. The Home Loan Payment Scheme and the Housing Loan Relief Scheme were discontinued as of 30 June 2025.*

Residential property prices have continued to outpace household income growth, widening the housing affordability gap. The faster rise in the RPPI – despite the moderation in the index for the second half of 2025 – implies that affordability pressures remained elevated, particularly for first-time buyers and lower-income households. From a financial stability perspective, sustained misalignment between property prices and income growth could heighten vulnerability to shocks. The indebtedness of households may rise further for them to purchase or construct a house, increasing the sensitivity of the household sector to interest rate or income shocks.

Chart 2.5: Divergence between residential property prices and wage growth

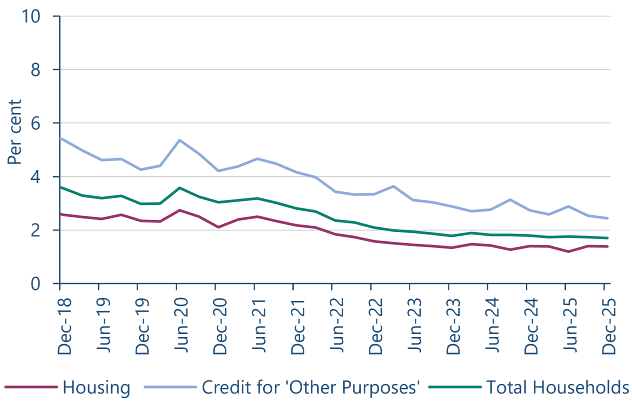


Source: Bank of Mauritius and Statistics Mauritius

Household sector asset quality remained robust

Credit risk in the household sector remained low, even improving slightly in December 2025. The aggregate NPL ratio of the household sector edged down to 1.7 per cent in December 2025, from 1.8 per cent in June 2025, underpinned by an improvement in credit extended for *'Other purposes'*. The NPL ratio in this segment moderated to 2.4 per cent in December 2025, suggesting a partial easing of short-term repayment pressures in the unsecured segment. (Chart 2.6).

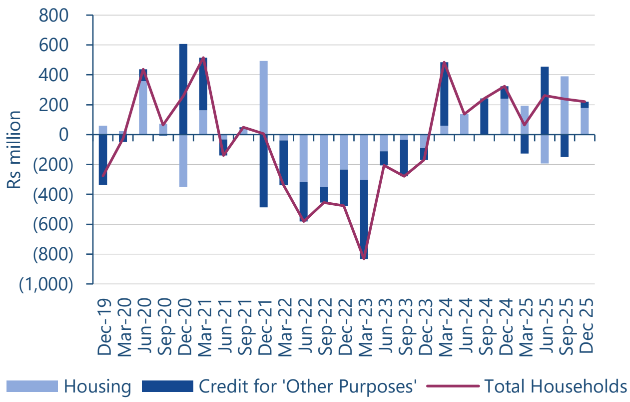
Chart 2.6: NPL ratio for households



Source: Bank of Mauritius.

In contrast, credit risk in the housing credit portfolio deteriorated slightly, with the NPL ratio rising to 1.4 per cent in December 2025 from 1.2 per cent in June 2025. The NPL still remained low by historical standards. However, the annual increase in the nominal value of credit impairments in the second semester of 2025 signalled emerging repayment challenges in the household sector. On an annual basis, impairment in the housing segment rose by Rs567.1 million in the second half of 2025, as compared to the corresponding period in 2024.[5]

Chart 2.7: Annual change in nominal amount of impairment of household loans

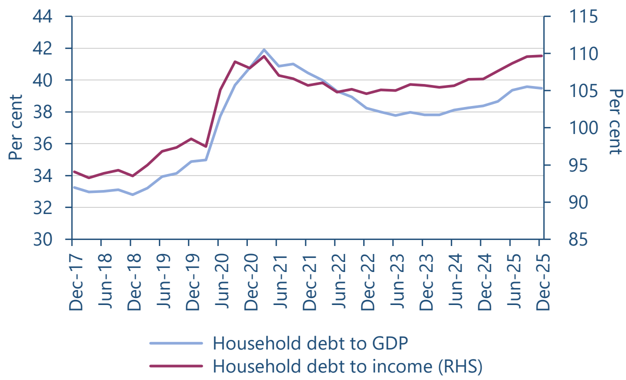


Source: Bank of Mauritius.

Household indebtedness escalated further

Household indebtedness continued its upward trajectory in 2025, reflecting strong borrowing appetite of households. Household debt relative to GDP increased to 39.5 per cent in December 2025 from 39.4 per cent in June 2025, while the ratio of household debt to income rose to 109.7 per cent from 108.7 per cent over the same period (Chart 2.8).[6] In absolute terms, total household debt expanded to Rs293.4 billion in December 2025.

Chart 2.8: Indicators of household indebtedness to financial system



Source: Bank of Mauritius.

The steady rise in household leverage, alongside slower income growth, suggests that repayment capacity has become more stretched than the household debt-to-GDP ratio would imply. The recent increase in housing loan impairments and the uptick in the corresponding NPL ratio point to early signs of strain among vunerable households.

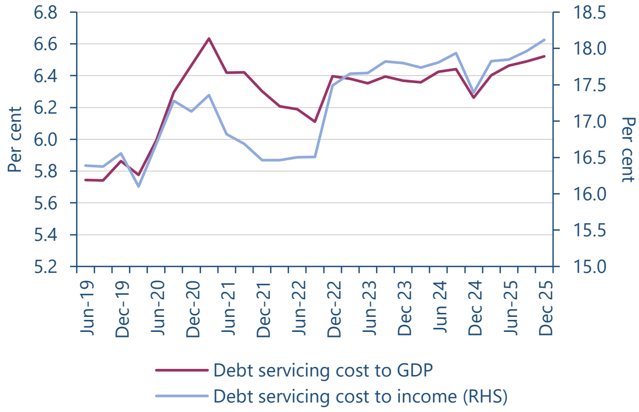
[5] *The rise in impairment figures reflect annual movements in household loans registered as impaired by banks over the corresponding period. For instance, a rise of Rs567.1 million of additional impairment was observed in the second half of 2025, as compared to an increase of Rs240.3 million noted in the second half of 2024.*

[6] *Household indebtedness to the financial system comprises credit facilities availed from banks, NBDTIs, insurance, leasing, credit finance and pension funds companies.*

Debt servicing burden strain deepened for households

Debt serviceability metrics in the household sector deteriorated in the second semester of 2025. The dynamics in the metrics were influenced by faster growth of borrowing costs relative to GDP and income. The estimated household debt servicing cost to GDP and income ratios went up to 6.5 per cent and 18.1 per cent, respectively, in December 2025 (Chart 2.9).

Chart 2.9: Estimated debt servicing cost to income



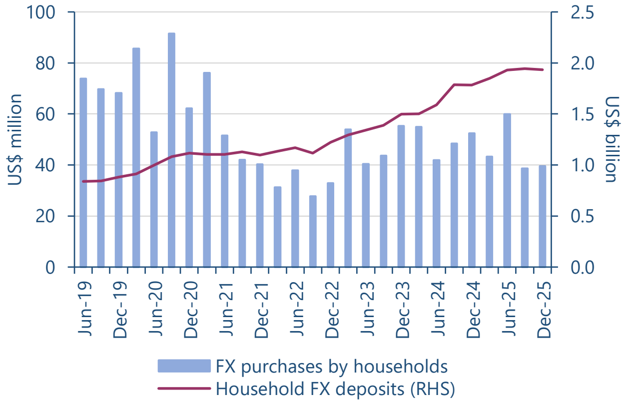
Source: Bank of Mauritius.

The rise in household debt-servicing burdens in the second half of 2025 indicates that financial buffers have narrowed in the household sector. Higher repayment obligations are absorbing a larger share of household income at a time when signs of strain are emerging in the housing segment. This leaves some borrowers with less room to absorb future shocks, increasing the household sector's vulnerability in case of a downturn in macroeconomic conditions.

Households' preference for FX moderated

Household demand for FX softened in the second half of 2025. FX purchases by households fell to US$78.1 million in the second semester of 2025, the lowest volume of FX purchases recorded since the second half of 2022 (Chart 2.10).

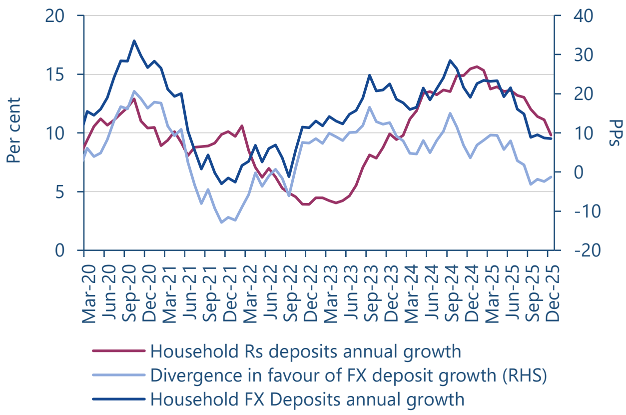
Chart 2.10: Households FX purchases and deposits



Source: Bank of Mauritius.

Moreover, household FX deposits held with banks were broadly stable in December 2025, hovering around the same level as in June 2025. The pace of household FX deposit growth slowed markedly to 8.5 per cent on an annual basis in December 2025. The growth differential in favour of FX deposits in preceding periods turned negative in the second semester of 2025, indicating a shift towards Rupee deposits and a

Chart 2.11: Annual growth of household deposits



Source: Bank of Mauritius

cooling of FX-asset accumulation by households (Chart 2.11). Overall, better economic sentiment cooled household appetite to hold savings in FX.

Household vulnerabilities climbed further

Financial conditions in the household sector were shaped by a stable labour market environment and steady access to bank credit in the second half of 2025. Rising household leverage, elevated residential property valuations and weakening debt-serviceability metrics point to a gradual build-up of vulnerabilities and risks. Early signs of strain were visible in the housing segment, where impairments recorded their largest annual increase since the pandemic and the housing NPL ratio edged higher, indicating that repayment capacity is becoming more stretched for some borrowers. Nonetheless, strong labour market conditions and growing wages are expected to support the financial resilience of the household sector in the short term.

The household sector could, however, face a more challenging environment over the medium term as debt-servicing burdens remain elevated and income growth moderates, the more so with the outbreak of the geopolitical turmoil in the Gulf region in early 2026 accompanied by heightened global economic uncertainty and the pick up in inflation. Repayment pressures emerging in the housing credit portfolio indicate that a segment of the household sector would face weaker financial buffers, increasing their exposure to potential shocks.

Corporate sector remained resilient

The corporate sector landscape was broadly stable in the second half of 2025. The operating environment for businesses was underpinned by strong earnings of large corporates and steady access to bank financing.[7] Borrowing activity continued to expand as businesses sought funding for working capital and investment needs. However, this broader picture masked pockets of vulnerabilities, particularly within property-related sectors where asset quality continued to deteriorate.

Sectoral activity was uneven in the second semester of 2025. Key economic sectors such as the *Manufacturing*, *Wholesale and retail trade*, *Financial Services* and *Accommodation and food service activities* sectors expanded. In contrast, the *Construction* sector activity remained subdued, reflecting softer investment momentum, while segments of the broader real estate sector showed signs of deceleration. Overall, the continued flow of bank credit to corporates has helped sustain business activity and contributed to maintain macrofinancial stability.

[7] *Corporate earnings are proxied by the revenue generated by systemically large companies operating in the non-financial segment and listed on the Stock Exchange of Mauritius.*

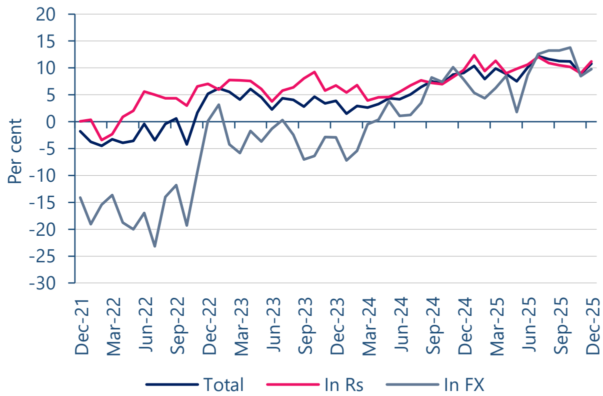
Corporate credit growth well supported

Corporate credit activity was broadly robust in the second half of 2025. Bank credit to the corporate sector expanded at an annual rate of 10.8 per cent in December 2025. This expansion was primarily driven by an increase in loans to businesses operating in the *Manufacturing*, *Professional, scientific and technical activities* and *Construction* sectors. Debt sustainability in the corporate sector was sound as business leverage relative to GDP hovered below its historical average in the second semester of 2025.

Banks` credit portfolio for the corporate sector remained concentrated in loan instruments in the second half of 2025. Loans made up 84.2 per cent of total corporate credit in December 2025 whilst bank investments in debt securities issued by corporates made up the remaining 15.8 per cent. This distribution has remained mostly stable in recent years with smaller holdings of corporate debt securities by banks, thereby limiting valuation and liquidity risks associated with market-based instruments.

Sustained demand for FX corporate credit

Chart 2.12: Annual growth of credit to the corporate sector



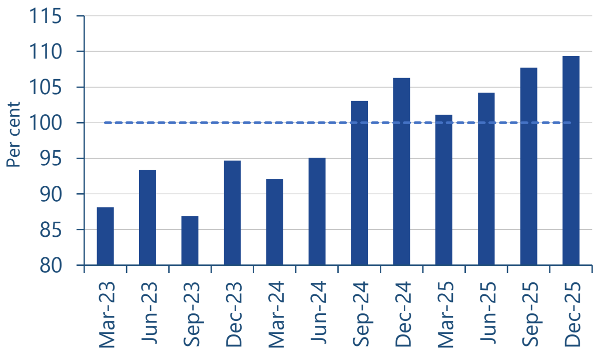
Source: Bank of Mauritius.

Corporate credit in FX expanded at a relatively faster pace in the second half of 2025. FX credit facilities extended by banks to corporates grew at an annual rate of 9.8 per cent in December 2025, higher than the annual growth of 8.7 per cent in June (Chart 2.12). Corporates operating in the *Manufacturing*, *Construction* and *Agriculture, forestry and fishing sectors* were the main contributors to the increase in FX-denominated credit facilities. The strong growth in FX corporate credit facilities reflected ongoing import-related financing needs, particularly raw materials required by firms engaged in producing goods for export.

FX loan-to-deposits widened further

The FX loan-to-deposit (LTD) ratio in the corporate sector hovered above 100 per cent in the second half of 2025.[8] The FX LTD ratio for the corporate sector continued to rise to reach 109.3 per cent in December 2025 (Chart 2.13). The ratio indicates that FX borrowing needs by the sector continued to exceed the FX liquidity they held with banks, signalling strong demand for FX funding relative to their FX deposit buffers. For banks, the ratio implies that part of the FX demand for credit facilities are financed from FX funding sources other than corporate deposits, such as from households.

Chart 2.13: FX LTD ratio of the corporate sector



Source: Bank of Mauritius.

Corporate sector asset quality improved slightly

Credit risk developments in the corporate sector were mixed in the second half of 2025. The aggregate NPL ratio of the banking system`s corporate credit portfolio improved to 6.0 per cent in December 2025, slightly lower than the 6.2 per cent recorded in June. But this improvement largely reflected a strong expansion in outstanding credit facilities extended by banks to the corporate sector, rather than a broad-based strengthening of the asset quality of the sector. In absolute terms, impairments continued to rise and several sectors recorded some degree of deterioration in loan quality, signalling that underlying repayment pressures persisted.

The NPL ratio of the *Construction* and *Manufacturing* sectors rose to 12.7 per cent and 3.5 per cent, respectively, in December 2025 (Chart 2.14). The asset quality of the *Real Estate activities* sector deteriorated further to reach 11.9 per cent in December 2025, marking the third successive deterioration in the credit risk metric of that particular sector since December 2024. The property market-related sectors – the *Construction* and *Real Estate activities* sectors – have the two highest NPL ratios in the corporate credit portfolio, underscoring vulnerabilities in the

[8] *Corporate FX loans are loans and advances extended by banks to resident other non-financial corporations. It comprises of loans and advances, overdrafts, finance lease, domestic and foreign bills purchased and discounted, bills receivables and securities extended to resident corporate entities, excluding GBCs. Corporate FX deposits refers to the total deposits including demand deposits, savings deposits, time deposits and restricted deposits held by resident other non-financial corporations, excluding GBCs.*

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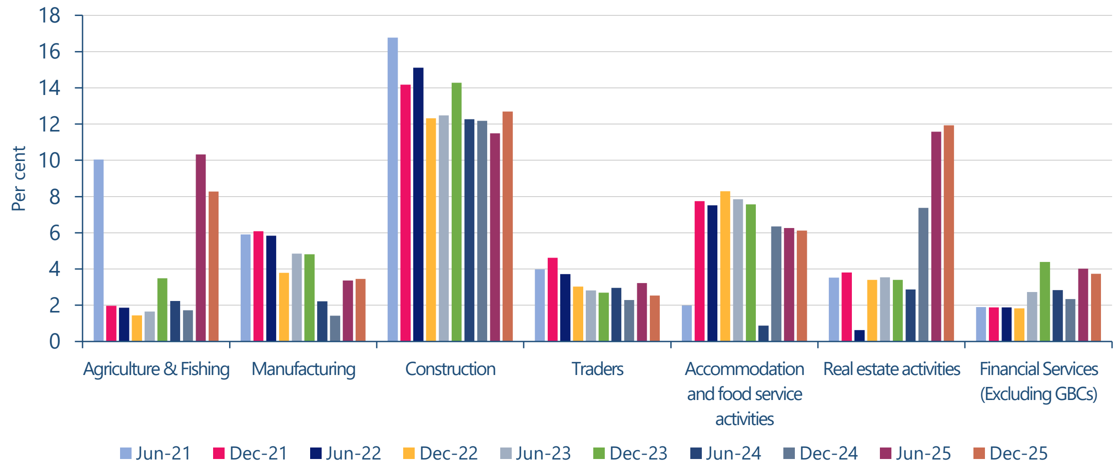
real estate market. Altogether, the three sectors represented 36.2 per cent of the domestic credit portfolio.

On a more positive note, the NPL ratio of the *Wholesale and retail trade* and *Professional, scientific and technical activities* sectors improved to 2.5 per cent and 2.1 per cent, respectively, in December 2025. These two sectors represented 24.7 per cent of the credit portfolio.

Chart 2.14: Sector-wise NPL ratio for selected key sectors

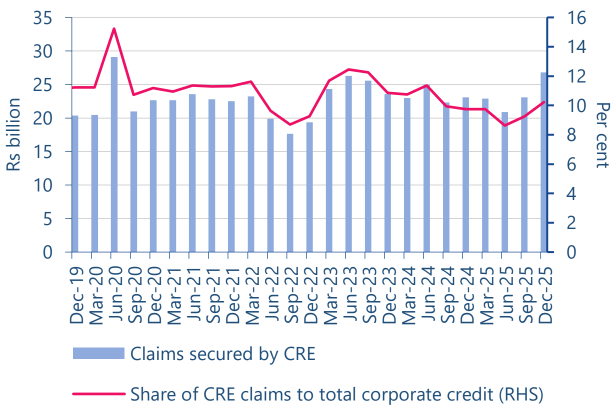


Source: Bank of Mauritius.

Credit facilities to commercial real estate rose

The exposure of the banking system to the CRE market remained low, despite an increase in credit facilities to the CRE segment in the second semester of 2025. The share of CRE credit in the credit portfolio of banks hovered around 10 per cent (Chart 2.15). This limited share implies that risks stemming from the CRE market were unlikely to pose systemic concerns, as banks' balance sheets were modestly exposed to potential stress in this segment.

Chart 2.15: Share of claims secured by CRE to corporate credit

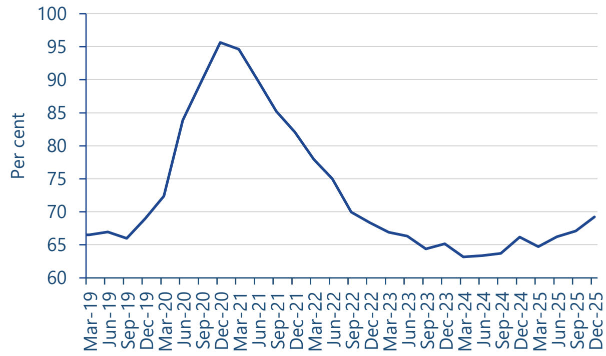


Source: Bank of Mauritius.

Corporate earnings remained strong

Leverage in the corporate sector evolved around historical trends in the second half of 2025, barring the pandemic period, though a rising trend was noted during 2025. The continuous growth in business earnings has supported corporate leverage capacity. The ratio of corporate credit to operating surplus rose to 69.3 per cent in December 2025 (Chart 2.16). The increase reflected higher borrowing by corporates, but the concurrent expansion in operating surplus helped preserve repayment capacity and maintained a buffer against rising debt levels.

Chart 2.16: Share of corporate credit to operating surplus



Source: Bank of Mauritius.

Corporate sector remained resilient but vulnerabilities emerged

Overall, conditions in the corporate sector were broadly stable in the second half of 2025, supported by strong earnings among large firms and continued access to bank financing. However, sectoral divergences became more pronounced, with property-linked segments – namely *Construction* and *Real Estate activities* – recording the highest NPL ratios in the banking system and driving much of the deterioration in loan quality. Impairments rose in absolute terms and several industries experienced weaker repayment performance. Nevertheless, the strong capital and liquidity positions of the banking system continue to provide solid buffers to support business financing needs even as sectoral risks evolve.

External conditions are likely to play a more prominent role in shaping the corporate sector environment over the next few quarters. Heightened geopolitical tensions, the war in the Middle East, and a more uncertain global trading landscape could weigh on demand for domestic exports and exert pressure on export-oriented corporates. Nonetheless, the corporate sector continued to benefit from well-capitalised banks, which provide an important buffer against downside risks.

Box 1: Macroprudential stress testing of the household sector

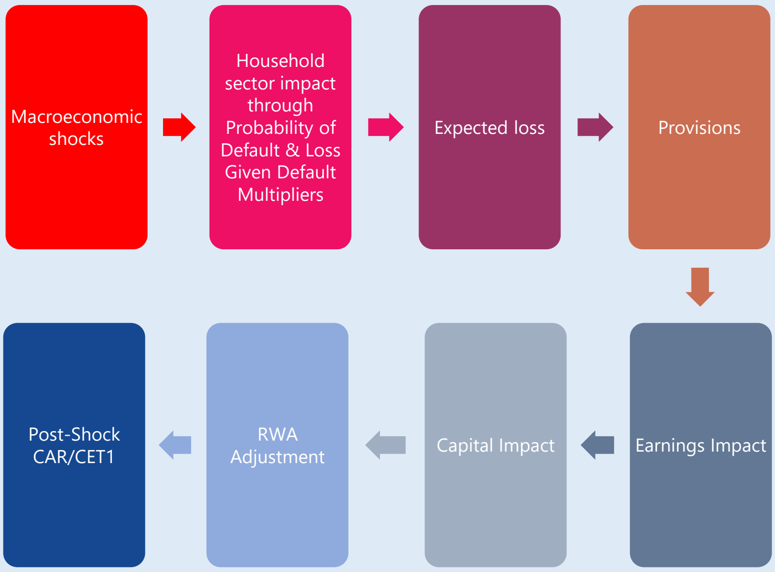
The household sector constitutes an important component of the financial system, given its growing share in banks' credit portfolio and its sensitivity to macroeconomic developments. As such, vulnerabilities in household balance sheets may have implications for the resilience of the banking sector and, more broadly, for financial stability.

