BANK OF MAURITIUS

Financial Stability Report

August 2013

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FINANCIAL STABILITY REPORT

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The Bank of Mauritius publishes the Financial Stability Report twice a year as required by Section 33(2)(b) of the Bank of Mauritius Act 2004. The Bank releases the Report in February and August. The Report reviews international and domestic macro-financial developments and examines potential risks to the stability of the financial system. This issue of the Financial Stability Report refers to information for the semester ended 30 June 2013 unless otherwise stated.

Acknowledgement

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The Report is available in PDF format on the Bank's website at *https://www.bom.mu* under the menu item *Research and Publications*. The Bank of Mauritius welcomes any comments or suggestions on this publication, which may be sent to publications.ead@bom.mu.

Financial Stability Report August 2013

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1. Executive Summary

Global economic activity remained subdued and fragile. The International Monetary Fund (IMF) revised downward its estimates of world economic growth for 2013 and 2014 by 0.2 percentage point each to 3.1 per cent and 3.8 per cent, respectively. The downward revisions were more pronounced for major emerging economies, where growth slowed on the back of domestic capacity constraints, decelerating credit growth, and weak external conditions. The downside risks to the global growth outlook stem mainly from prolonged economic weakness in the euro area, excessive fiscal consolidation in the US as well as an extended slowdown in economic activity of emerging market economies.

The global financial environment has generally improved for most of the period since the February 2013 Financial Stability Report (FSR) on the back of strong commitment by authorities to support orderly market conditions. However, market volatility increased in June 2013, reflecting uncertainty about the eventual exit from monetary stimulus in the US. The impact of this announcement was mostly felt in emerging market economies, which experienced capital outflows, equity price declines, rising local yields and currency depreciation.

Although its main trading-partner countries registered weak economic growth, the domestic economy recorded a y-o-y growth rate of 3.7 per cent in 2013Q1 and is projected by Statistics Mauritius to grow by 3.3 per cent in 2013. From a short- to medium-term perspective, macroeconomic risks stem principally from a prolonged downturn in the euro area.

The current account deficit as a percentage of GDP at market prices, inclusive of cross-border transactions of global business companies (GBC1s), worsened from 5.3 per cent a year earlier to 8.2 per cent in 2013Q1. The persistently high current account deficit, funded principally through foreign capital flows, constitutes a key source of external vulnerability for the economy. Gross official international reserves increased by 21.2 per cent y-o-y to Rs105.0 billion as at end-June 2013, representing 5.6 months of imports. As a percentage of GDP, the country's gross external debt increased to 14.5 per cent as at end-March 2013 from 13.8 per cent as at end-March 2012. The Government has pursued its efforts towards fiscal consolidation in order to improve debt sustainability.

Though banks in Mauritius faced a difficult economic environment, they remained sound, generally profitable and well-capitalised. Private sector credit growth has increased and overall asset quality is relatively good. 'Construction' remains a vulnerable sector where the level of non-performing loans (NPL) requires close monitoring as the credit off-take, amid lacklustre construction activity, may pose financial stability concerns. Stress tests carried out by the Bank and the IMF indicated that the Mauritian banking system is well-capitalised and resilient against a range of shocks to its credit portfolios. Work towards the implementation of Basel III has progressed since the last FSR to further strengthen the banking sector.

Non-bank deposit-taking institutions (NBDTIs) proved to be resilient in 2012. According to the Financial Services Commission (FSC), the insurance sector performed relatively well in 2012 and maintained adequate buffer to withstand shocks that might affect its soundness. During 2013H1, the payment systems operated efficiently and transactions were generally settled on the system without delay and loss.

In the medium term, risks to financial stability in Mauritius continue to emanate from global economic and financial developments. The Bank continues to watch trends in private sector debt in Mauritius and the risks they may present to overall financial stability. The banking sector remains resilient and profitable, with adequate capital to withstand a range of shocks.

2. International Environment

Global financial conditions have continued to improve for much of the period under review though global economic activity remains subdued and fragile. Yields stayed low in many advanced countries and yield spreads between vulnerable euro area sovereign bonds and German bunds fell further. The low yield environment and ultra-loose monetary policy in advanced economies, amongst others, supported the rally in global equity markets. However, global financial markets turned more volatile in June 2013 on expectations of a possible shift in the path of the loose monetary policy in the US. Aggressive monetary easing in Japan led to a sharp depreciation of the Japanese yen. As the regulatory framework continued to be overhauled globally, the international banking sector remained confronted with significant challenges arising mainly from subdued economic activity worldwide.

2.1 Macro-Financial Developments

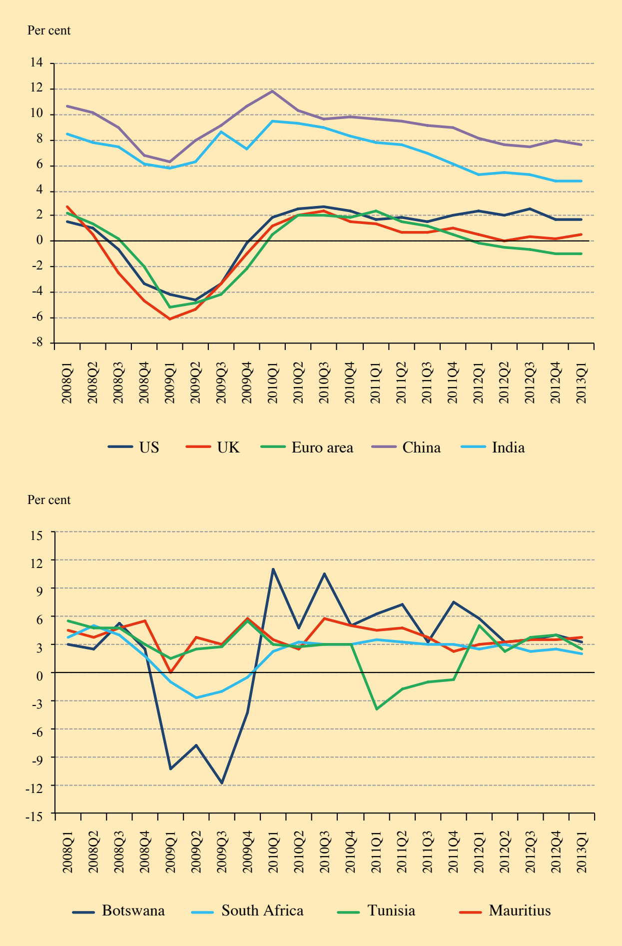
Global financial conditions have generally improved for much of the period since the February 2013 FSR but volatility increased towards the end of 2013H1 on expectations that the US Federal Reserve (US Fed) would taper its asset purchase programme. Global economic activity remained subdued and fragile, which underscored the importance of further policy actions aimed at strengthening the financial system and smoothly unwinding public and private debt overhangs. In its July 2013 WEO Update, the IMF revised downward its global growth forecast for 2013 by 0.2 percentage point to 3.1 per cent, taking into account weaker-than-expected economic activity in emerging economies and a protracted recession in the euro area. Growth is forecast to increase to 3.8 per cent in 2014.