Adverse macrofinancial conditions – such as tighter monetary policy, weaker labour market conditions, or corrections in asset prices – can affect the debt servicing capacity of households. This may result in an increase in loan delinquencies and credit losses for banks. In this context, the assessment of the household sector resilience has become an increasingly relevant element of macroprudential surveillance.

The Bank has developed a macroprudential stress test module for the household sector to that effect to provide a forward-looking assessment of the potential impact of macroeconomic shocks on household credit risk and the banking system. The module will complement existing system-wide solvency stress testing exercises.

The household stress testing module adopts a top-down macrofinancial approach, linking developments in household credit quality to key macroeconomic variables. The analysis focuses on the transmission of macroeconomic shocks – particularly those relating to interest rates, labour market conditions, inflation dynamics, and property prices – to household loan performance (Figure 1).

Figure 1: Risk transmission channel



Empirical relationships are used to capture the sensitivity of household credit risk indicators to changes in these macroeconomic drivers. The econometric models have identified borrowing costs as the key transmission channel, reflecting their direct impact on household debt servicing capacity. Labour market conditions and housing market developments also constitute important determinants of credit risk through their influence on household income and balance sheets.

Stress scenarios are build based on changes in credit risk parameters, which are then used to estimate the potential evolution of expected credit losses under adverse conditions. The analysis is conducted at an aggregate level, with a focus on system-wide implications as well as at bank-wise level. The framework is intentionally designed to remain parsimonious and transparent, with a view to ensuring robustness of results.

The deployment of the household sector stress test module is consistent with international trends in macroprudential policy and financial stability analysis. Central banks and international institutions have increasingly integrated sectoral stress tests into their analytical toolkits to better capture the heterogeneous transmission of shocks across economic agents.

In particular, the approach adopted by the Bank is broadly aligned with internationally recognised practices, including:

- the use of macroeconomic scenarios to assess credit risk in specific sectors,
- the application of satellite models to link macroeconomic developments to risk parameters, and
- the integration of household sector vulnerabilities into system-wide stress testing frameworks.

Such approaches are widely employed across both advanced and emerging market economies, where household indebtedness has been identified as a key source of systemic risk. The use of aggregate, data-driven models is also consistent with the principle of proportionality, especially in the context of evolving data availability.

The introduction of a dedicated household stress testing framework strengthens the Bank's macroprudential surveillance capacity by enhancing its ability to assess risks arising from the household sector. The framework provides additional insights into the interaction between macroeconomic conditions and credit risk in retail credit portfolios, thereby supporting the formulation of forward-looking policy assessments.

The framework will be further enhanced as additional data become available, including more granular information on household indebtedness and borrower characteristics. This would allow for a more refined assessment of vulnerabilities across different segments of the household sector, while maintaining the system-wide perspective that underpins macroprudential analysis.

3. Banking sector resilience

The banking sector in Mauritius remained resilient in the second semester of 2025, underpinned by strong capitalisation, ample liquidity buffers, and sustained balance sheet expansion, which collectively supported financial stability. The expansion in banking sector assets was driven by domestic activity alongside a recovery in cross-border exposures. Capital and liquidity positions remained well above regulatory thresholds, supported by stable core deposits, prudent risk management practices and robust funding structures. Asset quality improved further while profitability strengthened amid solid credit performance. Although moderate risks were identified – including a slight increase in market concentration, a mild build-up in credit concentration, and a strong bank–sovereign nexus – these remained manageable with sound capital buffers that enabled banks to absorb shocks effectively. Overall, the stress testing results confirmed the resilience of the banking sector to withstand adverse macrofinancial shocks.

The capital strength, robust liquidity position, and sustained but prudent domestic and cross-border activity of the banking sector in the second semester of 2025 provided a robust foundation for financial stability. The sector continued to expand its balance sheet, complemented by stable structural features and sound prudential indicators. Banks maintained strong shock-absorption capacity. Liquidity buffers were adequate across banking institutions and funding profiles were supported by stable core deposits. Banks continued to strengthen risk management frameworks in line with evolving regulatory expectations, contributing to balance sheet resilience.

The expansion of the banking sector balance sheet was supported by both domestic and cross-border operations. Total banking sector assets increased by 6.1 per cent year-on-year, to attain Rs2.8 trillion in December 2025, representing around 380 per cent of GDP. This expansion outpaced the rate recorded in the preceding semester and reinforced the sector's systemic footprint. Non-resident asset holdings accounted for a slightly larger share of total banking sector assets at 52 per cent compared to 48 per cent for resident assets – inclusive of the GB sector. Resident assets recorded stronger annual growth of 8.0 per cent at the end of 2025, largely driving overall asset expansion during the year.

Banks remained the dominant pillar of the financial system in Mauritius, accounting for nearly 90 per cent of total domestic financial sector assets.[9] The scale and sustained growth of banking assets underscored its critical role in intermediating domestic and foreign funding

[9] *GBCs were excluded in the computation of the financial sector assets. The institutional perimeter for financial sector includes banks, non-bank deposit taking institutions, insurance companies, pension funds and financial auxiliaries.*

flows. NBFIs represented the remaining 10 per cent, with the NBFI sector made up of non-bank deposit-taking institutions (NBDTIs), credit unions, insurance companies, pension funds, investment funds, financial auxiliaries, and other financial intermediaries, all of which are licensed and regulated by the Financial Services Commission (FSC). The overall structure of the banking industry was broadly unchanged, with 18 licensed banks in operation in December 2025 and comprising both domestic-owned and foreign-owned institutions.[10] Domestic-owned banks continued to hold a significant share of total assets of around 80 per cent.

The cohort of four Domestic Systemically Important Banks (D-SIBs) maintained their central role in the financial system.[11] Their capital and liquidity positions exceeded regulatory thresholds in line with past trends, thus supporting resilience against potential systemic shocks. Their sustained cross-border expansion further reinforced Mauritius' position as a regional financial hub, while contributing to the diversification of income sources.

Market concentration indicators point to a relatively stable competitive landscape in the banking sector. The Herfindahl-Hirschman Index (HHI) rose slightly to 1,844 in December 2025, compared to 1,798 in June 2025. While the increase reflects incremental shifts in asset distribution, overall concentration levels remained consistent with a moderately concentrated market. The two largest D-SIBs continued to hold a significant portion of banking sector assets, with no major structural shifts observed.

Moderate interconnectedness between banks and NBFIs

Interlinkages between banks and NBFIs stayed moderate, exhibiting low structural variation during the second half of 2025. Direct exposures—on both the asset and liability fronts—remained below 5 per cent and did not materially alter the risk transmission channels within the financial system (Chart 3.1).

The continuous growth in liabilities sourced by banks from NBFIs reflected reliance by some NBFIs on bank deposit facilities. Although the magnitude was contained, the trend is closely monitored given the potential implications for liquidity dynamics under stressed conditions and transmission to the banking system. Mauritius is vulnerable to climate-related shocks, which can trigger sudden liquidity needs by NBFIs, especially those with concentrated exposure to environmentally sensitive sectors. Cyber incidents can also amplify liquidity risk

[10] *One bank is under conservatorship as from February 2024 and is excluded.*

[11] *The D-SIBs are: The Mauritius Commercial Bank Limited, SBM Bank (Mauritius) Ltd, Absa Bank (Mauritius) Limited, and AfrAsia Bank Limited.*

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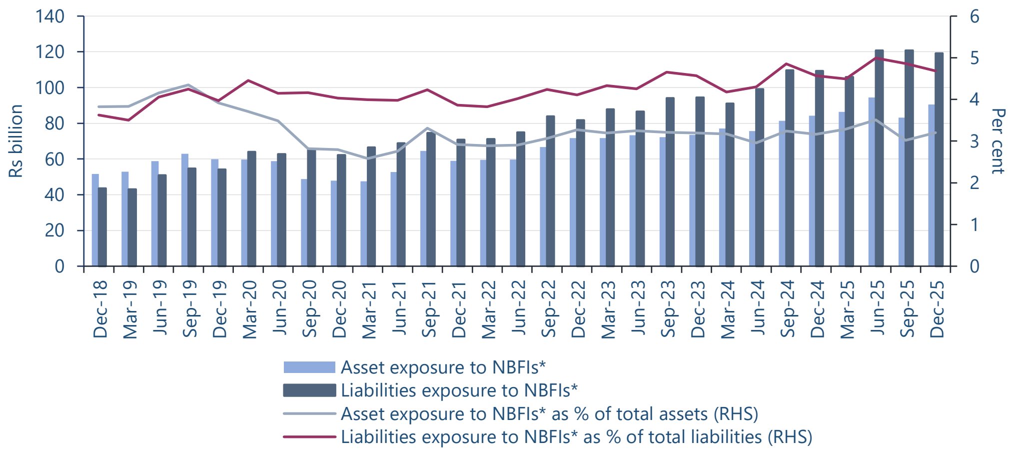
by disrupting NBFI operations or undermining market confidence. The Bank collaborates closely with the FSC to enhance cyber security in the NBFI sector.

Chart 3.1: Banking sector exposure to NBFI



Note: NBFIs exclude GBCs
**Exposures were estimated through selected balance sheet assets and liabilities lines derived from and held by NBFIs.*
Source: Bank of Mauritius.

Steady expansion in banking sector balance sheet

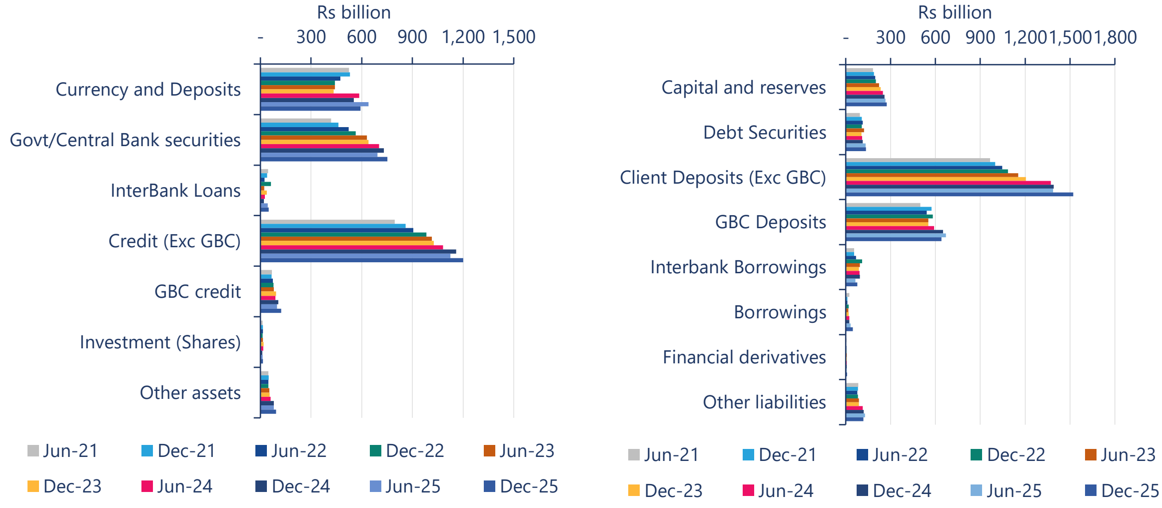
The evolution of banks' balance sheets during the second semester of 2025 points to a sector that remained liquid, well funded, adequately capitalised and with sound asset quality. The expansion of banking sector assets continued to be driven by credit intermediation and investment in sovereign securities. The asset composition underscored high liquidity buffers and strong capacity to absorb shocks, mitigating near-term vulnerabilities even as macrofinancial risks—both at the domestic and global level—continue to evolve adversely. While non-resident exposures accounted for a slightly larger share of banks' asset base, asset growth during the year was primarily driven by resident activity, reflecting stronger domestic balance-sheet expansion. Non-resident activity nonetheless expanded towards the end of 2025, reversing the contraction observed in mid-2025 and indicating a recovery in cross-border exposures.

Banks pursued balance sheet expansion, supported mainly by growth in credit and liquid assets, while client deposits continued to grow (Chart 3.2). Total assets increased by 6.1 per cent annually to Rs2.8 trillion in December 2025, driven mostly by domestic banking operations followed by cross-border activities.

Chart 3.2: Banking sector balance sheet decomposition

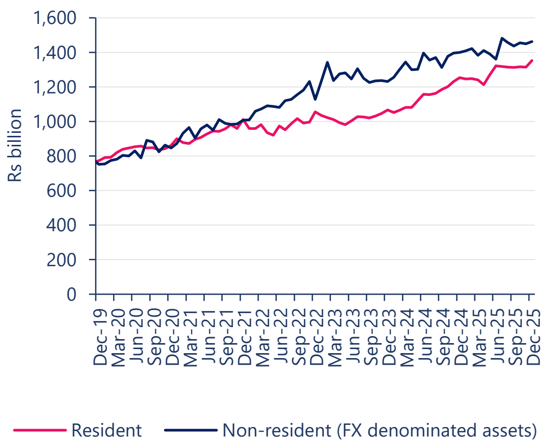
a. Assets decomposition

b. Capital and liabilities decomposition



Source: Bank of Mauritius.

Chart 3.3: Segmental banking sector asset



Source: Bank of Mauritius.

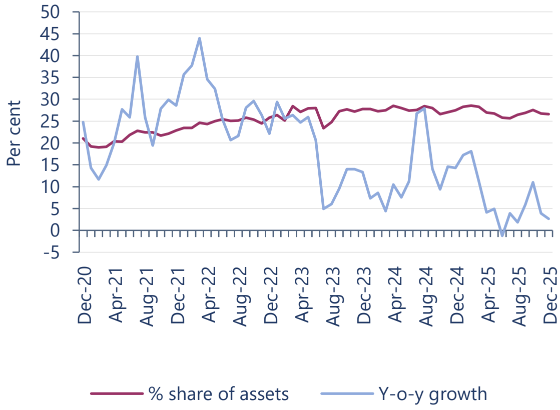
The asset allocation showed that balance sheet expansion during the second half of 2025 was driven by both resident and non-resident activities, with the resident segment (inclusive of GBCs) contributing a larger share. Total resident assets rose to Rs1.3 trillion in December 2025, an annual increase of 8.0 per cent, supported mainly by the continued expansion in Rupee-denominated positions (Chart 3.3). Non-resident assets went up over the same period to Rs1.5 trillion, representing a 4.5 per cent year-on-year rise and marking a turnaround from the contraction observed in June 2025. The recovery in cross-border fund movements made the non-resident segment a more material driver of asset growth in the second half of 2025, whilst underscoring continued interconnectedness with external financial conditions.

Bank–sovereign nexus

The rise in assets was driven most notably by higher holdings of Government and Bank of Mauritius securities, consistent with banks maintaining strong liquidity buffers amid a still uncertain global environment. Liquid assets, consequently, remained well above prudential comfort ranges, reinforcing banks' capacity to absorb funding shocks. The securities portfolios expanded markedly, with higher investments in treasury securities and Bank of Mauritius instruments. Improved liquidity provided a counterbalance to any credit-related risk, particularly in a context of evolving external financial conditions. The high investments in sovereign securities did not undermine the flow of credit to the corporate and household sectors.

Banks' exposure to the sovereign was substantial in December 2025. Total holdings of the Government of Mauritius and Bank of Mauritius securities reached Rs 340 billion, equivalent to 12.1 per cent of total assets. Aggregate sovereign exposures—comprising domestic and foreign government securities, treasury bills, and Bank of Mauritius instruments—represented on average 27.0 per cent of total assets in December 2025 (Chart 3.4). This indicated that the nexus between banks and the public sector remains a defining structural feature of the Mauritian financial system. Whilst this investment strategy provides high-quality liquid assets that support regulatory compliance, it also constitutes a potential channel for risk transmission during episodes of sovereign stress.

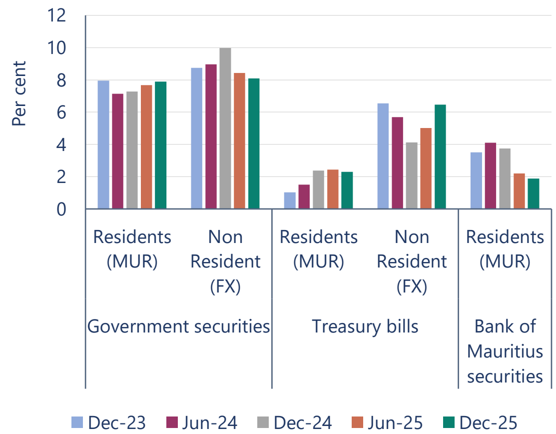
Chart 3.4: Bank investment in sovereign and central bank instruments



Source: Bank of Mauritius.

The composition of these exposures maintained a balance between domestic and foreign sovereign assets. The holdings of the Government of Mauritius securities accounted for about 7.9 per cent of total banking sector assets, while foreign government securities represented 8.1 per cent in December 2025 (Chart 3.5). The domestic treasury bills share of assets stood at 2.3 per cent, compared to 6.5 per cent for foreign issuers, underscoring the system's sizable foreign-currency liquidity holdings.

Chart 3.5: Share of sovereign instruments in total banking sector assets



Source: Bank of Mauritius.

The composition of sovereign exposures implied heightened sensitivity to market risk, notably from interest rate and exchange rate movements, given the sizeable share of foreign government securities held by banks. While these instruments typically qualify as high-quality liquid assets, valuation losses stemming from adverse market conditions could weaken liquidity buffers through mark-to-market effects. Nonetheless, market risk is partly mitigated by the generally high credit quality and depth of sovereign markets, prudential regulations on interest rate and foreign exchange exposures, and banks' active balance-sheet management, which together support resilience against moderate pricing shocks.

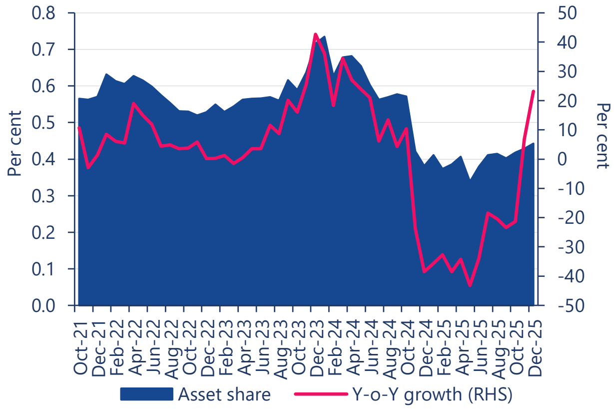
Banks' investment patterns evolved, shaped by shifts in global yields and domestic market conditions. Holdings of the Government of Mauritius securities expanded by 15.0 per cent year-on-year to Rs223 billion at the end of 2025, strengthening the role of Rupee-denominated sovereign assets as a stable component of banks' long-term portfolios. In contrast, foreign government securities contracted by 13.9 per cent annually to Rs228 billion in December 2025, which could be explained by valuation adjustments in major advanced economy bond markets. The concentration in US government securities – largely held to maturity – helped mitigate short-term mark-to-market volatility.

There was a material shift towards the shorter end of the maturity spectrum, indicating a preference for liquidity amid evolving macrofinancial conditions and still elevated global interest rates. Banks increased treasury bill holdings by 42.9 per cent year-on-year, bringing the stock to Rs247 billion in December 2025. This rise was primarily concentrated on foreign treasury bills, amplifying banks' exposure to currency risks, though the overall risk remained contained under prevailing market conditions. In contrast, Bank of Mauritius securities contracted at an annual rate of 47.0 per cent to Rs53 billion in December 2025.

On the liability side, government deposits at banks fell to Rs19 billion, equivalent to less than one per cent of total banking sector deposits. Limited reliance on government funding reduced the risk of concentrated withdrawals and indicated minimal direct sovereign-related liquidity pressure on the banking system. Domestic currency government deposits declined, while government FX deposits increased, mirroring broader currency composition trends across the deposit base.

Limited and diversified foreign corporate investment portfolio

Chart 3.6: Corporate equity investment by banks



Source: Bank of Mauritius.

Corporate equity investment by banks remained minimal. The investments were diversified across resident and non-resident issuers, and did not represent a material source of systemic risk. The modest size and stable trajectory of these investments help limit sensitivity to market volatility, while the dominant foreign currency share reflects banks' longstanding cross-border investment patterns. Total equity holdings rose to Rs12.5 billion in December 2025, reflecting a year-on-year increase of 23.2 per cent (Chart 3.6). This expansion was driven primarily by a rise of 26.7 per cent in non-resident foreign currency corporate shares, accounting for the bulk of the portfolio at 79 per cent of total holdings. Resident holdings grew at 1.4 per cent for rupee-denominated shares and 34.8 per cent for resident FX-denominated shares, bringing the resident share of total corporate equity to 21 per cent.

Shifts in cash and deposit positions of banks

Cash and deposit assets of banks expanded moderately in December 2025, reflecting steady buildup of safer on-balance sheet Rupee liquidity buffers. Total cash and short-term deposits rose by 7.2 per cent, with the strongest being deposits held with the Bank followed by a moderate rise in cash in hand mainly in Rupees. In contrast, deposits held with banks – particularly banks based outside Mauritius – contracted by 3.1 per cent year-on-year at the end of 2025. This reduction suggested a mild reallocation away from foreign currency positions toward safer Rupee-denominated liquidity. Deposits with NBFIs rose sharply in percentage terms due to a very low base, but their quantitative contribution to overall liquidity remained negligible.

Interbank lending to foreign banks picked up

Interbank lending increased sharply in December 2025, possibly responding to more favourable return dynamics or higher liquidity demands by banks outside Mauritius. Total interbank lending by the banking system rose by 139.4 per cent year-on-year to reach Rs50 billion in December 2025.

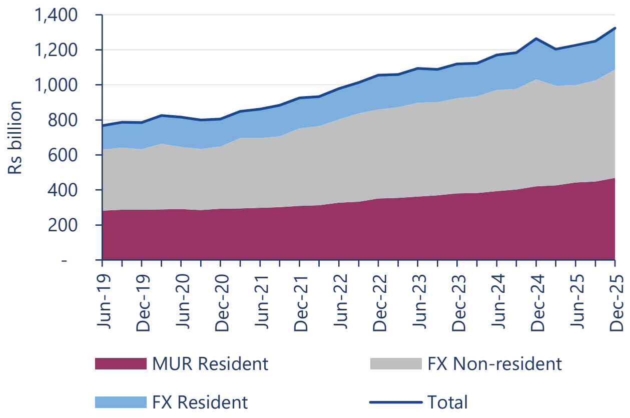
Resident interbank positions remained limited, with its share of total interbank loans at 12.6 per cent. In contrast, FX loans to foreign banks expanded by 161.1 per cent annually to attain US$943 million at the end of December 2025. Although these exposures remained modest relative to total assets, the growing linkage on foreign interbank markets introduces greater sensitivity to external conditions.

Broad-based credit expansion amid shifting FX dynamics

The pattern of credit growth in the second semester of 2025 indicated steady and broad-based expansion of credit portfolios while risks to the portfolio were broadly contained. The resident sector, inclusive of GBCs, was the main driver of rising credit intermediation.

Total bank credit – comprising loans, overdrafts, finance leases and corporate debt securities to resident and non-resident clients – went up at an annual rate of 4.7 per cent to reach Rs 1.3 trillion, representing 46.9 per cent of total banking sector assets in December 2025 and reflecting demand for credit from both resident and non-resident clients (Chart 3.7). The Rupee-denominated credit rose at an annual rate of 11.8 per cent while FX lending expanded at a moderate pace of 2.2 per cent.

Chart 3.7: Credit



Source: Bank of Mauritius.

The growth of the credit portfolio was dominated by domestic currency lending to the resident sector. The Rupee-denominated lending to the resident sector, exclusive of GBCs, expanded by 11.5 per cent year-on-year, lifting its share to 35.2 per cent of total credit. This elevated growth underscored sustained domestic financing needs of the economy being met by banks. The GB sector borrowing in domestic currency went up but remained minimal at less than one per cent of total resident Rupee borrowings.

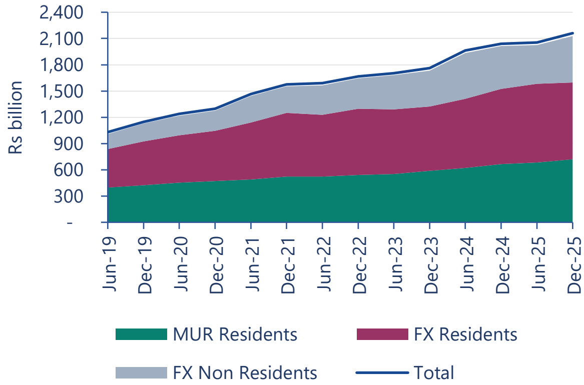
The GB sector was the main source of demand for FX borrowings in the resident segment, representing more than half of FX borrowing by the resident segment. The GB sector credit portfolio in FX rose strongly by 15.1 per cent in the year ended December 2025, accounting for 4.3 per cent of total assets. In contrast, non-GB resident sectors – mostly the corporate sector – registered an annual contraction of 8.2 per cent in its FX borrowings, suggesting cautious domestic demand for FX credit amid external macrofinancial conditions and heightened currency-related risks.

The non-resident sector added momentum to banks' credit portfolio, showcasing a resilient and well-diversified credit portfolio of the Mauritius IFC. FX loans to non-residents expanded further though at a marginal annual rate of 0.9 per cent. The Rupee-denominated borrowings by non-residents were a minor component.

Diversified deposit-mix of banks

The core funding source for the banking system remained deposits, with both household and corporate deposits stabilising during 2025 and supporting the resilience of banks' funding structure. Total deposits rose by 5.9 per cent year-on-year to Rs2.2 trillion in December 2025 (Chart 3.8). Rupee-denominated deposits held a share of 35 per cent and FX deposits (inclusive of GBC deposits) represented 65 per cent in December 2025.

Chart 3.8: Deposits



Source: Bank of Mauritius.

Deposits from residents—inclusive of GBC deposits—represented nearly three-quarters of the deposit portfolio of banks. These deposits grew by 4.7 per cent annually at the end of 2025, driven primarily by households whose deposits rose by 9.2 per cent annually to Rs611 billion. This signalled sustained confidence and resilient consumption and savings dynamics. Non-GBC corporate deposits also expanded at almost the same pace of 9.0 per cent year-on-year to Rs306 billion in December 2025. Non-resident deposits grew by 9.4 per cent to Rs564 billion, driven mainly by higher FX holdings, highlighting continued cross-border liquidity inflows.

The deposit structure reflected significant FX exposures, whilst banks prudently managed currency risks by matching currency assets and liabilities and liquidity. FX deposits were evaluated at US$30 billion in December 2025, representing a 6.2 per cent year-on-year growth and 65.1 per cent of aggregate deposits. Banks maintained strong foreign-currency liquidity buffers, with the FX Liquidity Coverage Ratio standing strongly above the minimum regulatory threshold of 100 per cent, and limited residual exchange-rate risk, as reflected by a low net open FX position to capital. In addition, the close alignment between FX-denominated assets (64.5 per cent of total assets) and FX-denominated liabilities (68.7 per cent of total liabilities) indicates prudent currency matching on balance sheets, mitigating vulnerabilities to exchange-rate movements.

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The GB sector was the largest owner of these deposits, with a share of 45 per cent in December 2025. The volume of FX GBC deposits declined notably by 7.0 per cent between June-December 2025, to reach US$13.7 billion at the end of 2025. Banks demonstrated a diversified strategy in mitigating structural risk from concentration to the GB sector, with FX deposits from non-GB residents and non-residents recording sustained expansion.

Strong equity and non-deposit liability structure of banks

Banks' non-deposit liability structure continued to expand in December 2025, particularly with increased issuance of debt securities. Capital and reserves rose by 6.0 per cent year-on-year in December 2025, reinforcing the capacity of banks to absorb macrofinancial shocks.

The stock of debt securities held by banks expanded at an annual rate of 18.8 per cent in December 2025, indicating a shift towards longer-term funding but increasing exposure to market volatility and rollover pressures under stressed conditions. This development underscores close monitoring of maturity profiles, funding cost dynamics, and banks' sensitivity to global financial conditions.

Stable credit risk supported by steady cushions[12]

Credit risk conditions were broadly stable and well contained in the second half of 2025. The NPL ratios improved accompanied by steady provisioning levels. Sound credit portfolios suggested that the banking system enjoyed a healthy credit risk profile and held adequate buffers to withstand potential macrofinancial headwinds.

Lower credit risk in the banking system was supported by resilient asset quality across both domestic and cross-border credit portfolios. Total NPLs fell by 3.6 per cent year-on-year to Rs41 billion in December 2025. This led to an improvement in the overall NPL ratio to 3.3 per cent, from 4.0 per cent six months earlier, reflecting strengthening loan performance as banks continued to maintain prudent underwriting and monitoring practices (Chart 3.9a).

Credit risk in the domestic economy (excluding GBCs) was stable. Impairment ratios were roughly unchanged, despite rising outstanding credit, pointing towards resilient borrowing capacity among households and resident corporates. The NPL ratio for the domestic credit portfolio was broadly stable at around 3.9 per cent and the provision coverage ratio was steady at 47.2 per cent over the June-December 2025 period. The IFRS 9 staging distribution was

[12] *As from end-December 2023, analysis and figures in this segment excludes one bank currently under conservatorship for comparison purposes.*

balanced as well.[13] Stage 1 and Stage 2 exposures evolved broadly in line with overall loan growth rather than signalling deterioration in credit quality. Stage 3 exposures were representative of the evolution noted in the NPLs volume.

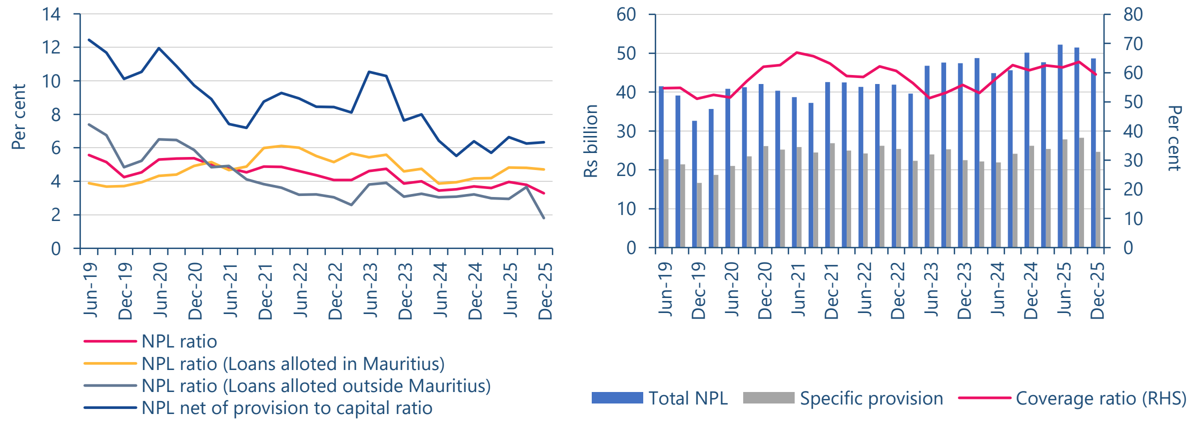
The D-SIBs further enhanced credit risk management in the second semester of 2025, reinforced by stronger impaired credit resolutions, provisions and capital levels. The resilience and sound asset quality metrics of the D-SIBs supported overall systemic stability of the banking sector. The NPL ratio for D-SIBs declined to 3.4 per cent in December 2025, signalling favourable loan performance and successful resolution of impaired assets. Provisioning was also adequate, with a coverage ratio of 65.1 per cent. The ratio of NPLs net of provisions to capital fell to 5.8 per cent.

Provisioning levels were sufficient to absorb credit losses, along with strong capitalisation level to cushion residual credit risk. The system-wide coverage ratio remained largely stable at 59.3 per cent in December 2025, slightly above the seven-year average of 58.5 per cent (Chart 3.9b). The NPLs net of provisions improved to 6.3 per cent of capital in December 2025. These indicators point to a continued ability of banks to withstand credit shocks without drawing meaningfully on capital buffers.

Chart 3.9: Asset quality

a. Non-performing loans

b. Specific provisions



Note: As from end-December 2023, figures in charts 3.9 a and b exclude one bank currently under conservatorship for comparison purposes.
Source: Bank of Mauritius.

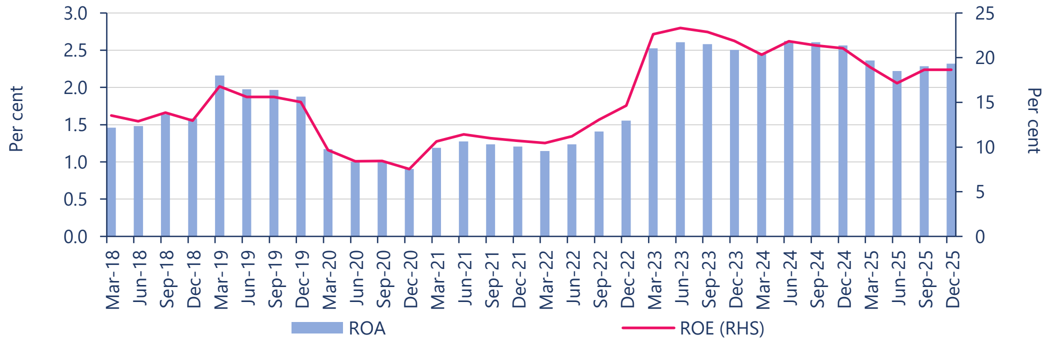
[13] *Loans are moved from Stage 1 to Stage 2 if credit risk has increased significantly relative to the initial position. Loans are moved to Stage 3 if they are in serious default and impairment can be expected. Impairment must be based on expected credit losses over the lifetime of the loan.*

Profitability strengthened

Profitability ratios for the banking system improved during the second semester of 2025. Banks were able to generate higher profits, supported by resilient credit performance, improved asset quality, and controlled operational costs. Higher earnings supported capital consolidation and, therefore, the ability for the banking system to absorb macrofinancial risks and sustain balance sheet resilience.

Annualised pre-tax profit increased to Rs63 billion in December 2025 while annualised post-tax profit hovered around Rs50 billion. Average total assets were around Rs2.7 trillion, enabling the pre-tax return on assets (ROA) to rise to 2.3 per cent in December 2025 (Chart 3.10). The return on equity (ROE) similarly went up to 18.6 per cent.[14]

Chart 3.10: Profitability ratios of the banking sector



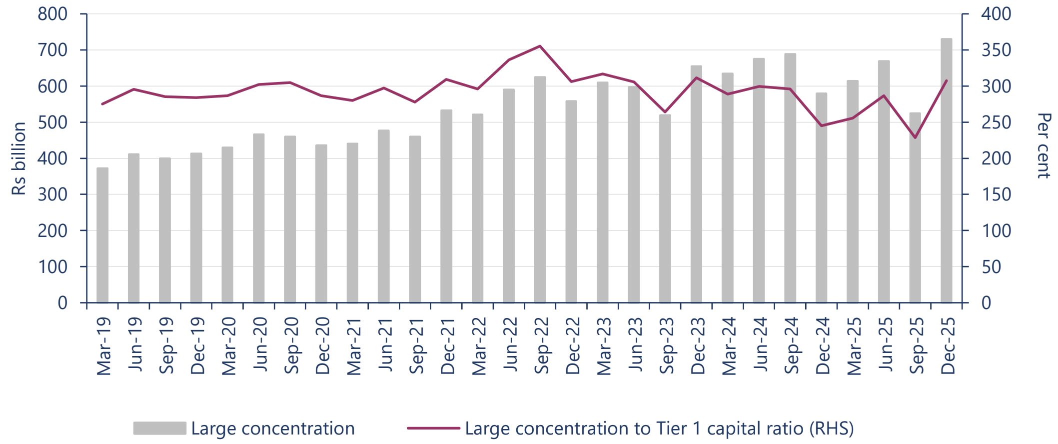
Source: Bank of Mauritius.

Mild build up in credit concentration risk

Credit concentration rose in the second semester of 2025, reflecting an increase in banks' exposures to their largest counterparties. Whilst this signalled a mild build-up in concentration risk, the levels remained manageable relative to system-wide Tier 1 capital. Large exposures rose to Rs730 billion in December 2025 driven by higher credit allocation (Chart 3.11). Tier 1 capital increased marginally over the same period. Consequently, the ratio of large exposures to Tier 1 capital rose to 304.7 per cent in December 2025.

[14] *The profitability ratios have been computed based on the methodology advocated in the IMF Financial Soundness Guide (2019). The ROA is based on the annualised pre-tax profits and averaged total assets. The ROE is calculated as a ratio of annualised post-tax profits and average equity.*

Chart 3.11: Credit concentration in the banking sector



Source: Bank of Mauritius.

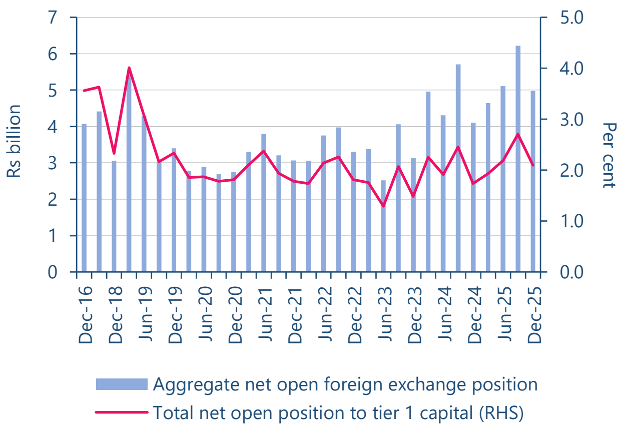
The upward movement in the credit concentration ratio indicated that concentration risk intensified slightly during the second half of 2025, even as overall credit quality remained stable. While the increase did not, on its own, signal systemic vulnerability, it underlined the importance of continued monitoring of large obligors and sectoral exposures, as these portfolios can amplify loss-given-default dynamics under stress.

The Bank regulates and maintains close oversight of concentration risk to safeguard financial stability, particularly in the current environment. Stress testing outcomes for December 2025 and the two subsequent quarters confirmed that the banking sector retains sufficient capacity to withstand the potential crystallisation of losses from large exposures.

Effective FX vulnerability hedging

The FX exposure of the banking sector was broadly contained. The total net open position to Tier 1 capital decreased slightly to 2.1 per cent in December 2025 from 2.2 per cent six months earlier, well below the 15 per cent maximum limit (Chart 3.12). This indicated that banks continued to maintain a low level of structural FX risk relative to their capital buffers. The moderation reflects a small reduction in the net open FX position in absolute terms, combined with a modest increase in Tier 1 capital.

Chart 3.12: FX exposure to tier 1 capital



Source: Bank of Mauritius.

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The FX exposure metrics pointed towards growing FX activities but continued prudence in managing net risk positions relative to capital. The share of FX-denominated loans in total loans rose both in share and in value to 65.1 per cent at the end of 2025. Similarly, FX-denominated liabilities increased to 68.7 per cent of total liabilities in December 2025. Despite the expansion of FX-linked assets and liabilities, the stable net open position coupled with prudent currency matching approach indicated that banks continued to hedge balance sheet exposures effectively, thus limiting vulnerability to FX risk.

Manageable near-term interest rate risk

The interest rate risk position in the banking sector was broadly stable, with modest shifts in trading book exposures and continued concentration of interest-sensitive assets in longer-term maturity buckets. The marginal repositioning away from interest rate-sensitive trading activities possibly reflected market conditions or was a deliberate move to reduce mark-to-market volatility. Total assets held in the trading book declined to Rs52 billion in December 2025. This resulted in a lower ratio of trading assets to Tier 1 capital to 22.1 per cent and a slight reduction in the share of trading assets relative to total assets to 1.9 per cent.

The distribution of net interest-sensitive assets across maturity bands showed a notable improvement in short-term liquidity bands. The "up to 30 days" bucket shifted notably to a positive Rs108 billion in December 2025, representing stronger short-term asset coverage relative to liabilities. However, the largest concentrations continue to lie in the 1–7-year range, reflecting the long-term nature of banks' lending portfolios and exposure to repricing risk over medium-term horizons.

The overall stock of net interest-sensitive assets signalled higher sensitivity to yield curve movements. The portfolio of net interest-sensitive assets expanded further, representing 25.8 per cent of total banking book assets in December 2025. While the maturity structure implied manageable near-term repricing risks, the continued buildup of medium- and long-term interest-sensitive positions underscores the importance of monitoring potential shocks from interest rate volatility, particularly in an environment of evolving global monetary conditions.

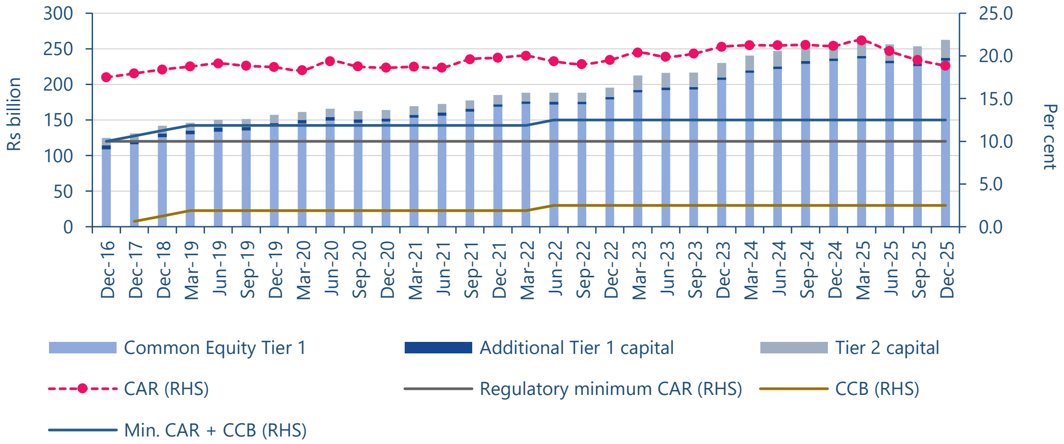
Robust capital position

The capital position in the banking sector remained robust and comfortably above the regulatory requirements during the second semester of 2025. The four D-SIBs met their respective regulatory capital ratio minimums – inclusive of D-SIB surcharges – with sound buffers above the threshold. The capital ratios had declined slightly, though, highlighting the need for prudent asset-liabilities management amid growing exposures.

Banks registered a notable increase in total risk-weighted assets (RWA) that exerted downward pressure on capital ratios.[15] In response, the sector strengthened their regulatory capital to Rs262 billion in December 2025, representing an annual growth of 0.9 per cent that was supported by increases in Common Equity Tier 1 (CET1), Additional Tier 1, and Tier 2 capital. Higher capital growth was, however, outpaced by the expansion of risk-weighted assets of 13.4 per cent annually to Rs1.4 trillion. The rise in RWA was driven primarily by higher on-balance-sheet credit exposures and increased operational risk requirements, with non-market-related off-balance-sheet exposures also contributing positively.

Key prudential ratios altogether showed a gradual decline (Chart 3.13). The CET1 ratio fell to 16.8 per cent in December 2025 while the Capital Adequacy Ratio (CAR) eased to 18.8 per cent at the end of 2025. Despite this moderation, both ratios were well above the minimum regulatory thresholds, including the combined minimum capital requirement of 10.0 per cent plus the capital conservation buffer of 2.5 per cent, providing a strong cushion against unexpected losses. The elevated capital cushion, including D-SIB buffers, denoted robust systemic risk buffers.

Chart 3.13: Capital adequacy ratio of the banking sector



Source: Bank of Mauritius

Resilience of banking sector to solvency shocks

The Bank conducts quarterly stress tests as part of its financial stability toolkit to evaluate the resilience of the banking sector to multiple adverse shocks. Each scenario is calibrated to capture potential disruptions across key risk drivers for the banking sector, including weaker economic activities, deterioration in asset quality, shifts in the yield curve and adverse exchange rate shocks. The scenarios are constructed to generate system-wide pressures while

[15] *The Capital Adequacy Ratio is measured by dividing eligible capital by risk weighted assets.*

allowing for heterogeneous impacts across banks, thereby supporting an assessment of both aggregate and bank-level loss-absorbing capacity.

In the prevailing macrofinancial environment, the calibration of forward-looking scenarios explicitly incorporates heightened geopolitical tail risks – such as the Middle East conflict. The risk of prolonged disruption along strategic maritime chokepoints can amplify systemic stress through higher energy costs with knock-on effects on global commodity prices, inflation and economic growth. These external shocks may affect domestic financial stability via imported inflation, tighter global financial conditions, weaker global growth prospects and domestic foreign exchange pressures.

The stress test results indicated that the banking sector would remain resilient with capital buffers sufficient to absorb plausible shocks in the macrofinancial environment. Notwithstanding these results, risks to the global financial stability remain elevated. Conflict-related shocks could amplify macrofinancial risks through trade uncertainties, volatility in global financial markets, monetary policy adjustments to fight higher expected inflation, and weaker economic growth prospects. Maintaining vigilance and adopting proactive risk mitigation measures are essential to preserve and strengthen the resilience of the banking sector.