Growth in the US is continuing at a moderate pace, with a firming-up in private demand partly offset by an acceleration of fiscal consolidation (Chart 2.1). Risks that could be a drag on the economy are a reduction in federal spending, household and public sector deleveraging and the expiration of some tax breaks that were put in place earlier this year. The euro area slid deeper into recession in 2013Q1, with weaknesses both in the periphery and core economies. France, the second largest economy of the region, fell back into recession while Germany continued to register moderate growth. The euro area may face a relatively more prolonged downturn than expected in 2013 before slowly recovering in 2014.

Elsewhere, the UK economy avoided a triple-dip recession after recording better-than-expected growth in 2013Q1, mainly on the back of robust expansion in the services sector and an upturn in North Sea oil and gas output. Nevertheless, the British economy is far from a sustainable path of recovery due to fundamental economic weaknesses, namely high fiscal deficit and inflation. Growth in Japan is expected to increase mainly as a consequence of aggressive monetary easing, a positive inflation target, fiscal stimulus and structural reforms. The significantly weak yen is expected to boost exports although the proposed reduction in fiscal deficit via sales tax hikes in 2014 and 2015 may negatively affect output growth.

The performance of emerging economies has been mixed although they have continued to register higher growth rates compared to advanced economies. Indian

Chart 2.1: Y-o-y Growth Rates of Selected Economies



Sources: Trading Economics and Statistics Mauritius.

economic growth edged up in 2013Q1 after having bottomed out in the previous quarter while growth in China eased slightly. Challenges facing several emerging economies remain volatile capital inflows and their impact on exchange rates. The Indian rupee depreciated significantly against the US dollar in 2013H1, weighed down by a slowdown in growth and mounting current account deficit, among other factors.

Reflecting the relative stabilisation in financial conditions, there were few sovereign rating downgrades during 2013H1, with little impact on market sentiment. The UK lost its triple-A sovereign debt rating after it was downgraded by Moody's and Fitch in February 2013 and April 2013, respectively, as the country faced prolonged economic weakness and rising debt. However, Fitch reviewed UK's outlook to stable, removing the threat of any further rating downgrade, at least in the near term. In April 2013, Fitch cut China's credit rating to A-plus from AA-minus with a stable outlook based on concerns about the risks that excessive local government borrowing posed to the wider economy and financial risks stemming from rapid credit expansion. While Moody's maintained China's government's bond rating of Aa3 given continued robust economic growth, strong central government finances and an exceptionally strong external payments position, the rating agency cut the country's outlook to stable from positive on credit concerns. On the positive side, reflecting the relatively better state of the US economy, Standard & Poor's lifted the long-term rating outlook on the US to stable from negative in June 2013, citing retreating fiscal risks and the authorities' willingness to support sustainable economic growth. India's sovereign outlook was also revised to stable from negative by Fitch in June as a result of measures taken by the government to contain the budget deficit and revive economic growth.

2.1.1 Global Financial Markets

For much of 2013H1, market sentiment remained upbeat as monetary policy continued to be supportive of growth in advanced economies. Some central banks loosened policy further, namely the European Central Bank (ECB) and the Reserve Bank of Australia, both cutting their key interest rates by 25 basis points in May 2013. Market volatility stayed at generally low levels but increased in June 2013 after the US Fed announced it might start reducing its unprecedented bond-buying programme this year and end it entirely by mid-2014 if the economy continues to improve and achieve a sustainable growth pace (Chart 2.2). Going forward, there are risks that the diverging paths of monetary policy in major economies may negatively impact on financial market volatility in the medium term.

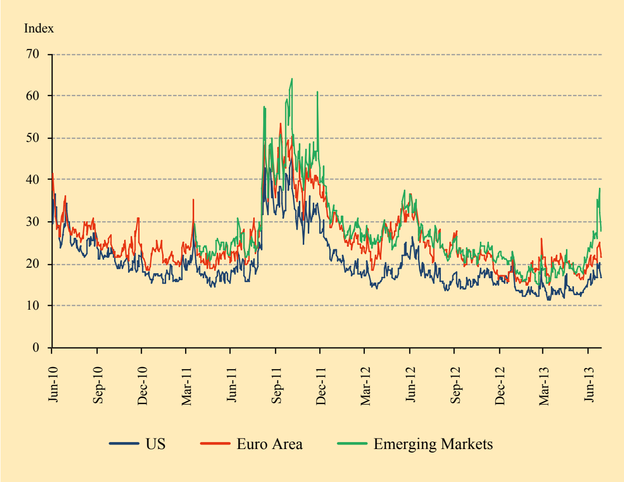
Developments in Bond Markets

As financial markets continued to benefit from positive sentiment arising from the ECB's policy measures, market pressures about Eurozone sovereign risks eased further. Spreads between vulnerable euro area sovereign bonds and German bunds fell, in some cases, to levels last seen in 2011, such that Ireland and Portugal were able to take advantage of improved market conditions to issue debt (Chart 2.3). The cost of default protection of some of these countries' sovereign debt, as measured by credit default swaps, also decreased despite a number of adverse events, including an inconclusive election in Italy and controversial negotiations to resolve the sovereign debt and banking crisis in Cyprus. Meanwhile, yields on government bonds in many advanced economies remained near historically low levels for most of 2013H1. Yields on UK gilts continued to benefit from their safe and highly liquid status notwithstanding UK's loss of its triple-A rating and rising government debt-to-GDP ratio. Towards the end of the semester, yields rose in most economies as expectations of tighter monetary policy in the US grew.

Global Stock Markets

Global equity markets have generally exhibited robust performance since the beginning of the year as the ultra-loose monetary policy of major central banks and low yields in core bond markets as well as better-than-expected corporate results boosted market

Chart 2.2: Financial Markets Volatility



Source: Thomson Reuters.