Macroeconomic scenarios

Macroeconomic assumptions are calibrated based on recent economic developments and the latest projections. Stress testing is undertaken under two adverse GDP shock scenarios of increasing severity – (i) a baseline scenario presenting 3 per cent GDP growth in 2025 and 2026, (ii) and a moderate scenario featuring zero GDP growth in 2025 and 2026. The GDP shocks are further augmented by hypothetical interest rate and exchange rate changes. Specifically, the first scenario assumes an interest rate cut alongside an exchange rate depreciation, whereas the second assumes an interest rate hike accompanied by a smaller currency depreciation (Table 3.1). These assumptions are intentionally hypothetical and should not be interpreted as policy signal. They serve exclusively to gauge the shock-absorption capacity of the banking sector under compounded adverse conditions.

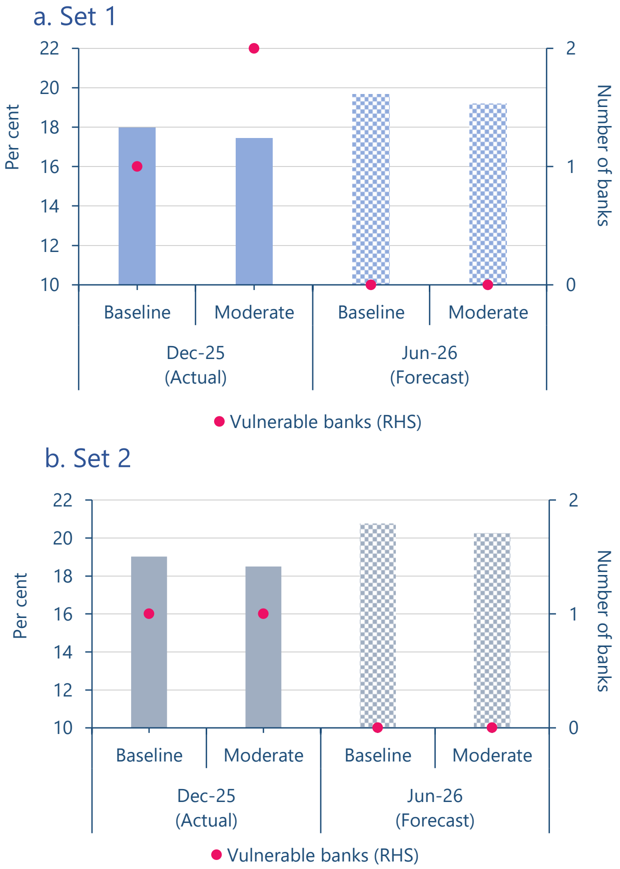
Table 3.1: Macroeconomic shocks

	Macroeconomic: set 1		Macroeconomic: set 2	
	Baseline	Moderate	Baseline	Moderate
Growth rate	3% for 2025 and 2026	Zero growth for 2025 and 2026	3% for 2025 and 2026	Zero growth for 2025 and 2026
Interest rate	-200bps	-200bps	+200bps	+200bps
Exchange rate	4% depreciation	7% depreciation	3% depreciation	5% depreciation

The stress test outcomes pointed to a well-capitalised banking sector that remains resilient across the two macroeconomic scenarios. The strong capital buffers – with CAR remaining well above the regulatory minimum – supported the capacity of the sector to withstand stresses while staying within prudential requirements.

Results from the first set of stress scenarios – incorporating an economic growth shock alongside simultaneous domestic currency depreciation and an interest rate cut across two severity levels – showed that most banks would remain resilient and absorb the adverse impacts in both periods, except two banks in December 2025 (Chart 3.14a).

Chart 3.14: Macroeconomic shock results- Post-shock CAR



Source: Bank of Mauritius.

The second set – featuring a GDP shock together with an interest rate hike and a smaller exchange rate depreciation under two severity levels – suggested that the banking sector remains resilient and almost all banks would be able to withstand the shocks in both periods, except one bank in December 2025 (Chart 3.14b).

The stress test outcomes also showed that exchange rate shocks had minimal impact on banks' capital buffers, as their net open FX positions were well below the regulatory ceiling.

Sensitivity stress test

To evaluate the ability of the banking sector to endure specific adverse shocks, several single-factor sensitivity stress tests were undertaken. The analysis adopts a top-down approach to assess vulnerabilities arising from sectoral credit risk and credit concentration risk (Figure 3.1).

For sectoral credit sensitivity stress test, seven major credit portfolios of banks were shocked under three scenarios with a deterioration of 4 per cent, 8 per cent and 12 per cent of the performing credit portfolios. The December 2025 outcomes showed that all banks except one would remain resilient under the three scenarios. For June 2026, the results showed resilience for all banks across scenarios, underscoring adequate loss-absorption capacity (Chart 3.15). For credit concentration risk, the default among largest borrowers under three scenarios was simulated to measure the impact on banks' capital buffers. The outcomes of the simulations suggest that the banking sector exhibited broad resilience to the shocks in December 2025 with the exception of one bank, while in June 2026 all banks were resilient (Chart 3.16).

Figure 3.1: Sensitivity stress test

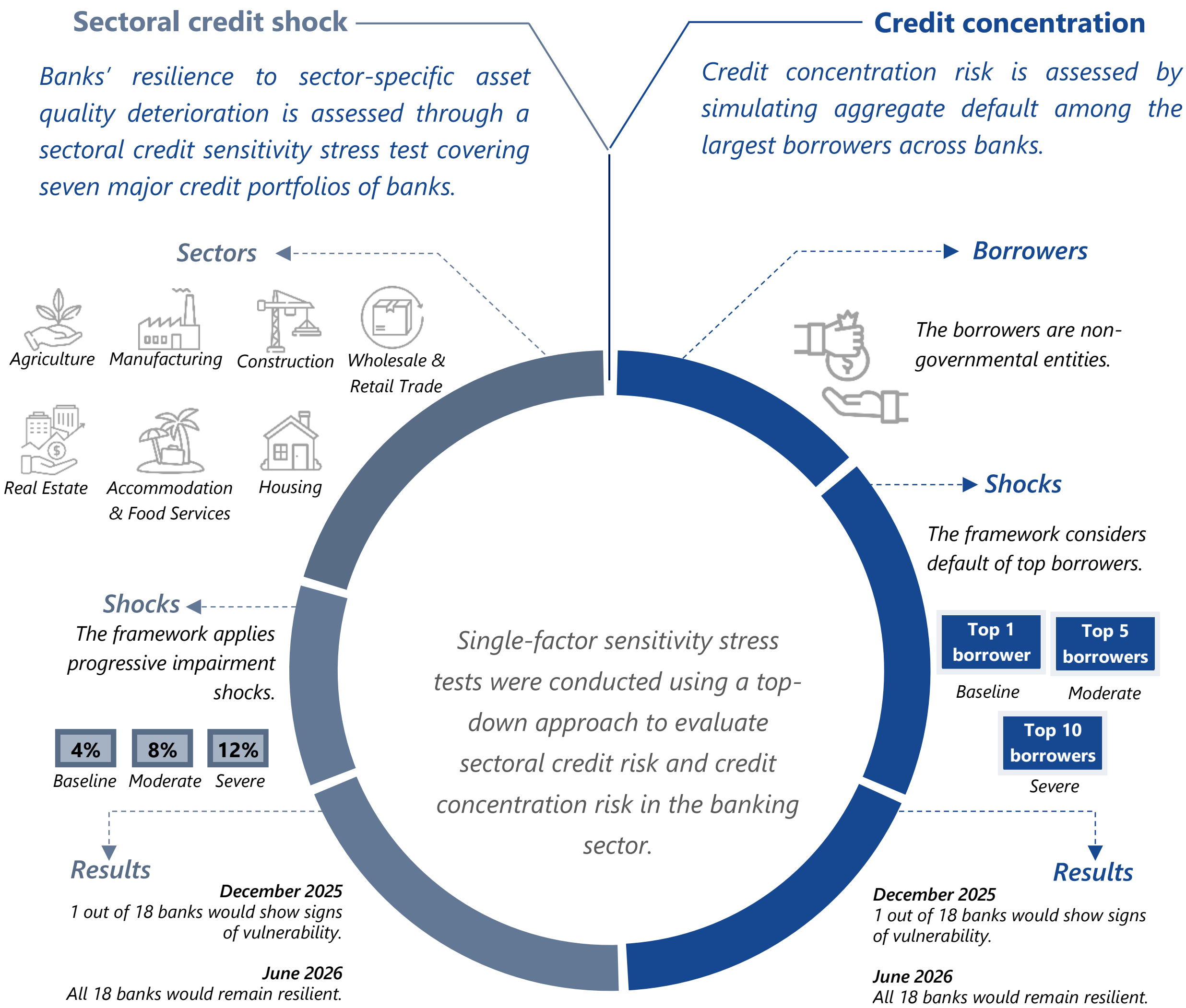
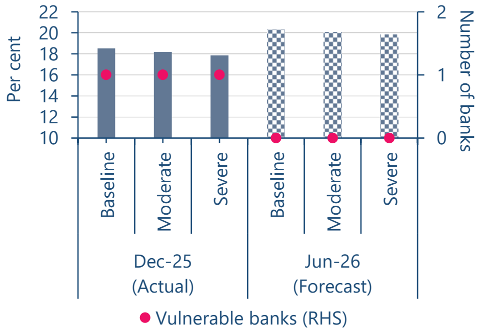
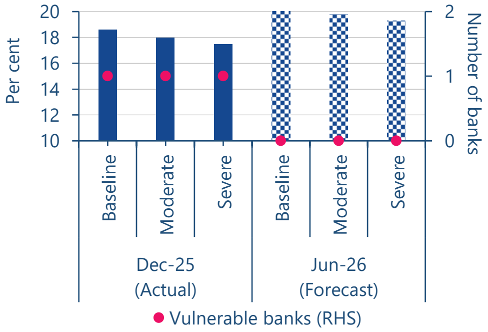


Chart 3.15: Sectoral credit shock results – Post-shock CAR



Source: Bank of Mauritius.

Chart 3.16: Credit concentration shock results – Post-shock CAR



Source: Bank of Mauritius.

Sound liquidity buffers

The banking sector exhibited strong and resilient liquidity buffers. Prudent liquidity risk management was supported by effective and sound regulatory liquidity standards. Banks held robust high-quality liquid asset (HQLA) buffers, which were central to mitigating liquidity risks arising from funding structures – particularly for banking institutions with a higher proportion of wholesale deposits.

Liquidity conditions improved further during the second semester of 2025, underpinned by sustained growth in HQLA across the banking sector. Liquid assets rose at an annual rate of 4.7 per cent to reached Rs1.3 trillion in December 2025. The composition of these buffers – comprising mainly of currency and deposits as well as government and Bank of Mauritius securities – provided a strong base of readily deployable liquidity to meet short-term obligations, including those maturing within a three-month horizon.

The liquidity structure reduced dependence on market-sensitive funding channels during episodes of stress. The liquidity profile was broadly consistent with practices observed in more advanced jurisdictions, where an emphasis on high quality, monetisable assets supported resilience and mitigated the need for procyclical balance sheet adjustments during periods of heightened uncertainty.

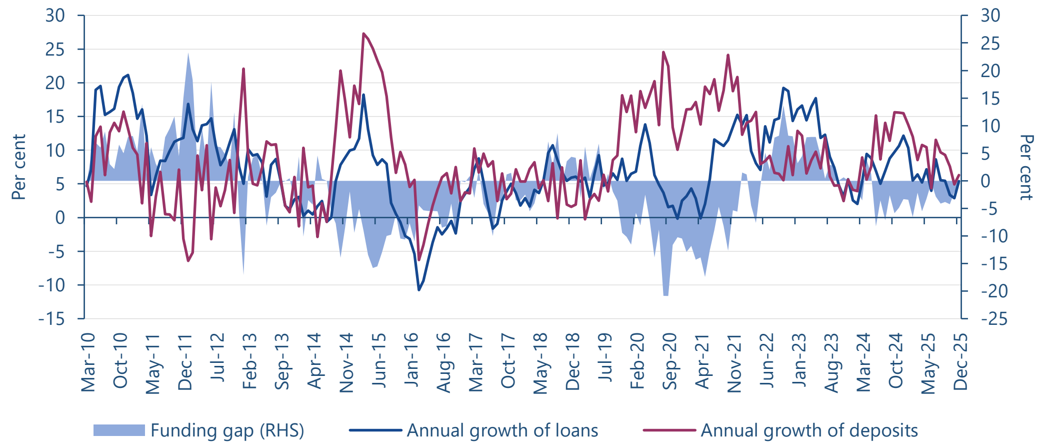
Short-term liquidity indicators were well above prudential thresholds. The consolidated liquidity coverage ratio (LCR) was 269.1 per cent in December 2025, while the LCR for foreign currency reached 186.2 per cent, both comfortably exceeding the regulatory minimum of 100 per cent. These levels indicated that banking institutions held substantial HQLA to withstand a 30-day period of severe stress. Beyond meeting regulatory benchmarks, the consistency of LCR performance across currencies contributed to the smooth functioning of payments, maintained credit intermediation under adverse conditions and provided a meaningful buffer against abrupt shifts in depositor behaviour or wholesale funding costs.

The structural liquidity position of the sector also strengthened following the full implementation of the Net Stable Funding Ratio (NSFR) at 100 per cent in 2024. All banks reported NSFR levels comfortably above regulatory thresholds for both domestic and significant foreign currency exposures. This pointed to a stable funding structure, characterised by reliable funding sources capable of supporting longer-term lending activity, in line with international best practices aimed at enhancing funding resilience over a one-year horizon. The transition to the NSFR regime was orderly and underscored banks' proactive adjustments to funding strategies.

Developments in the funding gap – the difference between annual growth of loans and deposits – provided further insight into liquidity dynamics. The gap remained in negative territory in December 2025, standing at -0.87 percentage point (Chart 3.17). The negative gap indicated that deposits continued to grow faster than lending, providing banks with a more comfortable funding base than their credit expansion requires.

From a liquidity perspective, this dynamic helps strengthen resilience by easing pressure on short-term markets and reducing banks' exposure to refinancing risks. At the same time, the persistence of a negative funding gap warrants continued monitoring, as it may also reflect more cautious credit demand or a shift in depositor behaviour that could evolve under different interest rate or market conditions. Overall, the December 2025 outcome pointed to a funding environment that remained supportive of liquidity stability.

Chart 3.17: Banking system's funding gap



Source: Bank of Mauritius.

Liquidity stress tests

The liquidity stress test evaluates the capacity of banks to absorb sudden and sizable deposit outflows across key sectoral depositors. It serves as an important complement to existing prudential liquidity requirements by assessing the resilience of the banking system under severe but plausible deposit withdrawal shocks. In particular, the framework assesses the ability of banks to withstand potential funding pressures arising from households, corporates, GBC and non-resident depositors (Table 3.2).

Run-off rates used in the exercise are calibrated from historical net outflow trends and applied across three severity scenarios. These shocks capture the types of liquidity pressures that could emerge from operational disruptions, macroeconomic developments or reputational events.

The resulting outflows are then deducted from banks' liquid asset buffers to gauge their immediate counterbalancing capacity and overall resilience to short-term liquidity stress.

Figure 3.2: Liquidity stress testing framework

Evaluates the potential impact of sudden deposit withdrawals across key depositor segments.

Assesses liquidity resilience through baseline, moderate and severe stress scenarios.

Estimates withdrawal pressures through sector-specific run-off rates calibrated from historical net outflow trends (Table 3.1)

Table 3.2: Liquidity shock parameters

Deposit outflows (in per cent)	Household and Corporate	GBC and Non-resident
Baseline		
Rs	10	20
FX	25	25
Moderate		
Rs	20	30
FX	35	40
Severe		
Rs	30	50
FX	45	50

Deduct simulated outflows from liquid asset buffers to estimate liquidity gaps and assess counterbalancing capacity.

Source: Bank of Mauritius.

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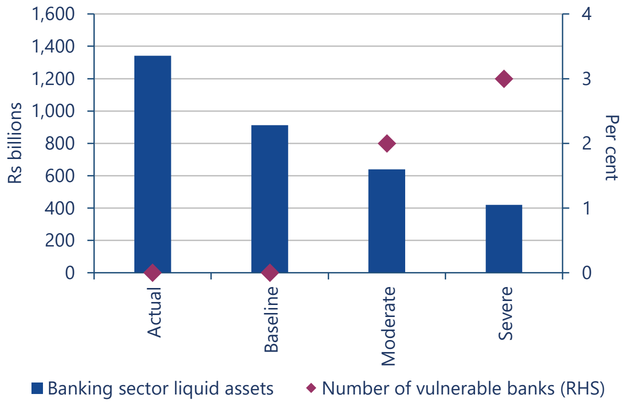
The liquidity stress test results continued to demonstrate strong overall liquidity resilience, with most institutions maintaining sufficient buffers even under adverse conditions. The December 2025 assessment revealed that all banks met liquidity requirements under the baseline scenario. However as scenario severity intensifies, divergence in institutional resilience became more pronounced. Two non-systemic banks fell short under the moderate stress scenario while three non-systemic institutions exhibited vulnerabilities under the severe scenario (Chart 3.18). Although the banking system demonstrated solid aggregate resilience, the stress test outcomes point to concentrated vulnerabilities among few non-systemic banks, highlighting the need for continued supervisory scrutiny.

Chart 3.18: Liquidity risk – banking sector liquid assets



Source: Bank of Mauritius.

Regulatory developments

Supervisory and regulatory reforms progressed during the second half of 2025. The Bank continued strengthening its prudential framework to enhance the resilience of the banking and non-bank deposit-taking sectors. The period was marked by targeted interventions to reinforce compliance with existing legislative provisions and ongoing improvements to group-wide oversight of financial institutions.

Prohibition of floating charge on assets

The Bank issued an instruction letter in October 2025 to reiterate the requirements of Section 30A of the Banking Act 2004, which prohibits banks and NBDTIs from creating floating charges over their assets without prior approval from the central bank. The communication underscored the importance of maintaining clear safeguards over institutions' balance sheets and required institutions to ensure that their internal systems, processes and controls are robust enough to support full adherence to this statutory obligation. The measure sought to promote sound risk management practices and safeguard depositor interests by preventing encumbrances that could weaken the financial position of supervised institutions.

Consolidated and Conglomerate Supervision

The Bank advanced its work on consolidated supervision and conglomerate supervision, recognising the increasing importance of effective group-wide oversight in an evolving financial landscape. Strengthening this supervisory architecture is central to identifying build-ups of risk across entities within financial groups and to mitigating potential channels of contagion. The Bank received technical assistance from IMF AFRITAC South in 2025 on consolidated and conglomerate supervision. This engagement contributed to refining the supervisory framework and aligning it with international standards, thereby reinforcing systemic stability.

4. Non-bank financial services sector[16]

Risks from the NBFIs sector remained contained in the second half of 2025, while the sector expanded further and consolidated its linkages with the economy. NBDTIs held adequate capital and liquidity buffers while managing credit risk prudently. The insurance sector showed overall resilience. Life insurers benefitted from strong investment income despite weaker underwriting performance and rising exposure to market and currency risks. General insurers recorded better underwriting outcomes, higher profitability and stronger liquidity buffers. The pension sector registered robust asset growth driven by favourable market conditions, though increasing exposure to foreign assets has raised sensitivity to exchange rate movements. Meanwhile, the non-bank lending sector continued to expand and deepen financial intermediation, supported by strong demand for alternative financing. The sector maintained broadly stable asset quality, adequate liquidity and capital buffers despite evolving funding structures. Overall, while the NBFI sector continued to support financial system diversification, risks related to market exposures, liquidity, and interconnectedness were present and closely monitored.

The NBFIs sector remains a key pillar of Mauritius' financial system, complementing the role of banks in financial intermediation and contributing to risk diversification. The NBFI sector encompasses a broad range of institutions – including insurance companies, pension funds, and NBDTIs – each playing a distinct role in channelling savings to productive uses and supporting economic activity.[17] Through their intermediation function, NBFIs provide specialised financial services, facilitate long-term financing, enhance access to credit for segments not fully served by traditional banking institutions, and contributed to risk management.

Developments in the NBFI sector during 2025 were shaped by a generally favourable financial environment, particularly in the second half of the year, which supported asset growth across most segments. At the same time, the expanding footprint of the sector – both in terms of its size relative to GDP and its linkages with the banking sector – has increased its systemic relevance. While this deepening contributes positively to financial stability by broadening the sources of financing and risk sharing, it also underscores the need for enhanced monitoring

[16] *This chapter was prepared in close collaboration with and inputs from the Financial Services Commission.*

[17] *For the purpose of this chapter, the NBFI sector consists of NBDTIs, insurance companies and pension companies. In contrast to the Other Financial Corporations Survey and the Financial Corporations Survey, investment funds and financial auxiliaries were excluded from the analyses as they represent a smaller portion of the market and due to the lack of relevant data. The GBC sector is analysed in depth in Chapter 5.*

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of vulnerabilities arising from market exposures, liquidity conditions and cross-sectoral interconnections.

Within the NBFI landscape, the six NBDTIs continued to play a complementary role in financial intermediation by providing specialised credit services, including leasing. Their share of total financial sector assets has stayed relatively small. NBDTIs have contributed towards broadening access to finance—particularly for households and niche market segments. Their operations are closely linked to the banking sector through funding and liquidity channels, with evolving degree of interconnectedness. This linkage supports efficient allocation of financial resources but also underscores the importance of monitoring funding dependencies and transmission of liquidity and credit risks within the financial system.

The insurance and pension sector remained a systemically important component of the financial system, given its size, investment footprint and extensive interconnectedness. The sector plays a critical role in facilitating risk transfer mechanisms that would otherwise be borne individually by economic agents, thereby contributing to overall financial resilience.

The performance of financial markets, particularly international markets during the second half of 2025, supported an expansion in the asset base of both insurance and pension institutions. The structure of the insurance sector was broadly unchanged – comprising seven life insurers and fourteen general insurers. The total assets of the insurance sector increased annually by 5.1 per cent to reach Rs171 billion in December 2025. The long-term insurance segment continued to dominate the sector, accounting for 80.2 per cent of total insurance assets. Similarly, the pension sector—comprising 71 active schemes in December 2025—recorded sustained growth, with total assets rising year-on-year by 12.1 per cent to Rs101 billion.

Collectively, the insurance and pension sectors are estimated to have contributed around 1.9 per cent to gross value added in 2025, underscoring their role in supporting economic activity. Employment in these sectors also increased, reaching approximately 3,099 in December 2025, reflecting a year-on-year growth of 7.5 per cent.

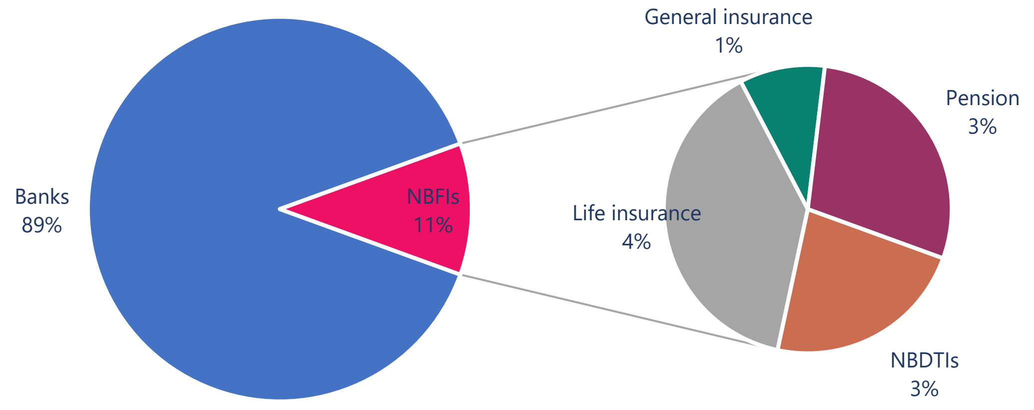
The insurance market in Mauritius strengthened alongside broader coverage against insurable risks and improved financial inclusion, indicative of an upward trend in both penetration and density points. Insurance penetration continued to improve, rising to 4.8 per cent in the second semester of 2025. In parallel, insurance density increased to Rs28,762 per capita, indicating higher average spending on insurance products by households and corporates.

The Bank and the FSC work closely to strengthen risk assessment, monitoring and response across the financial sector to reinforce systemic stability. The Bank regulates banks and NBDTIs, while the FSC oversees other NBFIs and the GBCs, enabling targeted risk mitigation through distinct division of responsibilities. Interlinkages between NBFIs and the banking sector are monitored to address risk transmission channels.

NBFIs remained an important segment of the financial system

The NBFI sector expanded further in 2025, reinforcing its role as an important segment of the financial system alongside banks. Total assets of the NBFI sector grew at an annual rate of 6.5 per cent to reach Rs351 billion in December 2025, with asset distribution in the NBFI sector broadly unchanged between June and December 2025. The share of the NBFI sector in the financial sector (exclusive of GBCs) was broadly stable at 11 per cent, of which the share of the life insurance segment was at 4 per cent, the general insurance segment at 1 per cent, the pension schemes segment at 3 per cent, and the NBDTIs segment at 3 per cent (Chart 4.1).

Chart 4.1: Composition of the financial sector (% of assets in December 2025)



Source: Bank of Mauritius

The NBFI sector remained smaller than the banking sector at 47 per cent of GDP in December 2025, but its growing scale relative to economic activity requires continued macroprudential oversight. The life insurance sector was the largest NBFI subsector, with assets stable at about 18 per cent of GDP in December 2025 (Chart 4.2). The pension sector recorded the most pronounced increase with its assets-to-GDP ratio rising to 13.5 per cent in December 2025 from 12.6 per cent mid-2025. Assets of NBDTIs hovered at approximately 11 per cent of GDP in December 2025. Of the NBFI sector, the general insurance sector stayed the smallest NBFI component, with assets averaging 4.5 per cent of GDP in the second half of 2025.

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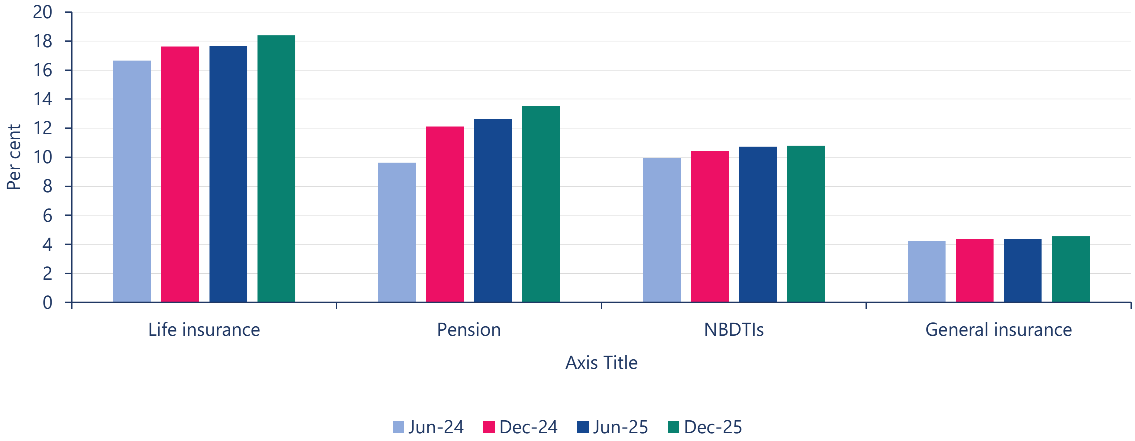
Chart 4.2: NBFIs' asset to GDP ratio



Source: Bank of Mauritius

Interconnectedness between NBFIs and banks remained low

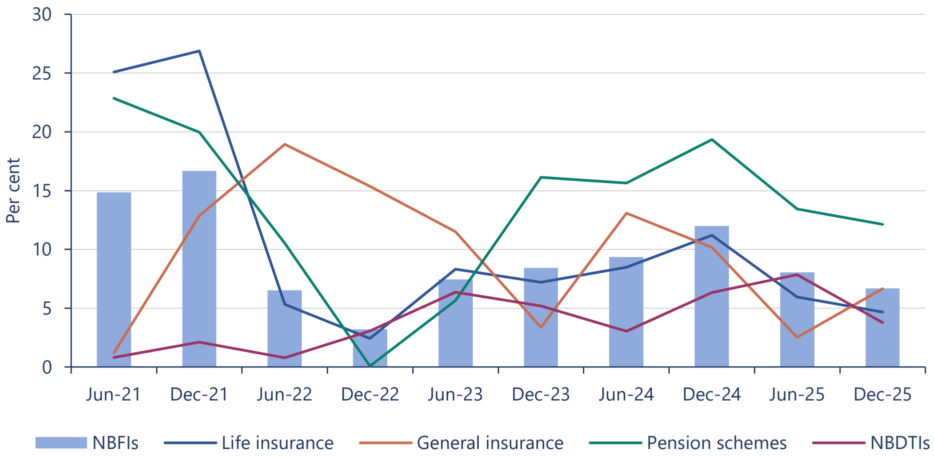
As the NBFI sector expands concurrently with the size of the domestic economy, the potential for macrofinancial feedback loops increases. Key indicators are closely monitored to assess any vulnerability and risk to financial stability.

The interconnections between banks and NBFIs remained limited. Banks' asset exposure to NBFIs, excluding GBCs, amounted to Rs91 billion in December 2025. These exposures – mostly in the form of loans and investments in debt securities – accounted for 3.2 per cent of total banking sector assets, slightly lower from mid-2025. On the liabilities side, banks' exposure to NBFIs increased to Rs119 billion in December 2025, representing approximately 4.7 per cent of total banks' liabilities. Deposits made up for around 95 per cent of these exposures. The modest scale of these exposures indicated direct contagion risks from NBFIs to banks were well contained.

Sustained expansion of the NBFI sector

The NBFI sector recorded commendable asset growth in 2025, though slower than in preceding years. NBFI assets grew by 6.7 per cent year-on-year in December 2025, although growth dynamics varied across NBFI segments (Chart 4.3). The life insurance sector experienced a steady decline in growth momentum, with annual asset growth easing to 4.7 per cent in December 2025. In contrast, the general insurance sector recorded an uptick in growth to 6.9 per cent. The pension sector remained the key driver of NBFI expansion with asset growth reaching 12.1 per cent. Meanwhile, NBDTIs recorded more moderate and stable growth, with asset expansion slowing to 3.8 per cent in December 2025.

Chart 4.3: NBFIs' annual asset growth



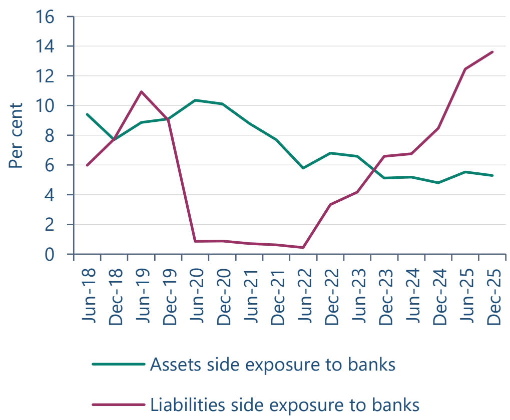
Source: Bank of Mauritius

Stable growth of NBDTIs

NBDTIs specialise in providing financial services to address the needs of niche market segments and contribute to broader financial inclusion.[18] While their overall footprint within the financial system remained relatively small—accounting for around 3 per cent of total financial sector assets and approximately 11 per cent of GDP in December 2025—they continued to play a meaningful role in supporting financial intermediation. The credit portfolio of NBDTIs remained heavily concentrated toward households, accounting for nearly 90 per cent of the portfolio, underscoring its role in supporting household access to credit.

NBDTIs demonstrated higher liability-side exposures to banks, with increased dependency on banks for funding. Liability-side exposures to banks as a share of total NBDTI liabilities rose markedly close to 14 per cent in December 2025, indicating growing reliance on bank funding (Chart 4.4). On the asset side, NBDTIs' exposure to banks declined over time, reaching about 5 per cent in December 2025. The extent of asset and liabilities exposures points to limited direct contagion risk from banks to NBDTIs but

Chart 4.4: Exposure to banks (as % of total assets and liabilities of NBDTIs)



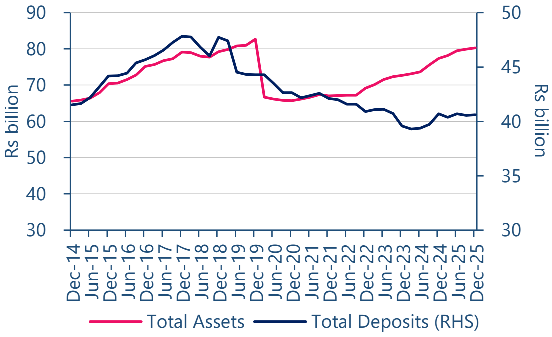
Source: Bank of Mauritius

[18] *Of the six NBDTIs, three NBDTIs were engaged only in leasing activities, two in lending activities, and one in both leasing and lending activities.*

highlights vulnerability to funding shocks for NBDTIs, particularly under stressed liquidity conditions.

NBDTIs sustained the flow of financing to the economy, supported by continued expansion of their balance sheets. Total assets grew by 3.8 per cent to reach Rs80 billion in December 2025 (Chart 4.5). Loans and finance leases remained the dominant component of assets, accounting for 82.0 per cent of total assets and recording a year-on-year increase of 3.7 per cent. The gap between total assets and deposits was notably funded by financing from banks.

Chart 4.5: Total assets and deposits of NBDTIs



Source: Bank of Mauritius

NBDTIs maintained robust capital buffers, enhancing their resilience to potential shocks. Profitability supported the accumulation of Tier 1 capital, with ROA and ROE standing at 3.3 per cent and 8.4 per cent, respectively, in 2025. The CAR remained elevated at 52.6 per cent in December 2025, indicating strong capacity to absorb losses. Stress test results, based on a 10-year historical NPL pattern and calibrated under severe shock scenarios, confirmed the resilience of the sector, with capital buffers deemed sufficient to withstand both moderate and severe credit risk shocks.

Credit risk indicators deteriorated slightly in the second half of 2025, as depicted by a rise in the NPL ratio to 4.3 per cent in December 2025. However, credit risk was partly mitigated by a provisioning coverage ratio of 55.9 per cent, indicating a buffer against potential losses. Moreover, strong capital buffer provided additional resilience against residual credit risk, with the ratio of NPLs net of provisions to capital at 5.2 per cent December 2025.

Liquidity conditions within the NBDTI sector remained sound, supported by adequate liquid assets, particularly sovereign instruments. Investments in government securities and treasury bills as well as deposits held with banks went up in December 2025. Overall, liquid assets accounted for 11.2 per cent of total assets.

On the funding side, deposits remained the primary source of financing, although a gradual shift toward market-based funding was observed. Deposits stabilised at around Rs41 billion throughout 2025, representing 50.6 per cent of total liabilities and capital. NBDTIs issued debt securities to raise funding as well, with debt securities growing at an annual rate of 21.7 per cent to Rs7.9 billion in December 2025 representing 9.9 per cent of total liabilities.

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Strong insurance sector performance

The insurance sector is an integral component of financial system, given its size and role in risk intermediation. The sector facilitates the transfer and pooling of risks across households and corporates, thereby supporting financial resilience and economic stability. Developments during 2025 reflected a broadly favourable operating environment, underpinned by improved financial market conditions and sustained demand for insurance products. Nonetheless, evolving global uncertainties and rising claims dynamics continued to warrant close surveillance from a financial stability perspective.

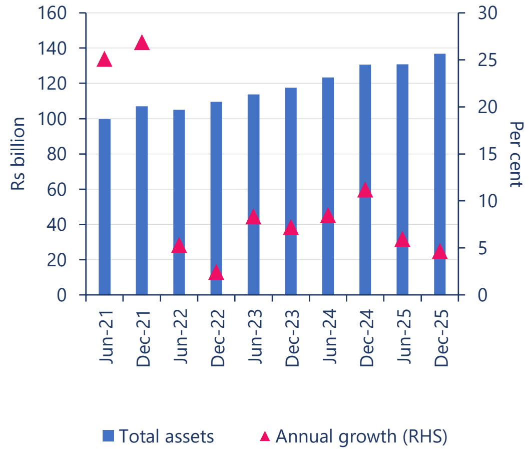
Life insurance investment-driven performance remained robust

The life insurance sector maintained its position as the dominant segment in the insurance industry in Mauritius, reflecting its pivotal role in long-term savings mobilisation and investment intermediation. By channelling policyholder funds into a diversified portfolio of financial assets, life insurers contribute to capital market development and long-term financing in the economy.

The performance of the life insurance sector was largely influenced by developments in financial markets, particularly in relation to valuation gains and investment income. At the same time, the exposure of the sector to market, credit and currency risks underscores the importance of continued monitoring under the macroprudential surveillance framework.

The balance sheet of life insurers expanded further in the second half of 2025. Total assets increased annually by 4.7 per cent to reach Rs137 billion in December 2025 (Chart 4.6). Growth was largely supported by better performance of the securities portfolio, with holdings of foreign equity, domestic equity and debt instruments rising annually by 29.6 per cent, 11.8 per cent and 7.5 per cent, respectively. The investment portfolio continued to benefit from favourable financial market conditions, contributing positively to asset valuation gains.

Chart 4.6: Total assets and annual growth

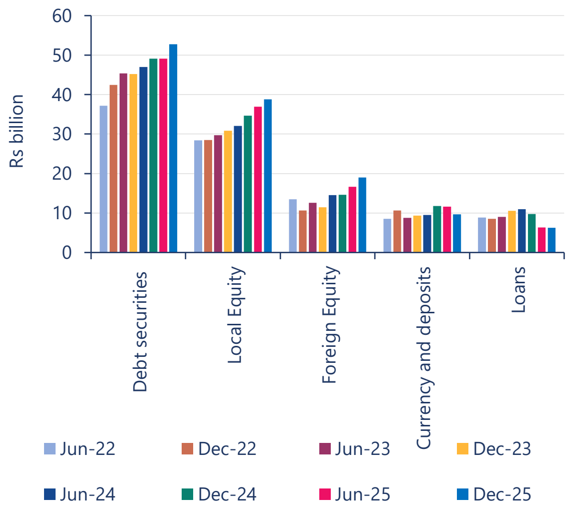


Source: Financial Services Commission

Life insurers increased exposure to market-based instruments, given a more supportive investment environment. The strong performance in foreign equity investments outpaced the growth recorded in global benchmarks, including the MSCI World Index. These investments were concentrated in key international financial centres, notably Luxembourg, US and Ireland. Domestic equity holdings performance reflected both positive market revaluation and new acquisitions. Growth in debt securities was mainly driven by higher holdings of Government of Mauritius Treasury Bills, indicating a degree of portfolio rebalancing towards sovereign instruments. Overall, the asset composition shifted further towards tradable instruments, whose share rose to 80.8 per cent of total assets, while the proportion of currency and deposits declined (Chart 4.7).

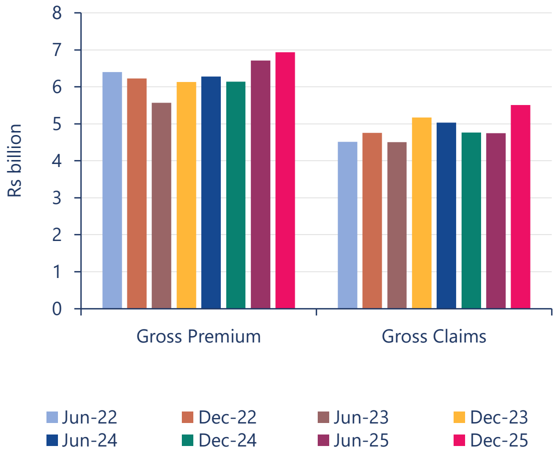
Underwriting performance in the life insurance sector weakened somewhat during the second half of 2025. Claims payments rose significantly by 16.0 per cent between June to December 2025, outpacing the growth of 3.4 per cent in gross premiums earned over the same period (Chart 4.8). Net income from insurance activities, whilst positive, was consequently compressed compared to the previous semester. The number of long-term policies fell to 368,281 in December 2025, from a peak of 369,516 in June 2025, largely due to a rise in policy surrenders (Chart 4.9). New business remained broadly stable, with policy uptake levels aligning with historical averages observed over the past four years.

Chart 4.7: Assets decomposition



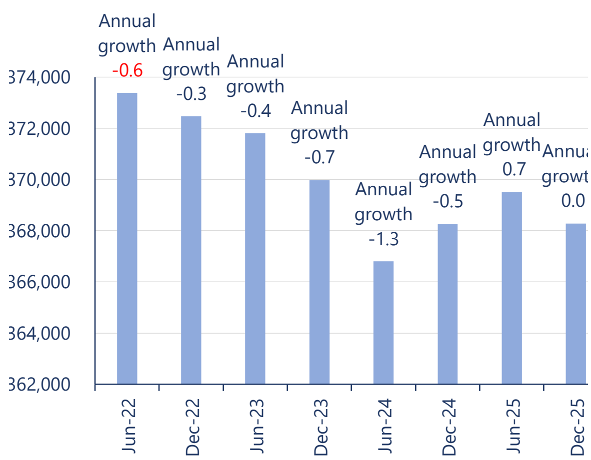
Source: Financial Services Commission

Chart 4.8: Gross premium and gross claims



Source: Financial Services Commission

Chart 4.9: Number of life policies



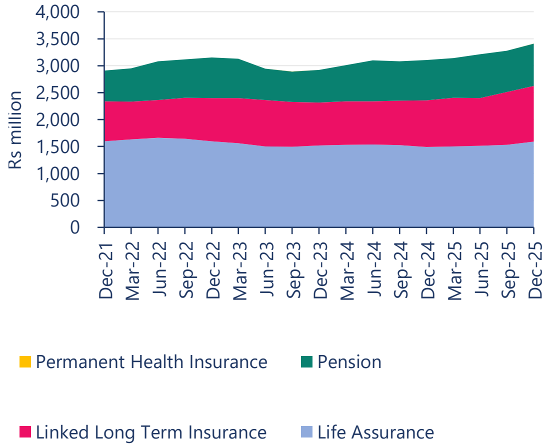
Source: Financial Services Commission

In terms of business composition, the Life Assurance segment accounted for the largest share of gross premiums, followed by Linked Long-Term Insurance and Pension products (Chart 4.10). Claims dynamics were primarily driven by higher payouts in the Linked Long-Term Insurance and Pension segments, contributing to the overall increase in claims settled during the period (Chart 4.11).

Despite pressures on underwriting performance, profitability in the life insurance sector remained strong. Investment income rose markedly by 63.8 per cent, more than offsetting subdued insurance service results. Consequently, the sector recorded an annualised ROE of 36.6 per cent while in parallel the ROA improved to 4.7 per cent in December 2025. This reflected the increasing importance of investment income as a key driver in the current environment.

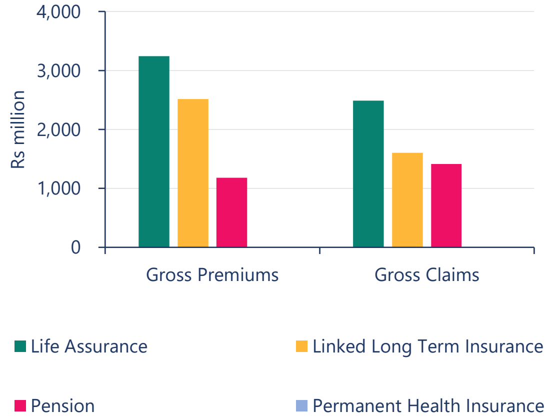
The continued expansion of foreign portfolio investments has, however, heightened exposure to market and currency-related risks. FX-denominated assets accounted for 26.3 per cent of total assets in December 2025 (Chart 4.12). These exposures were primarily concentrated in instruments issued by non-residents, as well as GBCs and Collective Investment Schemes with significant foreign asset holdings. In contrast, foreign currency liabilities remained negligible, suggesting limited natural hedging in insurers' balance sheets (Chart 4.13). As a result, unfavourable exchange rate movements could have direct implications on insurers' financial positions.

Chart 4.10: Gross premium breakdown



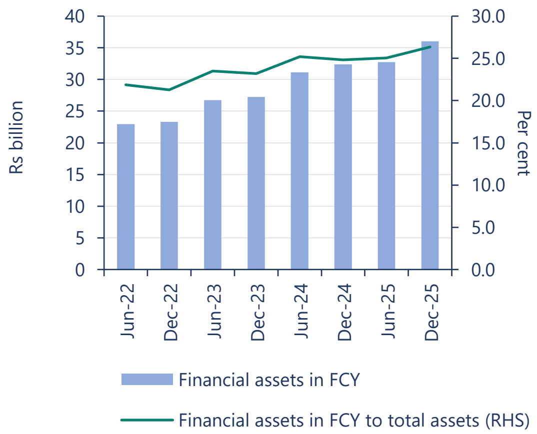
Source: Financial Services Commission

Chart 4.11: Gross premiums and gross claims by class of policies



Source: Financial Services Commission

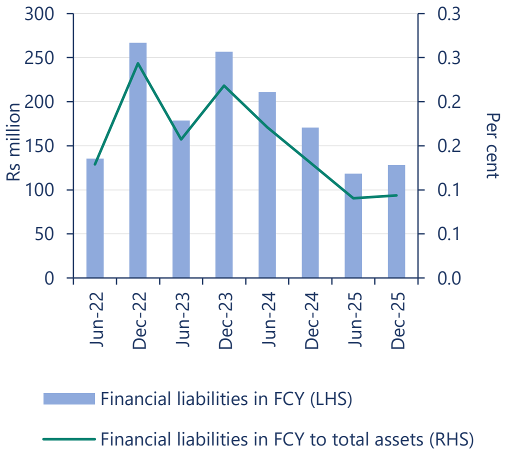
Chart 4.12: Total assets in FCY



Source: Financial Services Commission

The liquidity position of life insurers edged down as they reallocated financial resources towards higher-yielding securities amid favourable market conditions. As a result, the ratio of liquid assets to total assets declined to 9.2 per cent in December 2025 (Chart 4.14). While this trend indicated greater investor confidence, it also suggested to a reduction in liquidity buffers. Since a significant portion of equity portfolio was in listed instruments, it provided an additional layer of contingent liquidity as it could be readily liquidated.