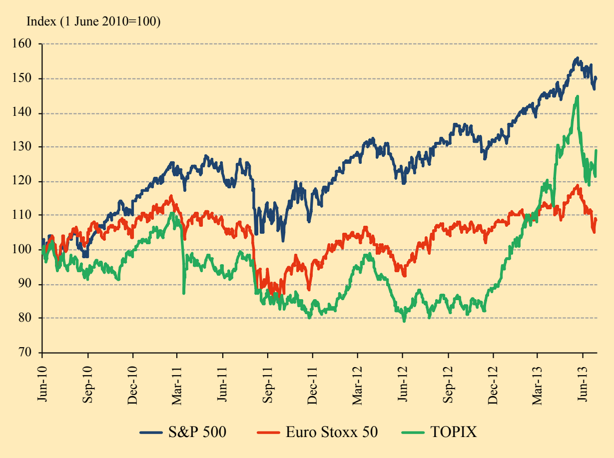
sentiment and increased global risk appetite. By mid-May 2013, US stock indices rose to record peaks while Japanese share prices reached five-year highs, driven to some extent by aggressive monetary easing (Chart 2.4). In June 2013, however, the rally came to a halt and stock markets tumbled as the US Fed possible exit from quantitative easing affected sentiment. Equity markets were also dragged down by weaker-than-expected economic data from China and a liquidity crunch in the Shanghai interbank money markets.

Evolution of Major Currencies

The evolution of major currencies also reflected shifting investor sentiment during 2013H1 (Chart 2.5). As investors moved into riskier assets, the US dollar tumbled in January 2013 given its safe-haven appeal. It thereafter recouped its losses on encouraging data releases from the US and expectations of a possible change in the path of monetary policy in the US.

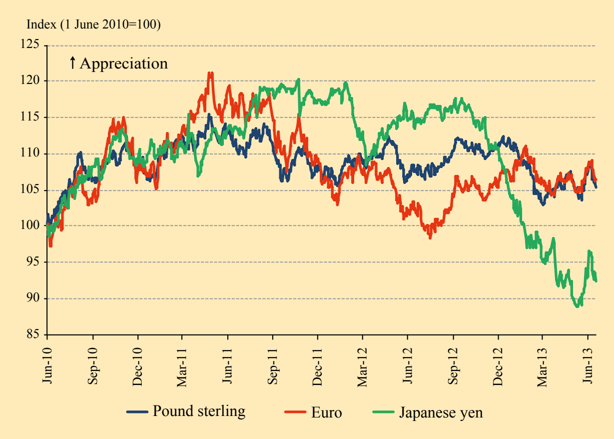
The euro was supported at the start of 2013 as market tensions eased and the ECB gave little indication it would cut interest rates further. However, the appreciation of the euro was capped on concerns about the health of the euro area and political uncertainties in some Eurozone countries. The single currency remained on the defensive following a controversial bailout plan for Cyprus and the ECB's decision to cut its key refinancing rate to an all-time low of 0.5 per cent in May 2013 and moved within ranges thereafter. The Pound sterling generally tracked euro movements amid broad-based US dollar strength. It remained pressured on concerns that the Bank of England (BoE) could ease monetary policy further.

Chart 2.4: Global Equity Indices



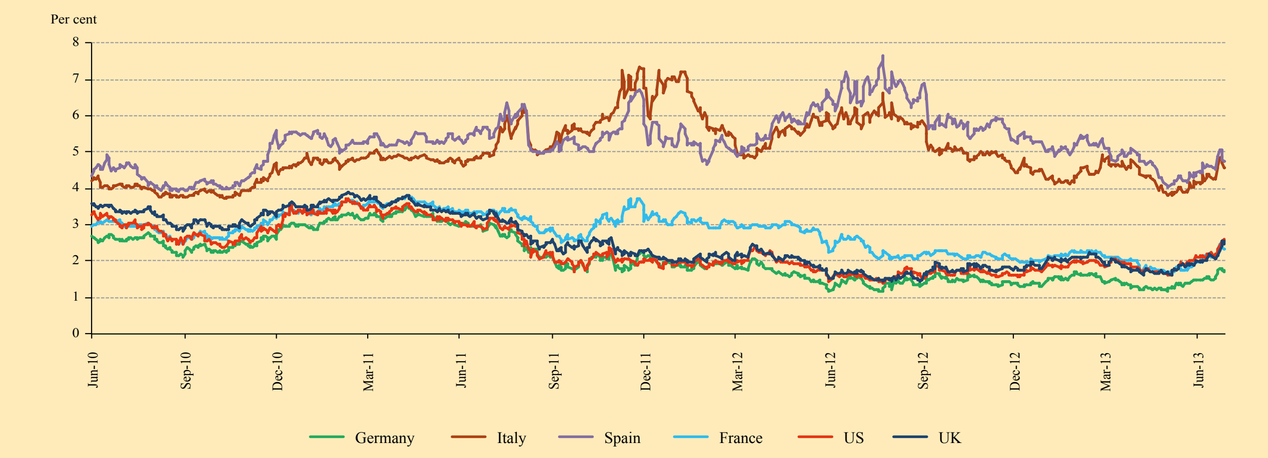
Source: Thomson Reuters.

Chart 2.5: Exchange Rate Movements against the US Dollar



Source: Thomson Reuters.

Chart 2.3: 10-Year Yields on Government Bonds



Source: Thomson Reuters.

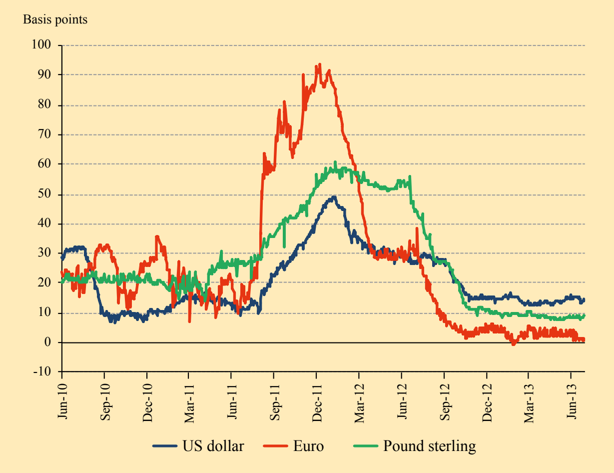
In sharp contrast, the Japanese yen maintained its downward trend and crossed the 100 mark against the US dollar in May 2013, driven by the Bank of Japan's (BoJ) aggressive monetary easing. Ample liquidity with the monetary stimulus encouraged carry trades in currency markets and the Japanese yen gained some support as it became an attractive funding currency. The yen also benefited from its safe-haven status as global equity markets retreated in June 2013.