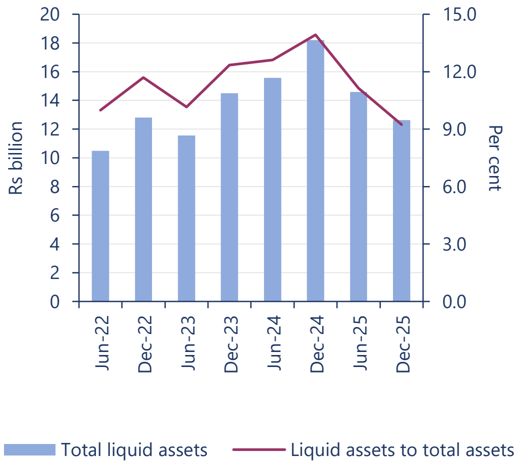
Chart 4.13: Total liabilities in FCY



Source: Financial Services Commission

The assessment of capital adequacy has been affected by the ongoing transition to IFRS 17, which has introduced significant complexity in the measurement of insurers' financial positions. Delays in the submission of statutory returns have constrained a comprehensive sector-wide evaluation of solvency. As an interim measure, the ratio of shareholders' equity to invested assets has been used as a proxy indicator of capital strength. Based on this measure, capital buffers improved modestly during the second half of 2025, supported by a steady increase in capital and reserves. Overall, the sector maintained adequate capital buffers to absorb potential shocks.

Chart 4.14: Total liquid assets



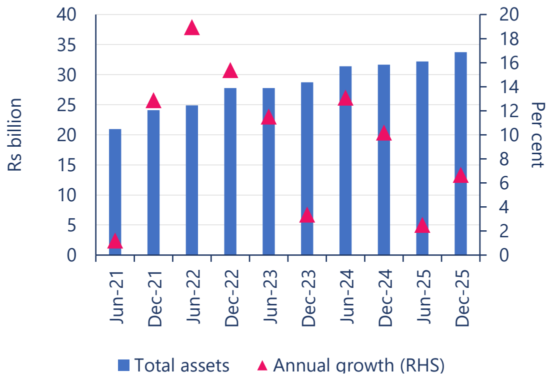
Source: Financial Services Commission

Improved underwriting performance for general insurance

The general insurance sector supports risk mitigation for households and businesses. Its operations contribute towards enhancing economic resilience by absorbing losses from adverse events through insurance coverage of a wide range of risks. The sector recorded stable growth, supported by improvements in underwriting performance and operational efficiency. However, evolving claims patterns – including those linked to health and climate-related risks – remain important considerations for the risk outlook in the sector.

The general insurance sector continued to expand consistently. Total assets increased annually by 6.9 per cent to reach Rs34 billion in December 2025 (Chart 4.15). Asset growth was supported primarily by improved profitability, which strengthened capital and reserves. The positive performance reflects, in part, a favourable operating environment and the ability of the sector to adapt to evolving risk conditions.

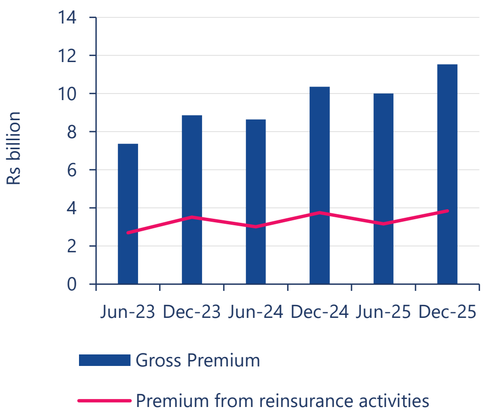
Chart 4.15: General insurers' total assets



In terms of asset composition, general insurers exhibited a shift towards more liquid holdings, with currency and deposits increasing significantly by 20.1 per cent between June and December 2025. Consequently, the share of these liquid assets rose to 20.9 per cent of total assets, indicating a more cautious approach to liquidity risk management. This increase in liquid buffers enhanced the capacity of general insurers to absorb short-term liquidity strains.

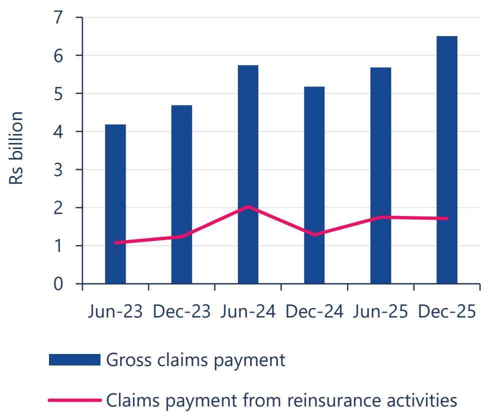
Underwriting performance improved in the second half of 2025. Net income from insurance activities went up by 27.8 per cent relative to the first semester of 2025, supported by strong growth in gross premiums earned (Charts 4.16 and 4.17). The increase in reinsurance utilisation indicated a more conservative risk retention strategy, with the reinsurance share of gross premiums rising to 33.3 per cent in the second semester of 2025. While this approach mitigated underwriting risk, it also exerted some pressure on net underwriting margins.

Chart 4.16: Premium earned



Source: Financial Services Commission

Chart 4.17: Claims payments



Source: Financial Services Commission

The business profile of the general insurance sector was concentrated in motor and accident and health insurance. Together they accounted for 67.8 per cent of gross premiums and 80.6 per cent of total claims for the year ended December 2025 (Charts 4.18 and 4.19). The share

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of claims in the accident and health segment went up, indicating rising claims intensity within this class of business. Despite these developments, key underwriting indicators were stable, with the combined ratio and claims ratio standing at 64.2 per cent and 59.8 per cent, respectively, in December 2025 (Chart 4.20)

Chart 4.18: Premiums by class of policies

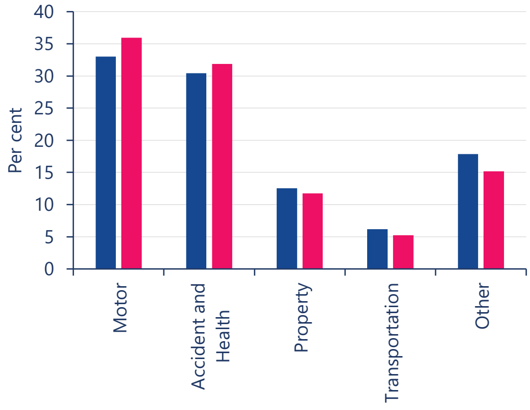
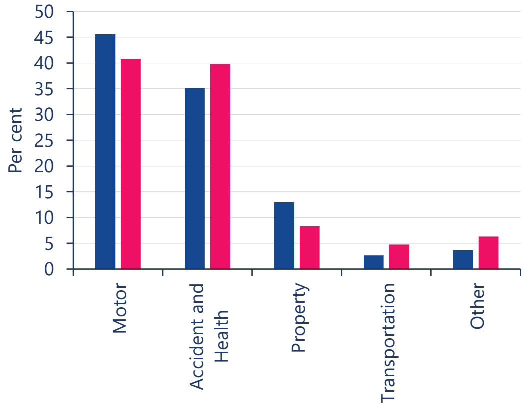


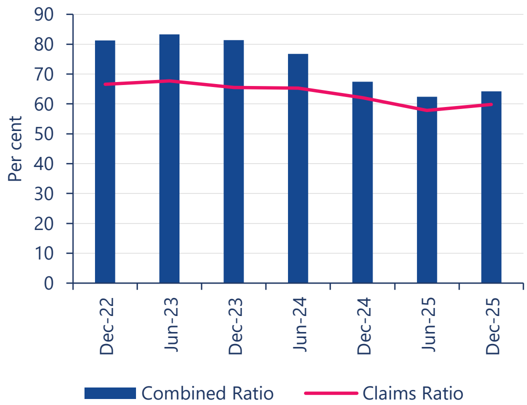
Chart 4.19: Claims by class of policies



Source: Financial Services Commission

Profitability indicators remained robust, with the sector's average annualised ROE increasing to 16.0 per cent, supported by stronger underwriting income and other operating revenues. Overall, these developments point to a resilient non-life insurance sector, which has continued to adjust proactively to evolving risk dynamics while maintaining stable performance.

Chart 4.20: Combined and claims ratios



Source: Financial Services Commission

The growing number of policies supported continued reliance of the sector on motor insurance as a key source of business. Total number of policies reached 672,779 at the end of 2025, up by 1.5 per cent between June and December 2025. This was driven by growth in both motor and non-motor segments. The motor segment accounted for 75.6 per cent of total policies.

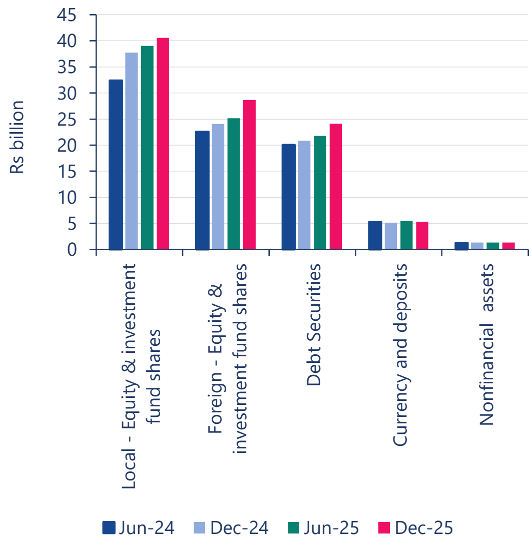
The transition to IFRS 17 has introduced complexities in the reporting framework with several for general insurers facing implementation challenges, similar to life insurers. In light of these transitional constraints, the capital position of the sector was assessed using the ratio of shareholders' equity to invested assets as a proxy indicator. This measure showed a slight improvement, with an average increase of 1.5 per cent in the second semester of 2025. The ratio underscored adequate capital buffers to absorb potential losses.

Pension schemes' assets expanded further

The pension sector, another key institutional investor in the financial system, expanded further in the second half of 2025 from positive pension contributions and investment performance. Pension schemes support financial security of households and provide a stable source of long-term financing to the economy through the management of retirement funds. However, the increasing size and exposure to market-based instruments of the pension sector require close monitoring of vulnerabilities to market and longevity risks.

The rise in aggregate assets of the private pension sector was primarily on account of favourable investment conditions, with total assets growing at an annual rate of 12.1 per cent to reach Rs101 billion in December 2025. Positive performance in equity markets pushed asset expansion, with holdings of domestic and foreign equities rising annually by 7.6 per cent and 19.2 per cent, respectively, broadly in line with trends observed in domestic and global market indices. Investments in debt securities – largely composed of government instruments – also recorded robust annual growth of 15.8 per cent in December 2025. The asset composition of pension funds remained concentrated in market-based instruments, with equities and fixed-income securities accounting for 68.8 per cent and 24.0 per cent of total assets, respectively (Chart 4.21).

Chart 4.21: Asset decomposition

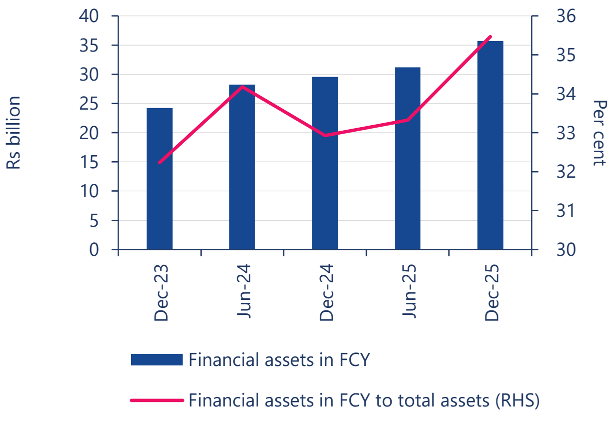


Source: Financial Services Commission

The increasing allocation to foreign assets has heightened exposure of the sector to currency risk, with foreign currency-denominated assets representing 35.5 per cent of total assets in December 2025 (Chart 4.22). In contrast, pension liabilities are predominantly denominated in domestic currency, implying limited natural hedging against exchange rate fluctuations. Adverse movements in exchange rates could, therefore, have a direct impact on asset valuations and funding positions, reinforcing the importance of assessing and monitoring currency-related risks in the sector.

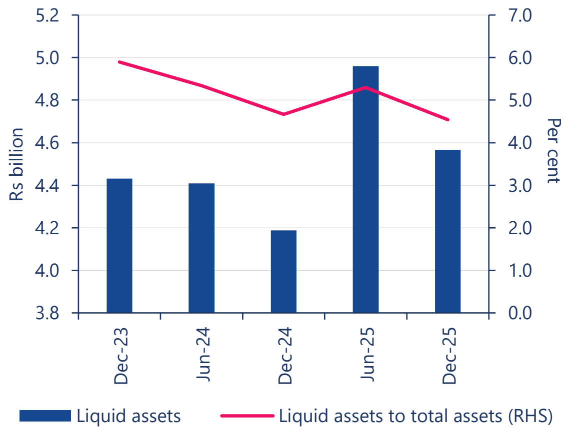
Liquidity conditions in the pension sector were broadly adequate, although some moderation was noted in the second half of 2025 with a marginal decline in the ratio of liquid assets to total assets (Chart 4.23). Transferable deposits continued to account for the bulk of liquid assets, representing 76.1 per cent, followed by debt securities and other receivables. While the decline in liquid holdings might reflect a reallocation towards higher-yielding investments, it also pointed to a reduction in immediately available liquidity buffers which may have implications under stressed conditions.

Chart 4.22: FCY assets



Source: Financial Services Commission

Chart 4.23: Liquid assets



Source: Financial Services Commission

The linkages of the pension sector with both the domestic and foreign financial systems remained significant in December 2025. The exposure of the sector to external counterparties was the largest at 29.4 per cent of total assets. Domestic interlinkages were mainly concentrated within the financial sector. Specifically, exposures to NBFIs accounted for 23.7 per cent of total assets while exposures to banks was 16.9 per cent in December 2025, broadly stable compared to the previous semester.

Non-bank lenders' moderate frown and stable asset quality

The non-bank lending (NBL) sector has an important complementary role in financial intermediation by providing specialised credit products to segments that may not be fully served by traditional banking institutions. Activities in this sector – including leasing, credit finance and factoring – enhanced access to finance and supported the domestic economy. In recent years, the sector has continued to expand, reflecting growing demand for alternative financing solutions. While overall performance was resilient, evolving credit dynamics and funding structures warrant ongoing monitoring to safeguard financial stability.

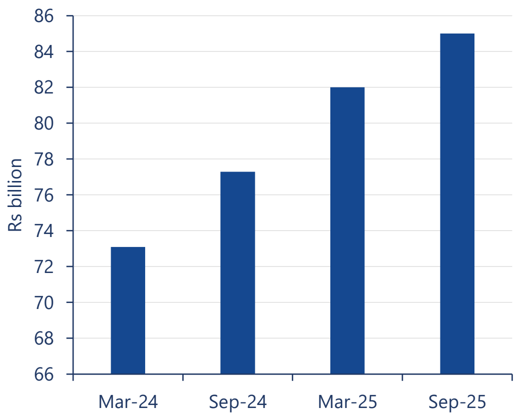
The NBL sector comprised 34 entities in September 2025, employing around 1,600 individuals. Market concentration was moderate, with the HHI standing at 1,791, indicative of a market structure characterised by a balanced distribution of activity across institutions. Credit extended by NBLs increased to 9.6 per cent of GDP, up by 0.7 percentage point compared to the previous year, highlighting further deepening of financial intermediation through this segment of the financial system.

The aggregate assets of the sector expanded further, primarily due to growing finance lease activities reflecting sustained demand for asset-based financing solutions (Chart 4.24). Total assets rose at an annual rate of 10.0 per cent in September 2025, largely driven by the 21.7 per cent annual rise in finance leases. Loan assets showed marginal growth of 2.7 per cent annually in September 2025 but continued to represent the dominant share of total assets at 34.0 per cent (Chart 4.25).

Sectoral credit dynamics indicated continued shift towards household lending (Chart 4.26). Household loans by the NBL sector rose at an annual rate of 21.1 per cent in September 2025. This growth partly reflected demand for alternative finance by households. The large operators in the NBL sector are registered with the Mauritius Credit Information Bureau where they can access credit information on borrowers to assess their credit worthiness. The share of household credit gained further ground in the credit portfolio of the NBL sector, with household and corporate accounting for 48.4 per cent and 51.6 per cent of total credit, respectively.

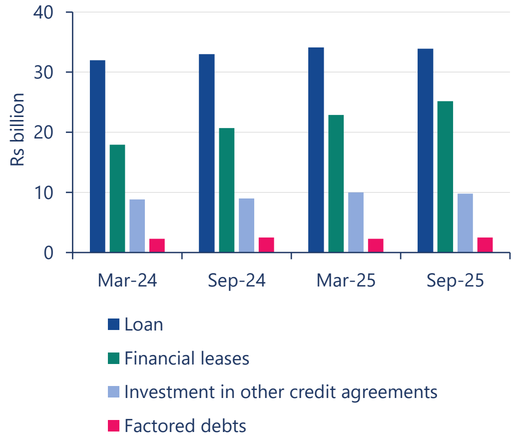
Loans to the corporate sector remained quasi stable in September 2025 compared to last year. Within the corporate segment, lending was

Chart 4.24: NBL total assets



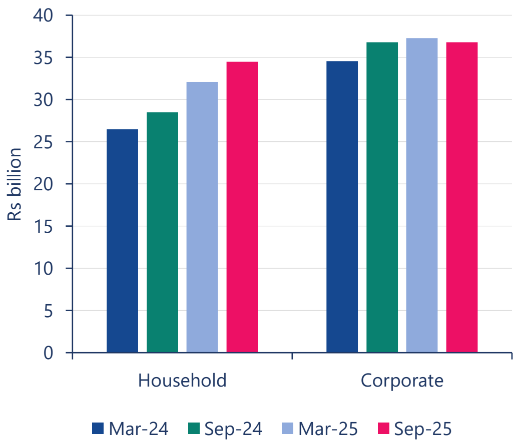
Source: Financial Services Commission

Chart 4.25: NBL asset decomposition



Source: Financial Services Commission

Chart 4.26: Credit decomposition



Source: Financial Services Commission

concentrated in wholesale and retail trade, construction, and manufacturing sectors. As these economic sectors are generally more sensitive to economic cycles, it is important to closely monitor the asset quality, liquidity conditions, and capital buffers in the NBL sector to assess its resilience to shocks.

The quality of the credit portfolio of the NBL sector was sound. Credit risk was well contained with the NPL ratio at 1.7 per cent in September 2025. The NPL ratio was notably higher in the household segment at 3.4 per cent, reflecting relatively higher credit risk profile for retail lending, compared to 0.3 per cent for corporate exposures. The sustained growth in household credit and prevailing macroeconomic pressures necessitate close monitoring of the credit portfolio.

Forward-looking indicators of credit quality suggest improving conditions. Loan delinquency levels – measured as past-due exposures relative to total credit – declined significantly over recent years, reaching 2.6 per cent in September 2025. This downward trend indicated reduced propensity of loans transitioning into non-performing status and supported the overall assessment of stable credit quality in the sector.

Liquidity conditions in the NBL sector were sound, supported by prudent asset-liability management practices. NBL institutions maintained positive cash positions within the 1- to 5-year maturity bucket, contributing to a stable medium-term funding profile. These surpluses provide an important buffer against any liquidity strains arising from maturity mismatches. Stress testing of cash flows, incorporating scenarios of elevated inflation, indicated that the sector was broadly resilient under both moderate and severe shocks. However, a small number of institutions exhibited cumulative negative mismatches under more adverse scenarios, warranting closer supervisory engagement.

The funding structure of NBLs highlighted strong interconnectedness with the broader financial system. Funding was primarily composed of loans, accounting for 61.2 per cent of total liabilities, followed by debt securities at 21.4 per cent and equity at 17.4 per cent as in September 2025. Loans were largely sourced from banks and related parties, underscoring a reliance of the sector on bank financing.

The composition of liabilities shifted, with loans declining by 14.1 per cent while debt securities increased significantly by 112.7 per cent over the six months ended September 2025. The reallocation was largely driven by the securitisation of assets into mortgage-backed securities, amounting to approximately Rs3.8 billion. While the development of securitisation instruments reflects increasing financial sophistication, it also introduces added complexity, particularly in identifying the ultimate risk holders and assessing systemic exposures. In the absence of a comprehensive securitisation framework, these developments remain subject to close regulatory oversight.

Capital buffers across the NBL sector were broadly adequate, although some divergence was observed across institutions. Medium- and large-sized NBLs recorded a modest strengthening in capital positions, while smaller entities experienced a decline in their capital-to-assets ratios, which fell to 54.3 per cent in September 2025. These variations were primarily driven by changes in equity levels across institutions. Overall, while capitalisation remains sufficient at the aggregate level, the dispersion across entities underscored the need for close surveillance to ensure that all institutions maintain adequate buffers to withstand potential shocks.

Table 4.1: Capital to Assets Ratio by category of Non-Bank Lenders[19]

	Sept-24	**Mar-25**	**Sept-25**
	Per cent		
Small-sized companies *(Assets up to Rs200 million)*	62.1	61.1	54.3
Medium-sized companies *(Assets between Rs200 million and Rs2 billion)*	19.3	18.0	19.1
Large-sized companies *(Assets more than Rs2 billion)*	14.6	14.3	14.7

Source: Financial Services Commission

[19] *Exclusive of non-bank lenders holding a deposit taking licence.*

Box 2: Interconnectedness of Long-Term Insurance with Economic Sectors

Life insurers – with assets-to-GDP ratio at 18.4 per cent – are extensively interconnected with all institutional sectors of the economy through their core intermediation role, whereby funds mobilised via the issuance of life insurance policies are channelled into a broad spectrum of financial investments. These linkages are inherent to the life insurance business model but may also act as potential channels for the transmission and amplification of risks during periods of economic stress, including current geopolitical tensions. As such, a comprehensive understanding and close oversight of these interconnections are critical for safeguarding financial stability.

The government sector continued to represent the largest exposure for life insurers, primarily through holdings of sovereign debt securities. These instruments accounted for 27.3 per cent of total assets in December 2025, marking a reversal of the declining trend observed over the preceding periods. The increased allocation to government securities showed a transition towards relatively lower-risk instruments amid heightened uncertainty, as insurers seek to rebalance their portfolios and preserve capital.

Life insurers also maintained significant exposure to other financial institutions, particularly Other Financial Corporations (OFCs), which accounted for 22.1 per cent of total assets. These exposures were largely concentrated in equity instruments, indicating sensitivity to stock market developments. When combined with exposures to Other Depository Corporations (ODCs), total links with the financial sector amounted to 30.1 per cent of assets in December 2025, in line with historical patterns. The sector held a net receivable position vis-à-vis both OFCs and ODCs, reflecting its role as a net provider of funds to the financial system and reinforcing interdependencies across financial institutions.