2.2 International Banking Sector

The international banking sector remained confronted with significant challenges arising from weak economic activity worldwide. The financial performance of banks was rather muted in affected areas. Credit conditions continued to diverge across countries and credit risk increased as weak economic activity took a toll on banks' asset quality. Though funding conditions generally improved in 2013H1, some banks remained vulnerable (Chart 2.6). The regulatory framework continued to be overhauled globally.

In the US, enhanced levels of capital and liquidity as well as improving asset quality and stricter regulation of banks continued to support the outlook for the banking industry. Trends in regulatory capital positions and asset quality took positive turns and US banks have been largely successful in adapting to the legislative and regulatory challenges. Tougher regulation generally contributed to stronger capital buffers and liquidity positions and the performance of US banks continued to improve. Banks eased lending standards as competition intensified and loan demand advanced. The latest bank stress tests, which were published in March 2013, suggested that aggregate levels of capital among the major US banks were sufficient to withstand a severe financial stress, with only one institution judged to be under-capitalised following the stress scenario. As the US Fed prepares to introduce Basel III in January 2014, analysis conducted by the Federal board staff suggests that banks will have to find an extra US$4.5 billion of common equity.

Chart 2.6: Three-Month Libor-OIS Spreads



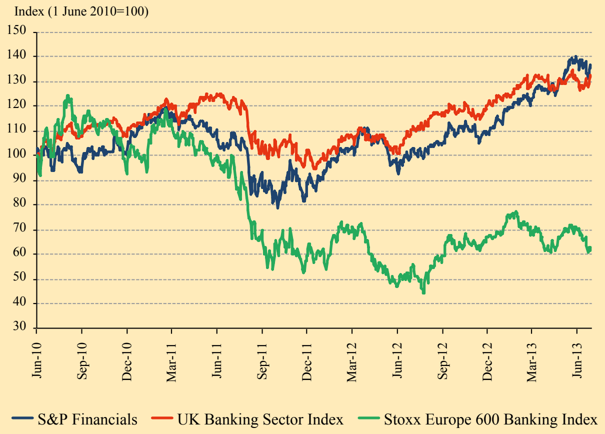
Source: Thomson Reuters.

In the euro area, the financial performance of banks remained muted against the backdrop of a weak economic environment that has dampened earnings and increased credit risk. Bank funding conditions improved both in terms of access and cost although a certain degree of financial fragmentation persisted due to still important funding costs in some vulnerable countries. According to the ECB's Bank Lending Survey, euro area banks had improved access to both retail and wholesale funding in 2013Q2, but expected a marginal deterioration in wholesale funding conditions for several market segments in 2013Q3.

Contagion risk from the banking crisis in Cyprus was rather contained as continued monetary accommodation and ECB's readiness to purchase sovereign bonds through Outright Monetary Transactions, coupled with the longer-term refinancing operations, helped to keep conditions stable across markets. With the Eurozone economy set to contract this year, there is considerable uncertainty associated with the banking sector as the asset quality outlook remains negative and financial stability risks significant. This has seemingly dampened the off-take of financials' equities compared to their US counterparts (Chart 2.7). Looking ahead, the establishment of the single supervisory mechanism and the adoption of the *Capital Requirements Regulation and Directive* that aim to implement the Basel III capital and liquidity framework are expected to consolidate the banking sector.

In the UK, major banks recorded a rise in profits in 2012 though conduct redress and regulatory fines remained a drag on profits. As banks are in the process of transitioning to Basel III capital standards, the newly established Prudential Regulatory Authority (PRA) noted a capital shortfall of £27.1 billion as at end-2012. According to the PRA, UK banks were underestimating the risks they hold in their balance sheets, under-reporting likely losses, and ignoring the rising cost of compensation pay-outs for past misdeeds. The largest banks were accordingly advised to bolster their balance sheets. The BoE 2013Q2 Credit Conditions Survey showed some signs of improvement in credit availability but pointed out that banks were not prepared to increase loans to small businesses. The survey also revealed that households were being offered more credit following an increase in demand for mortgages by home-buyers and buy-to-let landlords.

Chart 2.7: Financial Indices



Source: Thomson Reuters.

Box I: Risks from Ultra-Loose Monetary Policy

Central banks in many advanced economies have adopted unprecedented policy measures in the aftermath of the global financial crisis to avert near term economic disaster and restore financial stability. In addition to bringing down interest rates to historic lows, they have implemented a number of unconventional policies, ranging from liquidity provision and credit facilities to banks to asset purchases. Though the ultra-loose monetary policy has helped to stabilise financial markets and support macroeconomic conditions to some extent, it entails potentially undesirable longer run consequences if it stays for too long.

Looking back at financial markets developments since the implementation of quantitative easing, it is easily seen that the exceptional measures adopted by four major central banks in advanced economies, namely the US Fed, ECB, BoE and BoJ, have boosted confidence and buoyed financial markets across the world. Ample liquidity together with a firm commitment on the part of policymakers to maintain appropriate conditions in financial markets gradually gave rise to more risk-taking.

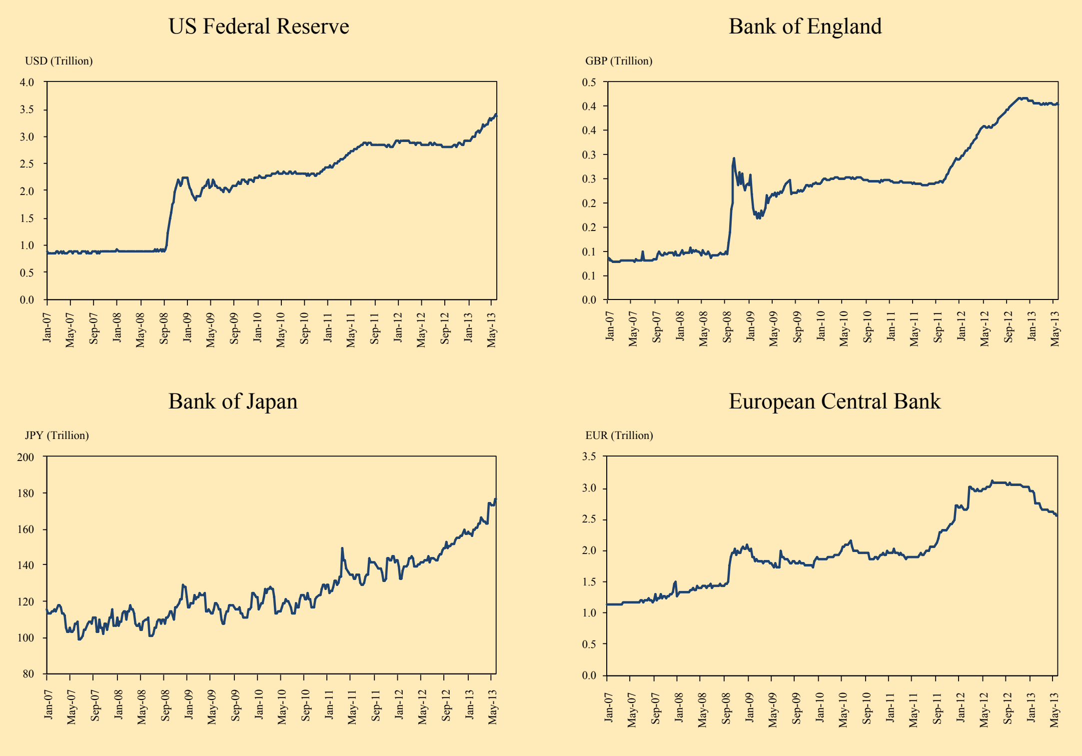
However, the low interest rate environment may induce banks to take unwarranted risks in search of higher yield, spur household indebtedness and may eventually lead to a costly misallocation of financial resources. As a result, the soundness of financial institutions may be threatened and the intertwined functioning of financial markets may provide negative feedback loop to the real economy. Moreover, the ultra-loose monetary policy does not appear to have produced a major turnaround in economic activity in so far as weak growth still persists.

Central bank funding has altered the size - both in absolute terms and as a ratio of GDP - and composition of central banks' balance sheets, with total assets surging to record highs, and raising credit and market risks. Over the period end-2007 to mid-2013, balance sheet assets of the US Fed, ECB, BoE and BoJ have soared by around 380 per cent, 174 per cent, 438 per cent and 167 per cent, respectively (Chart I). Expanded balance sheets expose central banks to potential losses, and inadequate management of the balance sheet assets of these central banks could generate risks to financial stability. The central bank's independence and credibility could also be undermined should these risks materialise.

In terms of spill-over effects to other economies, the unconventional policy measures have resulted in excessive capital flows into emerging market economies and increasing domestic financial vulnerabilities. Such flows have put upward pressure on their currencies and contributed to a surge in private sector credit and property prices in some countries. This may trigger in asset price bubbles if the market value of some assets exceeds their true value.

Box I: Risks from Ultra-Loose Monetary Policy (Continued)

Chart I: Central Bank Assets



Source: Bank for International Settlements.

The accommodative monetary policies also carry with them risks related to their eventual exit. On the one hand, early withdrawal may pose significant costs to major economies as it may threaten their recovery and undermine investor confidence if the financial system is not yet fully repaired. For emerging economies, an earlier exit may result in a sudden reversal of capital flows with significant impact on exchange rates. On the other hand, exiting too late may generate excess liquidity in the system and contribute to inflationary pressures. Central banks will therefore need to strike the right balance between the risks of a premature exit and the risks associated with postponing exit as the challenges will become more significant the longer accommodative measures remain in place.

Among major central banks, the US Fed was the first to signal that it might start tapering its asset purchase programme later in 2013. The mere anticipation of the US Fed exit generated large capital outflows, a slump in stock markets and exchange rate depreciations in several emerging markets. This underlines the importance for any exit strategy to be accompanied with transparent communication by central banks to dampen negative spill-over effects on emerging economies.

In order to deal with risks arising from unconventional monetary measures, both micro- and macroprudential policies could be implemented, namely, strong capital standards, improved liquidity requirements and well-designed dynamic and forward-looking provisioning. These policies would reduce potential risks to financial stability and pave the way for monetary policy to support price stability and growth.

References:

- *International Monetary Fund Global Financial Stability Report, April 2013.*

- *Bank for International Settlements Publications.*

3. Domestic Macroprudential Assessment

Growth in the domestic economy remained vulnerable to subdued and uncertain economic conditions in Europe in 2013H1, with a prolonged downturn in the euro area posing the main downside risk to the growth outlook. Domestically, Government pursued a prudent fiscal policy and public debt is on a sustainable trajectory. Excess liquidity conditions in the money market exerted downward pressure on interbank interest rates and yields on government papers although increases were noted towards the end of 2013H1. The Bank's intervention on the foreign exchange market contributed to contain rupee volatility. Private sector credit growth has increased and overall asset quality is relatively sound. However, the credit off-take in some sectors amid lacklustre activity creates some financial stability concerns and requires close monitoring of the level of NPL. Though they faced a difficult economic environment, banks remained sound, profitable, well-capitalised and are assessed to be resilient to a range of shocks to their credit portfolios. According to the FSC, the insurance sector performed relatively well in 2012 and has adequate buffers to withstand shocks that might affect its soundness. The payment systems operated efficiently, with no major downtime. Overall, financial stability risks are assessed to be contained.

3.1 Domestic Economy

The domestic economy remained vulnerable to economic developments in its main trading-partner countries. Nevertheless, diversification efforts away from the traditional European markets and consolidation of new sectors have contributed in mitigating the adverse impact of reduced demand from Europe. The economy recorded a y-o-y growth rate of 3.7 per cent in 2013Q1 compared to 3.1 per cent in 2012Q1, with *'manufacturing'*, *'financial and insurance activities'*, *'wholesale and retail trade'*, *'information and communication'* and *'professional, scientific and technical activities'* contributing the most to output growth. In June 2013, Statistics Mauritius revised downward its growth projection for 2013 to 3.3 per cent. Looking forward, the main downside risk to domestic growth outlook remains a prolonged downturn in the euro area.

3.1.1 External Vulnerabilities

External shocks are likely to impact on economic activity, financial markets and fiscal policy of small open economies, thereby having significant financial stability implications. There do not seem to be undue pressures emanating from external sources at this juncture (Box II).