Exposure to Other Non-Financial Corporations (ONFCs) exhibited a gradual decline in recent years, standing at 16.6 per cent of total assets in December 2025. At the same time, the composition of these exposures shifted towards fixed-income instruments, with debt assets accounting for a growing share of total holdings. While this reallocation supported portfolio diversification and may reduce equity market volatility, it also introduces heightened credit risk, particularly in the absence of mandatory credit ratings or constraints based on borrower creditworthiness.

From a macroprudential perspective, this evolving exposure structure warrants close monitoring, especially given the concentration of exposures in sectors such as construction, trade and manufacturing, which are more vulnerable to economic fluctuations. At the institutional level, solvency frameworks require insurers to maintain adequate capital buffers to absorb such risks, providing an additional layer of resilience.

External exposures have also increased, with investments in non-resident instruments accounting for 15.2 per cent of total assets in December 2025. These investments were predominantly equity-based and concentrated in key international markets, providing diversification benefits and access to broader investment opportunities. However, such exposures also elevate sensitivity to global financial conditions and exchange rate volatility. Given the limited foreign currency liabilities on insurers' balance sheets, adverse currency movements could directly affect asset valuations, although potential valuation gains may arise during periods of global stress when major currencies strengthen.

On the liabilities side, the household sector remained the primary counterparty for life insurers, reflecting the fundamental role of policyholders in providing long-term funding. Households held a significant net receivable position vis-à-vis the life insurance sector, amounting to Rs109.6 billion in December 2025. This indicated that life insurers rely predominantly on policyholder funds and maintain limited liabilities towards corporate entities. Overall, the structure of interlinkages highlighted the central role of life insurers as financial intermediaries, while also stressing the importance of monitoring cross-sectoral exposures to mitigate potential systemic risks.

Chart I: Exposure of Assets of Life Insurers with institutional sectors

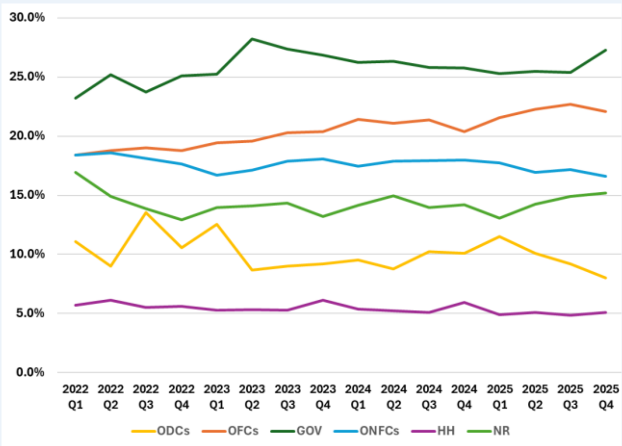
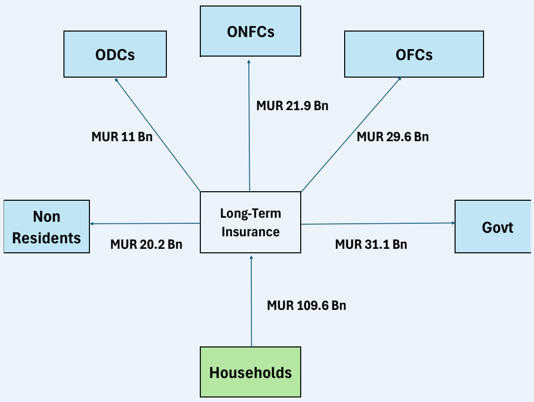


Chart II: Linkages between Life Insurance business and other segments of the economy as at end December 2025



Note: *Values for all institutional sectors are in net receivables position except for household sector which is in net payables position*

5. Global business sector and cross-border activities[20]

Risk from the Global Business sector and cross-border banking exposures were well contained. The Mauritius IFC advanced further in the second half of 2025, despite the growing geopolitical tensions. Sound GBC licensing activities supported the operating environment. Divergent trends, marked by rising Foreign Direct Investment alongside declining Foreign Portfolio flows, did not affect the total value of assets which expanded to a historical high of US$755 billion in December 2025. Foreign Direct Investment to India picked up substantially, though Foreign Portfolio Investment moderated further. Flows to Africa were well sustained. Banks expanded their cross-border activities as GBC deposits receded marginally. They proactively managed funding and liquidity risks, maintaining FX LCR and NSFR well above the regulatory limits. Credit risk for the GB sector remained elevated but banks maintained a high level of provision to cater for impaired GB assets. Credit risk for the cross-border credit portfolio was relatively low and prudently managed.

Risk to the stability of the financial system from the Global Business (GB) sector remained contained in the second half of 2025. The performance of the sector was commendable despite challenging conditions from persistent uncertainty in the global economic environment. The positive trend in licensing of new entrants re-affirmed trust in the Mauritius IFC. Investment flows into India bounced back while portfolio investment decelerated. A number of initiatives are ongoing to strengthen the GB sector, which will contribute towards containing risk from the sector.

The GB sector expanded strongly supported by resilient flows through the Mauritius IFC. The sector grew by 3.6 per cent in real terms in 2025, a faster pace than in the previous three years. Its contribution to the economy was broadly stable at 8.2 per cent in 2025 relative to preceding years, underscoring its structural importance. Activities in the GB sector generated nearly 6,000 jobs directly in 2025 whilst supporting employment indirectly through banking, audit and legal services.

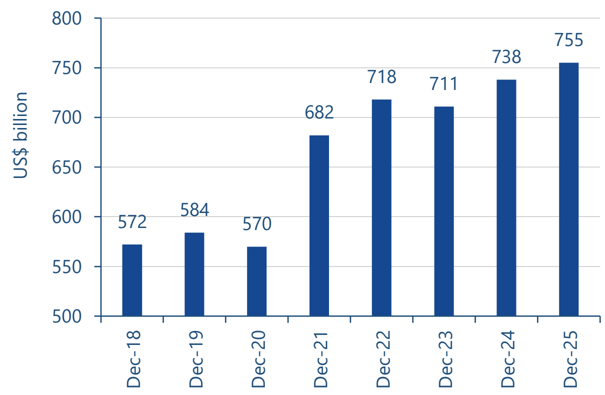
The linkages between the banking and the GB sectors were broadly stable, with banks managing GBC deposits cautiously and continuing to grow their credit portfolio to the sector. GBC deposits declined temporarily in December 2025 relative to June 2025. Banks' GB credit portfolio expanded while credit risk has receded from past elevated levels. Banks have maintained robust coverage in terms of specific provisions set aside for the impaired credit

[20] *This chapter was prepared in close collaboration with and inputs from the Financial Services Commission.*

portfolio of the GB sector. Liquidity risk was prudently controlled by banks, primarily by maintaining more than adequate liquidity buffers to sustain any deposit outflows.

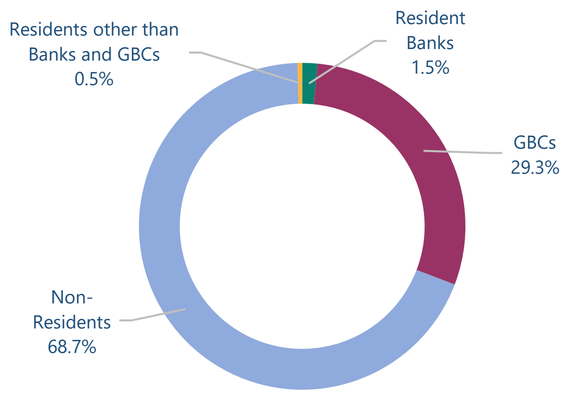
The sound expansion of the asset base of the GB sector has been a key indicator of the strategic position of the Mauritius IFC in the region. Total assets of the sector grew at an annual rate of 2.3 per cent to attain an all-time high of US$755 billion in December 2025 (Chart 5.1). The conducive environment of the Mauritius IFC together with growing global financial flows have sustained the favourable momentum in the GB sector. The financial assets of GBCs were predominantly exposures to non-residents, accounting for 68.7 per cent in December 2025, followed by cross-shareholding among GBCs at 29.3 per cent (Chart 5.2).

Chart 5.1: Total assets of GBC



Source: Financial Services Commission.

Chart 5.2: Exposures of GBCs by institutional sectors in December 2025



Source: Financial Services Commission.

Resilient growth amid escalating global strains

The dynamic global environment shaped developments in the GB sector. GBC licensing trends exhibited encouraging momentum, notably driven by increased interest from the African market relative to India. Investment flows through the Mauritius IFC benefited from sustained Foreign Portfolio Investments (FPI) stability towards Africa and a recovery in Foreign Direct Investments (FDI) to India.

An update on The Qualified Domestic Minimum Top-Up Tax

Tax developments remain a key determinant shaping conditions in the GB sector. A key feature of global tax standard is the Qualified Domestic Minimum Top-up Tax (QDMTT), enabling jurisdictions to levy additional tax where a company's effective tax rate falls below the 15 per cent minimum, thereby ensuring that any top-up tax is collected domestically. Mauritius adhered to the QDMTT effective 1 July 2025 to align with the OECD/G20 Pillar Two rules and applied a 15 per cent minimum tax on resident entities that are part of large multinational groups with consolidated revenues exceeding EUR750 million.

In January 2026, the OECD issued additional guidance under the Pillar Two Framework, notably the "side-by-side" package, which set out the interaction between Pillar Two rules and domestic tax systems across jurisdictions. The guidance aimed to support implementation through simplified calculation approaches, the introduction of safe harbour provisions and the criteria for recognising qualifying domestic minimum tax regimes. In addition, it provided further clarification on the application of other Pillar Two mechanisms, including the Income Inclusion Rule and the Undertaxed Profits Rule, where applicable.

Interpretation of the Grandfathering clause in the India-Mauritius DTAA

Recent bilateral tax clarifications have enhanced certainty for cross-border investment structures. In this context, India issued notifications in March 2026 outlining amendments to the Income Tax Rules relating to the General Anti-Avoidance Rules. These amendments clarified the tax treatment of capital gains arising from investments made into India prior to 1 April 2017 that fall under the grandfathering provisions of the Double Taxation Avoidance Agreement (DTAA) between India and Mauritius.

FATF mutual evaluation

The FATF mutual evaluation of Mauritius is scheduled for 2027. The authorities are deploying considerable resources and efforts to ensure that the regulatory framework complies with international AML/CFT standards, though Mauritius is already compliant or largely compliant to the 40 FATF Recommendations. The FSC has adopted a risk-based supervisory approach for onsite and offsite inspections to assess compliance with AML/CFT standards. Between July and December 2025, approximately 70 per cent of onsite inspections and 87 per cent of offsite inspections focused on GBCs. The findings indicated an overall satisfactory level of compliance within the sector.

The FSC conducted targeted outreach and awareness initiatives during the same period, both independently and through the Inter-agency Coordination Committee (ICC). These included sessions on the National Risk Assessment, suspicious transaction reporting related to terrorism and proliferation financing, and AML/CFT requirements in the insurance sector.

To further strengthen the ICC framework, key authorities—including the Bank, the FSC, the Financial Intelligence Unit, and the Attorney General's Office—signed an Amended Memorandum of Cooperation on 18 March 2026. This updated framework reinforces the role

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of the ICC in enhancing coordination and information sharing among supervisory, regulatory, and enforcement bodies.

ESG initiatives

Environmental, Social and Governance (ESG) considerations are increasingly embedded in global financial markets. The FSC has identified ESG as a strategic priority and has aligned its approach with broader international sustainability objectives.

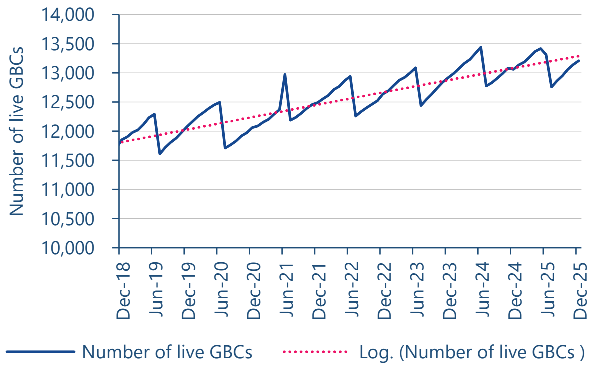
Following the issuance of the "Disclosure and Reporting Guidelines for ESG Funds" on 10 March 2025, activity in this segment has increased. Between 1 July 2025 and December 2025, seven ESG schemes—comprising Collective Investment Schemes and Closed-End Funds—were approved. These developments reflect a gradual expansion of ESG-related products within the Mauritius IFC.

Live GBCs expanded further

Licensing of GBCs maintained positive momentum in the second half of 2025, as generally accommodative global financial conditions supported the GB sector. The number of live GBCs rose at an annual rate of 1.1 per cent to attain 13,208 in December 2025, though the total number of licensed GBCs was slightly lower than in June 2025 (Chart 5.3).

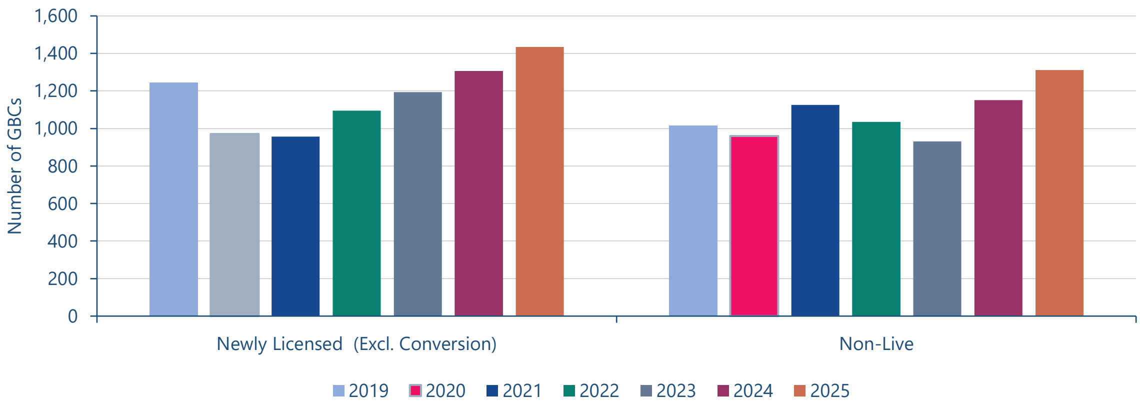
Licensing of new GBCs went up in the second half of 2025. The number of new licensees reached 1,434, representing an annual growth of 9.7 per cent in December 2025. However, a total of 1,311 licensees exited the jurisdiction during the same period depicting a yearly rise of 13.8 per cent in exits (Chart 5.4).

Chart 5.3: Evolution of Live GBCs



Source: Financial Services Commission.

Chart 5.4: Evolution of newly-licensed and non-live GBCs

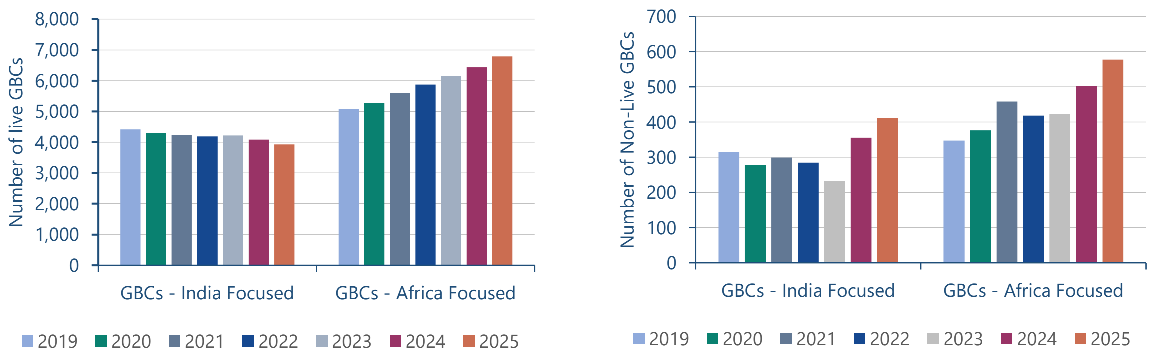


Source: Financial Services Commission.

The African market remained the principal driver for investment interests by GBCs operating from the Mauritius jurisdiction. The number of live GBCs from Africa accounted for 51.4 per cent of active GBCs compared to 29.7 per cent for India-focused GBCs in December 2025 (Chart 5.5). Likewise, the number of live GBCs targeting Africa increased at an annual rate of 5.5 per cent while India-focused GBCs contracted by 3.8 per cent in December 2025.

The number of GBCs exiting the Mauritius IFC was relatively higher. The number of exits was more pronounced among India-focused GBCs. The number of non-live India-focused GBCs rose at an annual rate of 15.7 per cent as compared to an increase of 14.9 per cent among Africa-focused ones.

Chart 5.5: Live and non-live GBCs targeting India vs Africa



Source: Financial Services Commission.

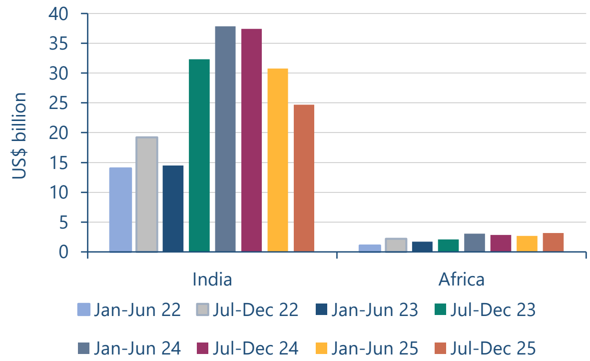
Despite divergent trends, investment flows remained robust

Investment flows through GBCs were generally sound in the second semester of 2025. Investment flows were supported by the stability of FPI to Africa and a recovery in FDI to India.

FPI flows to India declined while FDI flows rebounded substantially. In comparison, both FPI and FDI to Africa increased.

FPI through GBCs to India contracted to US$24.7 billion during the second half of 2025 (Chart 5.6). In contrast, FPI into the African continent expanded to reach US$3.2 billion.

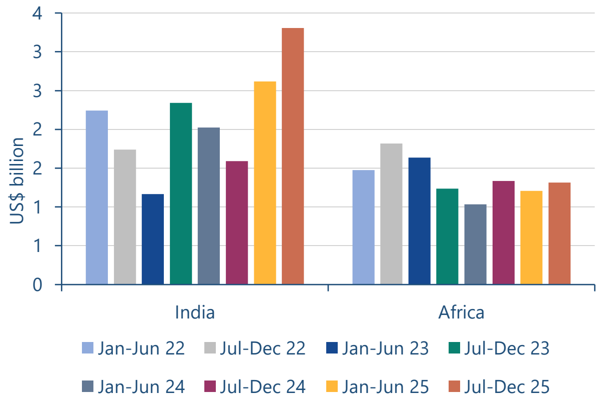
Chart 5.6: Gross flows of FPI



Source: Financial Services Commission

FDI flows through the Mauritius IFC held up well in the second half of 2025, with flows into India picking up after a phase of stabilisation. FDI flows to India reached US$3.3 billion in the second semester of 2025. Likewise, FDI to Africa maintained a positive trend to reach US$1.3 billion (Chart 5.7).

Chart 5.7: Gross flows of FDI



Interconnectedness between the GB and banking sectors

The exposure of the banks to the GB sector remains primarily in the form of loans and deposits. Banks manage these exposures prudently in line with the regulatory framework set by the central bank and their internal risk management frameworks. GBCs deposits with banks, of short-term nature predominantly, provide an important source of wholesale funding that are mostly deployed as short-term deposit with banks abroad to manage liquidity risk. Banks are required to hold sufficient high-quality liquid assets and maintain diversified funding to meet potential run-off of GBC deposits. Credit risk is managed cautiously, with significant provision set aside by banks for impaired loans in the GBC credit portfolio.

Given the sensitivity of the GB sector to external conditions and international financial flows, a sudden change in GBC activity could affect funding and the credit portfolios of banks. Therefore, regular assessment of risks and ongoing surveillance are essential to safeguarding financial stability.

Accordingly, with a significant share of the balance sheet of the banking sector exposed to GBCs and the contribution of the GB sector to the economy, developments in the sector are closely monitored by both financial sector regulators. GBCs deposits held with banks reached

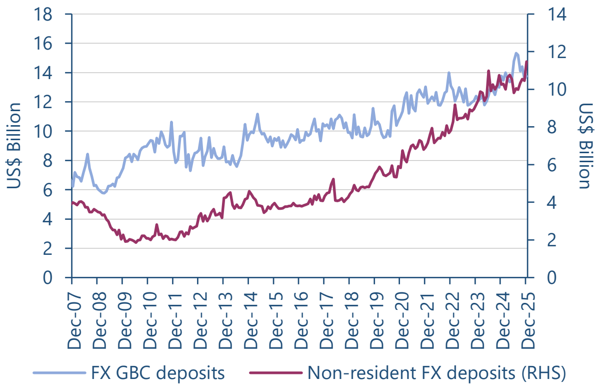
US$13.8 billion in December 2025, representing 29.6 per cent of total deposits. The diversification strategy has gradually reduced banks' reliance on GBC funding. Credit facilities to GBCs was US$2.6 billion in December 2025.

GBC FX deposits moderated compared to non-resident FX deposit

Banks have maintained diversified sources of FX funding to manage potential pressures from shifting global financial conditions. During the second half of 2025, GBC deposits dropped marginally while FX deposits from non-residents went up. The predominance of wholesale FX funding in the deposit base induced banks to maintain strong LCR and NSFR positions. They held sufficient HQLA and ensured diversified funding sources to mitigate liquidity and external-vulnerability risks arising from volatile flows.

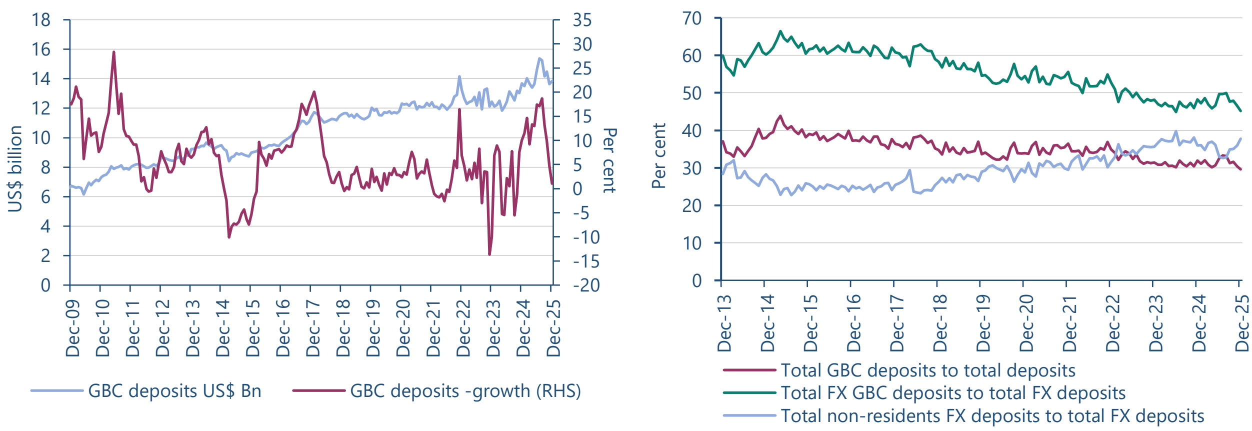
FX deposits in the banking system continued to expand. GBC deposits contracted marginally by 0.1 per cent in year-on-year December 2025 (Chart 5.8). The stock of non-resident FX deposits rose to US$11.4 billion in December 2025, after expanding at an annual rate of 12.0 per cent. The share of GBC deposits in total FX deposit base fell to 45.2 per cent in December 2025, continuing the general downward trend. In contrast, the share of non-resident FX deposits rose to 37.7 per cent (Chart 5.9).