Box II: External Indicators

		Mar-12	Mar-13
		Rs million	
Gross External Debt [1]	as at end	45,046	50,533
External Debt Service	year ended	7,191	6,624
Exports of Goods	year ended	75,002	82,318
Exports of Goods and Services	year ended	171,933	182,850
Imports of Goods and Services	year ended	216,505	228,484
Gross Official International Reserves [2]	as at end	80,821	98,149
GDP at market prices	year ended	327,350	348,759
Broad Money Liabilities	as at end	321,028	348,246

Box II: External Indicators (Continued)

Indicators	Mar-12	Mar-13
	Per cent	
I. Solvency		
Gross External Debt/GDP	13.8	14.5
Gross External Debt/Exports of Goods	60.1	61.4
Gross External Debt/Exports of Goods and Services	26.2	27.6
External Debt Service/Exports of Goods	9.6	8.0
External Debt Service/Exports of Goods and Services	4.2	3.6
II. Reserve Adequacy		
Reserves/Imports of Goods and Services	37.3	43.0
Reserves/ Broad Money Liabilities	25.2	28.2
Reserves/Gross External Debt	179.4	194.2

[1] *Gross external debt outstanding as at end of period comprises general Government, public corporations, monetary authorities and private sector.*

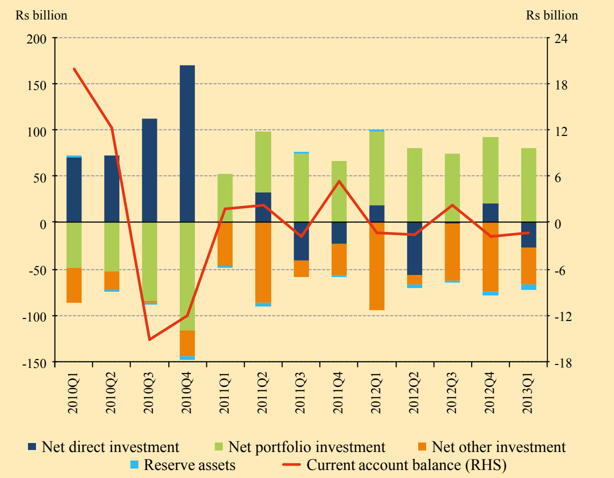
[2] *Gross Official International Reserves as at end of period comprise gross foreign assets of the Bank of Mauritius, reserve position in the IMF and the foreign assets of Government.*

Balance of Payments

The current account deficit, inclusive of cross-border transactions of GBC1s, worsened in 2013Q1 to reach Rs6.9 billion compared to Rs4.2 billion in the corresponding period of 2012. As a percentage of GDP at market prices, the current account deficit stood at 8.2 per cent, up from 5.3 per cent in 2012Q1. Over the year to 2013Q1, the merchandise trade deficit narrowed by 11.5 per cent to Rs15.2 billion while the services surplus witnessed a sharp decline of 36.3 per cent to reach Rs6.1 billion. Net income receipts amounted to Rs2.1 billion whereas the current transfers account recorded a lower surplus of Rs0.1 billion. The current account deficit remained financed by net financial flows, mainly portfolio investment which, inclusive of GBC1s cross-border transactions, posted higher net inflows of Rs80.2 billion in 2013Q1. This more than offset net outflows in direct investment and other investment (Chart 3.1). Excluding cross-border transactions of GBC1s, non-residents' direct investment in Mauritius, net of repatriation, amounted to Rs2.2 billion in 2013Q1, up from Rs1.4 billion in 2012Q1.

The persistently high current account deficit, which implies reliance on foreign capital flows to finance net payments to non-residents, constitutes an important source of vulnerability for the domestic economy. The 2013 IMF Article IV Mission has underscored the need to reduce the large current account deficit through reforms aimed at increasing national savings and enhancing the competitiveness of the economy.

Chart 3.1: Financing of the Current Account



Reserve Adequacy

Adequacy of reserves is an important parameter in gauging the ability of a country to absorb external shocks. This was highlighted in the IMF Staff Report for 2013, which noted that the Bank of Mauritius should continue to maintain adequate levels of international reserves given the exposure of the country to natural disasters and its status as an international financial centre. Following the implementation of the ORR programme as from June 2012, gross official international reserves increased by 21.2 per cent y-o-y to an equivalent of Rs105.0 billion as at end-June 2013, representing 5.6 months of import cover based on the value of imports of goods *f.o.b* and non-factor services in 2012 (Chart 3.2).

External Debt

The gross external debt of the country, comprising general Government, public corporations, monetary authorities and private sector debt, rose by 12.2 per cent, from Rs45,046 million as at end-March 2012 to Rs50,533 million as at end-March 2013, driven mainly by an increase in central Government and public enterprises external debt. As a percentage of GDP, gross external debt increased from 13.8 per cent as at end-March 2012 to 14.5 per cent as at end-March 2013. Solvency indicators with regard to gross external debt do not seem to have unduly deteriorated over the year to March 2013 (Box II).

Central Government external debt as a percentage of GDP increased slightly from 9.3 per cent as at end-March 2012 to 10.5 per cent as at end-March 2013. It is, however, projected to grow steadily to reach 11.7 per cent, 13.9 per cent and 14.3 per cent as at end-December 2013, 2014 and 2015, respectively, in line with the Government's strategy to shift towards more foreign financing and concomitantly lengthen the maturity profile of its debt. As at end-March 2013, central Government external debt was mostly denominated in two of the most liquid and largest reserve currencies, that is, the US dollar and euro (Chart 3.3).

As at end-March 2013, around 74 per cent of central Government external debt was based on floating interest rates while 21.8 per cent carried a fixed interest rate and 4.2 per cent was interest free. Government external debt is not expected to be subject to major interest rate risks in the short- to medium-term given that accommodative monetary policies are projected to be maintained for some time to support growth in advanced economies. The debt-service ratio for the country is forecast to hover in the range of 3.4 per cent to 5.0 per cent between 2013 and 2015.

3.1.2 Total Public Sector Debt

Government has pursued its efforts towards fiscal consolidation to improve debt sustainability. The budget deficit, which stood at 1.8 per cent of GDP in 2012, is expected to increase to 2.2 per cent in 2013, largely on account of the salary review in the public sector. It is, however, projected to resume its general downtrend to reach 1.7 per cent of GDP in both 2014 and 2015. The primary balance was in surplus in 2012, representing 1.2 per cent of GDP and is expected to remain in surplus in 2013 through 2015, fluctuating between 0.7 per cent and 1.4 per cent.

Public sector debt, comprising debt of general Government and public enterprises, stood at 57.9 per cent of GDP as at end-March 2013. It is expected to decrease slightly to 56.5 per cent as at end-December 2013 and further down to 55.8 per cent and 54.1 per cent in the subsequent two years.

As a result of the various measures taken to lengthen the maturity profile of Government debt and reduce the rollover risks and costs associated with debt management, long-term domestic debt (by original maturity) as a proportion of total domestic Government debt increased from 43.8 per cent as at end-March 2012 to 50.9 per cent as at end-March 2013.

Chart 3.2: Gross Official International Reserves and Import Cover

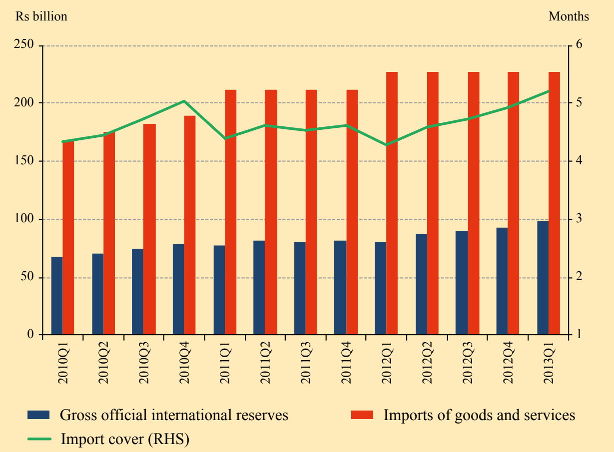
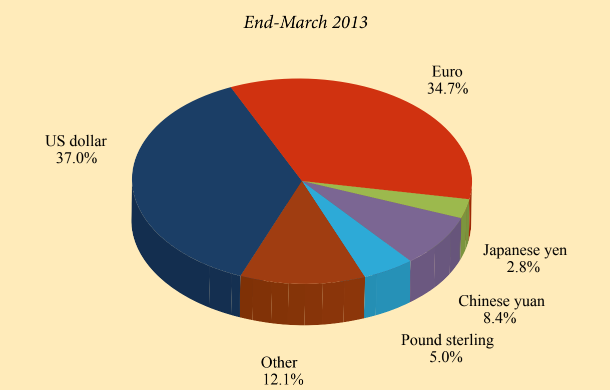


Chart 3.3: Currency Composition of Central Government External Debt



According to a Debt Sustainability Analysis released in the IMF Article IV Consultation report of April 2013, the debt outlook for Mauritius is broadly positive. Both domestic and external debt are on sustainable trajectories and debt dynamics are resilient to several shocks. The need for some fiscal consolidation over the medium term, in an endeavour to mitigate debt vulnerabilities, was highlighted in the report. However, the country is well-placed to meet its statutory debt ceiling target of less than 50 per cent of GDP by 2018.

3.2 Financial Markets

3.2.1 Money Market

Banks' excess reserves increased to an average of Rs3.9 billion during 2013H1, from Rs3.1 billion during 2012H1, led by additional deposits of public fund with banks and net intervention by the Bank on the domestic foreign exchange market to smooth out volatility in the exchange rates and to build up foreign exchange reserves under the ORR programme (Chart 3.4). In an effort to bring down excess reserves, the Bank undertook a net issue of Bank of Mauritius securities for a total nominal amount of Rs12.4 billion.

While transactions on the interbank money market went up slightly to Rs134.1 billion in 2013H1 compared to the preceding year, short term money market rates maintained a downward trend for most of this period before picking up in June 2013.

Interbank interest rates ranged between 1.20-2.00 per cent until May 2013 but moved higher to a range of 1.20-4.00 per cent in June 2013. Overnight interbank interest rates fluctuated between 1.20-2.35 per cent while interest rates on short notice and term facilities ranged between 1.30-4.00 per cent. The weighted average interbank interest rate ranged between 1.36-2.73 per cent during 2013H1 compared to a range of 1.55-2.50 per cent during the corresponding period of 2012.

Excess liquidity in the money market continued to influence the weighted yields at primary auctions. The overall weighted yield on Government of Mauritius Treasury Bills declined from 3.44 per cent as at end-June 2012 to 2.72 per cent as at end-June 2013 while that on Government of Mauritius Treasury Notes declined from 5.01 per cent to 3.78 per cent over the same period.

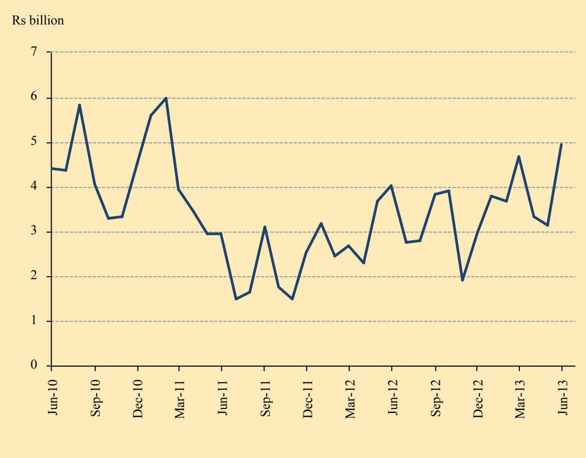
3.2.2 Foreign Exchange Market

The evolution of the rupee exchange rate continued to reflect the movements of major currencies on international markets as well as domestic demand and supply conditions. According to the IMF Article IV Consultation report of April 2013, the rupee exchange rate was broadly in line with fundamentals and the Bank's sterilised interventions to smooth out fluctuations of the rupee had proved to be effective.

At the start of 2013, the rupee appreciated vis-à-vis the US dollar given the broad-based weakness of the US currency on international markets. It reversed gear thereafter as the US dollar regained ground and moved within broad ranges till the end of 2013H1. Conversely, the rupee initially depreciated against the euro, which was supported on international markets, but subsequently recouped some of its losses. The rupee appreciated quite significantly against the Pound sterling during the period under review as the British currency remained on the defensive amid a weak economic backdrop.

Overall, during 2013H1, the weighted average dealt selling rates of the rupee, which are derived from transactions of US$30,000 and above or equivalent, depreciated against the US dollar and euro by 1.40 per cent and 0.35 per cent, respectively, but appreciated against the Pound sterling by 4.30 per cent. On a nominal effective basis, as measured by the MERI1 which uses the currency distribution of trade in its weight calculation, the rupee appreciated by 0.47 per cent during 2013H1 (Chart 3.5).

Chart 3.4: Banks' Monthly Average Excess Reserves



3.2.3 Stock Market

The performance of the domestic stock market improved markedly during 2013H1, with a significantly higher market turnover and stronger level of foreign investment. The turnaround in sentiment, which was in line with the optimism in world equity markets, came even as domestic GDP growth projections were successively revised downward. The SEMDEX rose by 10.5 per cent over the semester, largely driven by increase in the hotel and national airline stocks as well as the banking stocks. The SEM-7 also picked up by 11.5 per cent during 2013H1 (Chart 3.6). Net foreign investment on the domestic stock market remained positive during 2013H1, with net inflows of Rs796.5 million recorded principally in the '*banks, insurance and other finance*' and '*leisure and hotels*' sectors (Chart 3.7).