Chart 5.8: Stock of FX Deposits from GBCs and non-residents



Source: Bank of Mauritius.

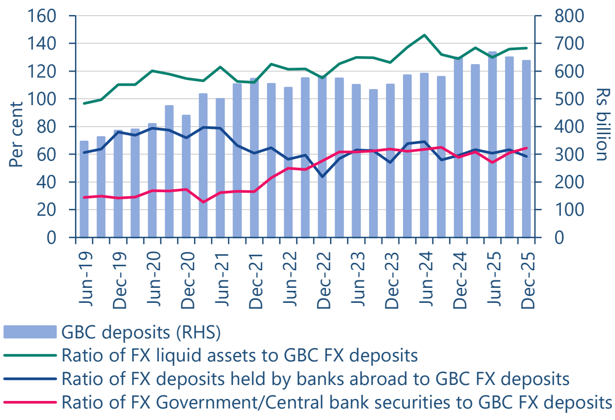
Chart 5.9: Evolution of GBC deposits and its share in the deposit base of banks



Source: Bank of Mauritius.

The prudential liquidity risk management framework for the banking sector serves to enhance the resilience of the banking system under conditions of liquidity stress. The LCR, a key regulatory metric, ensures that institutions maintain sufficiently granular and unencumbered stock of HQLA calibrated to cover cash outflows over a period 30 of days. By imposing a minimum short-term liquidity buffer, the LCR strengthens the capacity of the banking system to absorb deposit outflows without amplifying funding disruptions. The LCR for FX was 186.2 per cent in December 2025, well above the minimum regulatory minimum of 100 per cent. The ratio of FX liquid assets relative to GBC FX deposits rose to 136.7 per cent in December 2025 (Chart 5.10).

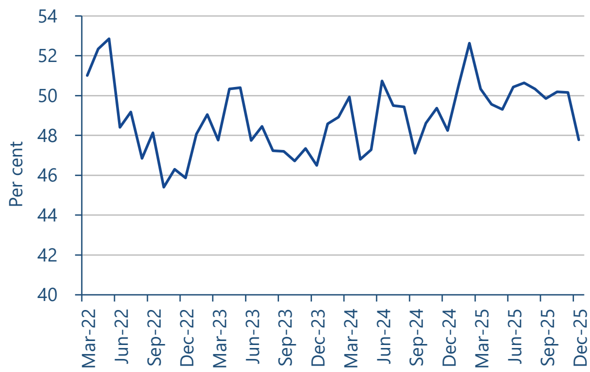
Chart 5.10: Deployment of GBC deposits



Source: Bank of Mauritius.

The banking sector displayed a high level of liquid assets in the balance sheet of banks to cater for liquidity shocks. The share of FX liquid assets in total FX assets reached 47.8 per cent in December 2025, despite a drop from 50.4 per cent in June 2025 (Chart 5.11). In addition, FX liquid assets held by banks covered 61.8 per cent of total FX deposits in December 2025, underscoring a prudent approach to liquidity risk management.

Chart 5.11: FX liquid assets to total FX assets



Source: Bank of Mauritius.

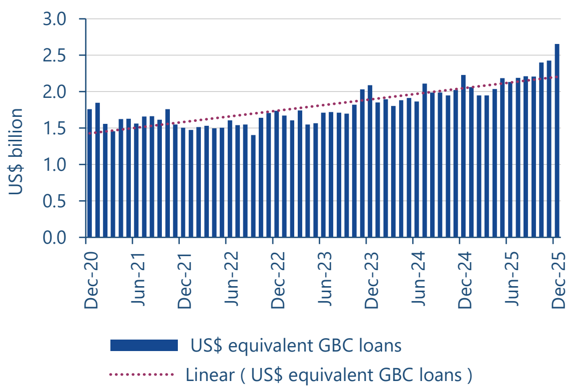
Credit risk in the GB sector stayed high but prudently managed

Banks' credit exposure to GBCs grew significantly in the second half of 2025. This reflected the structural characteristics of the GBC sector with high liquidity and high demand for credit intermediation. Credit facilities extended by banks to this segment grew at an annual rate of 19.0 per cent to reach US$2.6 billion in December 2025 (Chart 5.13). Despite the recent expansion, the contribution of GBC credit to the aggregate banking sector credit portfolio remained below 10 per cent.

Credit risk in the GB sector has remained elevated but banks have set aside sufficient specific provisions to cater for impairment. The NPL ratio for the GB segment stood at 8.5 per cent in

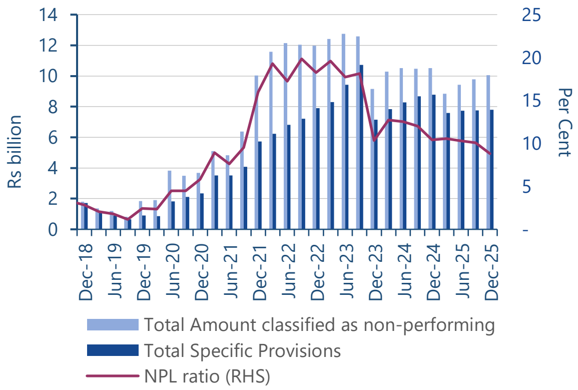
December 2025, a notable decline from 9.9 per cent in June 2025 (Chart 5.14). The coverage ratio for this portfolio reached 77.5 per cent, providing a substantial buffer against potential credit losses arising from credit exposures to the GB sector.

Chart 5.13: Evolution of GBC loans in US$



Source: Bank of Mauritius.

Chart 5.14: Asset Quality of GBC Loans



Source: Bank of Mauritius.

Risk Mapping Framework on GBC deposits

The FSC deployed a structured risk-mapping framework to assess both the probability of exit of GBCs from the jurisdiction and the associated second-round effects on the banking sector. The framework facilitates forward-looking financial stability surveillance by systematically identifying transmission channels, concentration risks, and potential points of stress that may materialise under adverse or tail-risk scenarios.

The risk-mapping framework showed an improvement in the risk profile in respect of the interconnectedness of the GB sector with the banking sector. The share of GBCs that were more likely to exit the Mauritius jurisdiction dropped to 5.9 per cent in December 2025, from 8.6 per cent in June 2025. Concurrently, the share of GBC deposits with a high probability of leaving the banking system fell to 12.7 per cent in December 2025, from 23.2 per cent in June 2025 (Table 5.1).

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Table 5.1: Risk map – per cent of total GBC deposits

Risk Score – GBCs leaving the Mauritian jurisdiction	Sub-Total Risk scores	As at December 2025				
High Risk	5.9	0.0	2.9	3.0	0.0	0.0
Medium-High Risk	15.6	0.1	4.9	5.8	0.5	4.3
Medium-Low Risk	11.9	0.1	5.5	5.8	0.5	0.0
Low Risk	66.6	0.4	29.8	19.7	8.3	8.4
	Sub-Total Impact Score	0.6	43.7	34.3	9.3	12.7
		Low Impact	Medium-Low Impact	Medium Impact	Medium-High Impact	High Impact
		Impact Score – Deposit withdrawals				

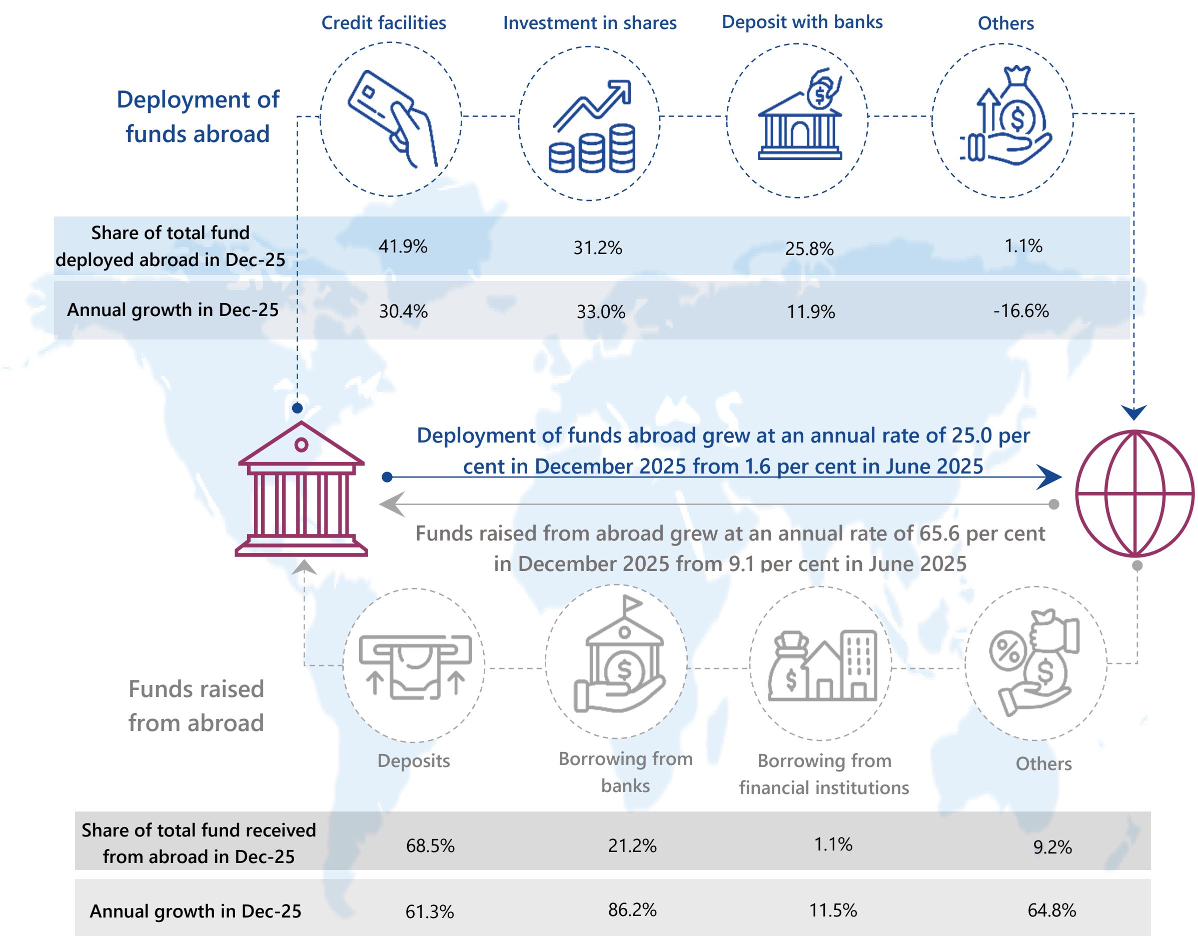
Source: Financial Services Commission.

Growing cross-border banking activities

Banks effectively managed risks arising from their cross-border operations, thereby enhancing resilience and supporting financial stability. Banks registered a notable increase in funds raised from abroad, which expanded by a significant 65.6 per cent in annual terms in December 2025. The deployment of funds to foreign counterparties also maintained an upward trajectory, reaching an annual growth of 25.0 per cent in December 2025 (Figure 5.1).

The banking sector remained a net provider of funds abroad – with deployment of funds to foreign counterparties reaching US$33.5 billion in December 2025, significantly outpacing the inflow of US$21.8 billion from abroad. This pattern suggested that funds raised from the GB sector and non-resident segments were strategically redeployed overseas – supporting diversification and prudent risk management. Given these cross-border dynamics, the Bank conducted regular cross-border stress tests and the results emphasised the resilience of banks to adverse shocks from abroad.

Figure 5.1: Cross-border banking activities



	Credit facilities	Investment in shares	Deposit with banks	Others
Share of total fund deployed abroad in Dec-25	41.9%	31.2%	25.8%	1.1%
Annual growth in Dec-25	30.4%	33.0%	11.9%	-16.6%

	Deposits	Borrowing from banks	Borrowing from financial institutions	Others
Share of total fund received from abroad in Dec-25	68.5%	21.2%	1.1%	9.2%
Annual growth in Dec-25	61.3%	86.2%	11.5%	64.8%

Source: Bank of Mauritius.

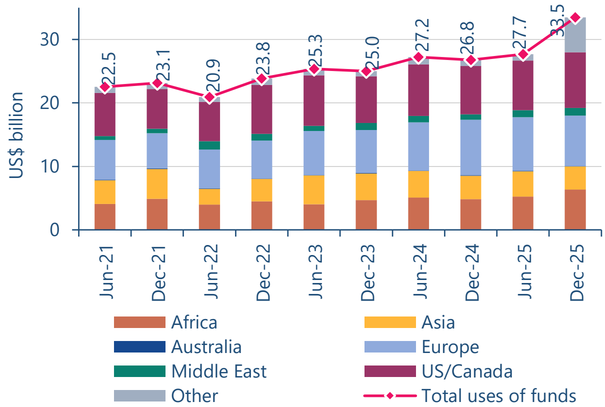
Diversified cross-border deployment of funds

The strategy of the banking sector to support cross-border clients – both regional and global – in various sectors focuses primarily on credit, investment and transactions. The deployment of funds abroad by the banking sector accounted for 55.6 per cent of total uses of funds, highlighting the deep integration with international markets. Funds allotted outside Mauritius expanded at an annual rate of 25.0 per cent in December 2025. Credit facilities extended to foreign borrowers remained the dominant component of cross-border uses of funds, registering robust annual growth of 30.4 per cent in December 2025. Investment in foreign shares also increased significantly by 33.0 per cent annually over the same period – reflecting strategic reallocation towards higher yielding global assets. Banks strengthened their external liquidity buffers with deposits at foreign banks rising by 11.9 per cent annually in December 2025. They have actively adjusted their foreign asset portfolios in response to international market conditions, while maintaining prudent management of their external exposures in support of overall financial stability.

Banks primarily directed their outward funding towards three key regions – the US/Canada, Europe and Africa. These regions accounted for 26.1 per cent, 23.8 per cent and 19.0 per cent, respectively, of the total cross-border deployment of funds (Chart 5.15a). Africa was the principal contributor to the annual expansion of credit facilities allocated abroad while the US/Canada was the primary driver behind investments in shares – highlighting banks' ongoing diversification strategies. The USA, UK, Maldives, Turks and Caicos Islands, and Nigeria emerged as the leading destinations for cross-border outflows and collectively accounted for 52.7 per cent of the total (Chart 5.15b).

Chart 5.15: Cross-border uses of funds

a. Continent-wise



b. Funds allotted to top countries as a proportion of total cross-border uses of funds

Source: Bank of Mauritius.

Wide-ranging sources of funds

Banks continued to access a wide range of funding sources worldwide. Funding from foreign counterparties, accounting for 36.4 per cent of total sources of fund, expanded at an annual rate of 65.6 per cent in December 2025. Deposits held by non-residents with banks operating in Mauritius remained the dominant cross-border sources of funds, growing at an annual rate of 61.3 per cent in December 2025. Borrowings from banks and borrowings from financial institutions rebounded at an annual rate of 86.2 per cent and 11.5 per cent, respectively, in December 2025. Developments in cross-border sources of funds highlight the well-diversified portfolio of banks and their capacity to mitigate concentration risks.

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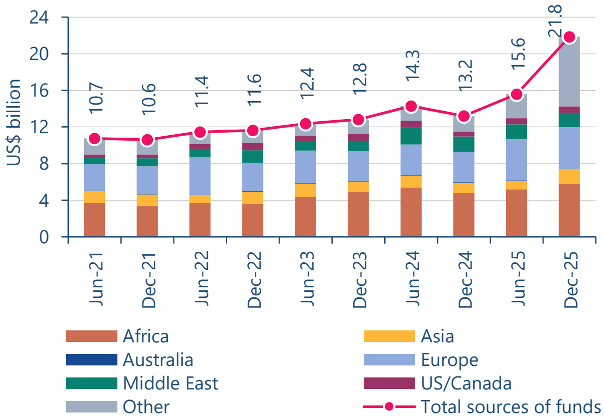
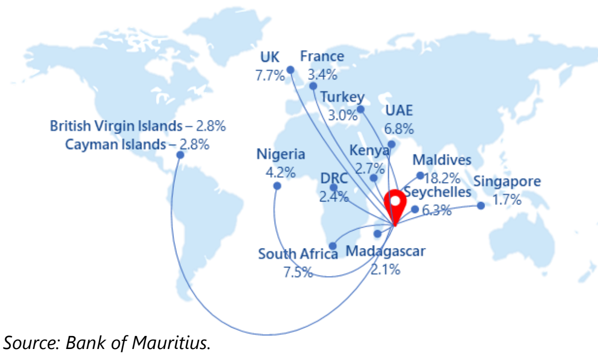
A significant proportion of cross-border funds originated from three key regions – Africa, Europe and Asia – which accounted for 26.5 per cent, 20.8 per cent and 7.4 per cent, respectively, of the total cross-border sources of fund in December 2025 (Chart 5.16a). Deposits from Africa emerged as the principal driver of deposit growth from abroad. This highlights the growing significance of the region in supporting banks' external funding sources. Asia and Europe were the main contributors to the annual expansion in cross-border borrowings by banks in Mauritius. Notably, Europe continued to be the sole provider of funds through borrowings from financial institutions.

Chart 5.16: Cross-border sources of funds

a. Continent-wise



b. Funds received from top countries as a proportion of total cross-border sources of funds



Source: Bank of Mauritius.

At country level, the top sources of cross-border funds were Maldives, UK, South Africa, UAE, Seychelles and Nigeria. They collectively represented 50.6 per cent of the total cross-border funding base in December 2025 (Chart 5.16b).

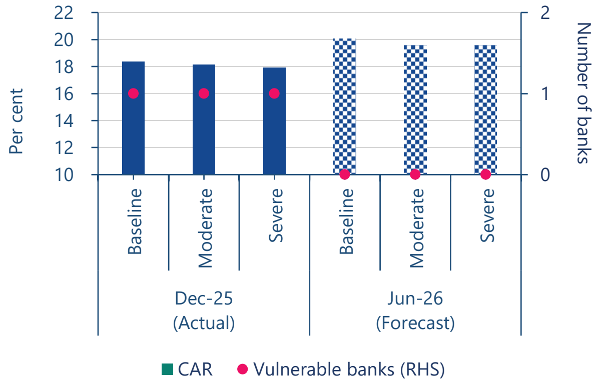
The linkages of the banking sector with the global financial system heightens the potential for risk transmission and poses threats to the overall stability of the financial system. To address these risks, the sound regulatory framework is designed to promote prudent management of cross-border risks and mitigate the likelihood of external shocks destabilising the sector. These prudential standards are periodically updated to ensure alignment with best practices at the global level. In addition, the surveillance tools used by the financial sector regulators to assess vulnerabilities and risks contribute to proactive policy responses. The banking sector remained well supported by strong capital buffers and robust FX liquidity buffer, above their regulatory minimum.

Cross-border credit portfolio stress test

The Bank regularly assesses the cross-border credit portfolio of the banking sector to identify and address potential vulnerabilities. The assessment considers a range of plausible adverse scenarios that could amplify the risk of defaults by foreign counterparties. The stress testing exercise is grounded in the level of NPLs in jurisdictions where banks have the most cross-border credit exposure. For each jurisdiction, the baseline shock is determined using average historical impairment ratio which is then applied to the performing credit portfolio. The moderate and severe shocks are assessed by increasing this ratio by 1.5 times and 2 times, respectively. The cross-border stress test incorporated forward-looking projections for June 2026 to assess the ability of the banking sector to withstand default risk from foreign counterparties while ensuring a robust and proactive approach to risk management.

The stress test results revealed that almost all banks would continue to exhibit substantial resilience in the face of adverse conditions, except one bank falling in the vulnerable zone in December 2025 while all banks would meet their minimum capital requirement in June 2026 (Chart 5.17). This demonstrates that, despite an increasingly challenging external environment marked by elevated cross-border risks amid the war in the Middle East, the banking sector would remain substantially resilient. The vulnerable bank identified in December 2025 has injected additional capital in March 2026 and, thus, passed the stress test in June 2026.

Chart 5.17: Cross-border credit risk stress test results – Post-shock CAR



Source: Bank of Mauritius.

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List of acronyms

ARA	Assessing Reserve Adequacy
Bank	Bank of Mauritius
CAR	Capital Adequacy Ratio
CRE	Commercial Real Estate
D-SIBs	Domestic-Systemically Important Banks
DXY	US Dollar Index
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FSC	Financial Services Commission
FX	Foreign Exchange
GB	Global Business
GBCs	Global business corporations
GDP	Gross Domestic Product
GOIR	Gross Official International Reserves
HQLA	High-Quality Liquid Assets
IMF	International Monetary Fund
KR	Key Rate
LCR	Liquidity Coverage Ratio
LTD	Loan-to-Deposit
LTV	Loan-to-value
MIFC	Mauritius International Financial Centre
MPC	Monetary Policy Committee
MSCI	Morgan Stanley Capital International
NBDTIs	Non-Bank Deposit-Taking institutions
NBFIs	Non-Bank Financial Institutions
NPLs	Non-performing Loan(s)
NSFR	Net Stable Funding Ratio
ROA	Return on Assets
ROE	Return on Equity
RPPI	Residential Property Price Index
Rs	Mauritian Rupee
SRI	Systemic Risk Indicator
US	United States
WRI	Wage Rate Index

Glossary

Annual change or growth *compares the value of a variable at one period in time with the same period of the previous year.*

Credit to private sector *has been aligned with the IMF FSI Compilation Guide (2019). Credit comprises loans and debt securities issued by private nonfinancial corporations and private sector encompasses private non-financial corporation, households and non-profit institutions serving households.*

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.*

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

Corporate sector *comprises only Other Nonfinancial Corporations in Mauritius.*

Household indebtedness *considers a broader measure that adds up household credit from banks, NBDTIs, insurance and leasing companies.*

Non-performing loans ratio *is measured by the share of non-performing loans to gross loans.*

Percentage point *is the arithmetic difference of two percentages.*

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

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

Residential Property Price Index, *is an indicator of how the prices of transacted residential properties (houses and apartments) have evolved over time.*

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.*

SEMTRI *is an index, which tracks the price performances of the constituents of the SEMDEX and ensures that the dividends paid by these constituents are reinvested.*

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.*