The market price-earnings (PE) ratio rose from 11.30 as at end-December 2012 to 13.38 as at end-June 2013, mainly as a result of a significant increase in the PE ratio of the '*leisure and hotel*' category, from 16.81 to 27.37. Other categories, namely '*banks, insurance and other finance*', '*sugar*', '*investments*', '*commerce*' and '*industry*', also registered increases in their PE ratios.

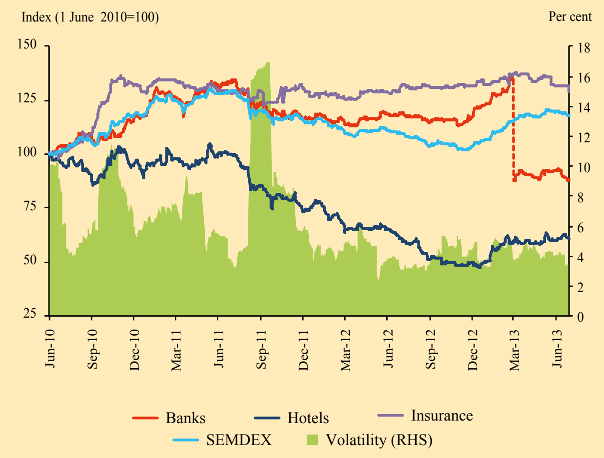
3.3 Credit Growth and Credit Risks

3.3.1 Total Credit

With loans and advances accounting for around 62 per cent of banks' total assets, credit risk is one of the most important factors taken into consideration when assessing risks to financial stability in Mauritius. Close monitoring of credit, especially at sectoral levels, as well as the level of NPL is therefore undertaken as part of the Bank's macro-prudential surveillance of the financial system. Recently, increases in private sector credit growth in some sectors as well as NPL have raised some concerns.

Total credit growth fell to 8.8 per cent as at end-March 2013, from 12.8 per cent a year earlier, reflecting sharp deceleration in credit extended outside Mauritius to 4.8 per cent, from 17.0 per cent as at end-March 2012 (Chart 3.8).

Chart 3.6: SEMDEX and Share Price Indices



Note: State Bank of Mauritius Ltd carried out a share split in the ratio of 100 shares for every one share held as from 1 March 2013.

Source: Stock Exchange of Mauritius.

Chart 3.5: Exchange Rate Movements

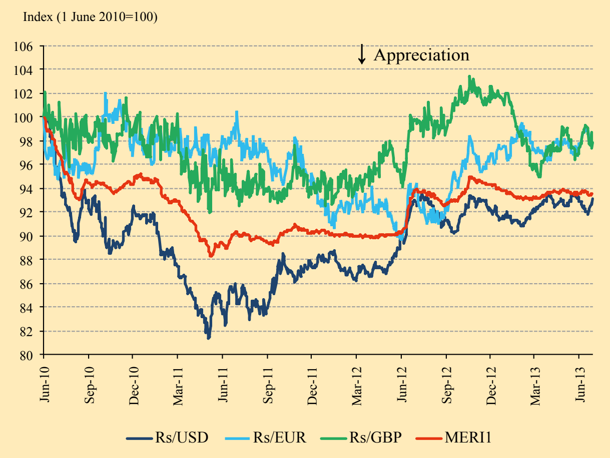
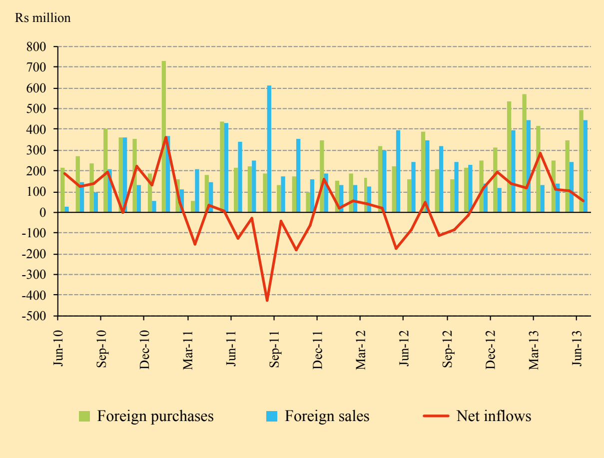


Chart 3.7: Foreign Investment on the SEM



In contrast, growth of credit extended to the private sector in Mauritius increased to 13.1 per cent as at end-March 2013 compared to 8.5 per cent a year earlier. As a result, private sector credit increased by 1.9 percentage points to 49.8 per cent as a ratio of total credit and by 4.3 percentage points to 73.9 per cent as a share of GDP at market prices. With growth in private sector credit mostly rising since early 2012, the private sector credit to GDP gap[1] has remained on an upward trend (Chart 3.9).

Credit Quality

Partly reflecting the subdued economic and business environment during the year to end-March 2013, the ratio of NPL to private sector credit in Mauritius rose to 5.2 per cent and the ratio of NPL to credit extended outside Mauritius increased to 1.9 per cent. Overall, the share of total NPL to total credit went up over the year to stand at 3.3 per cent as at end-March 2013. Although the level of NPL still implies relatively good asset quality in the banking sector as a whole, the rise in NPL over the year raises some concern and warrants close monitoring (Table 3.1).

Matching the growth in the total amount of NPL on private sector credit during the year, specific provisions on NPL rose by 36.8 per cent during the same period. The coverage ratio, that is, the ratio of specific provisions to NPL continued to rise and reached 47.7 per cent as at end-March 2013, which is considered as reasonable buffer against losses that may be incurred in the short-to medium-term (Chart 3.10).

Chart 3.8: Y-o-y Credit Growth

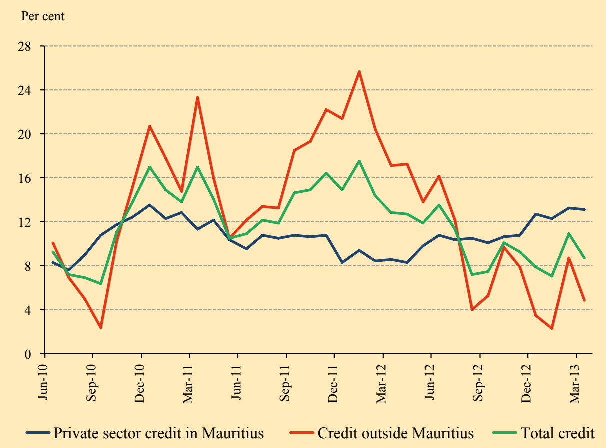


Chart 3.9: Private Sector Credit to GDP Gap

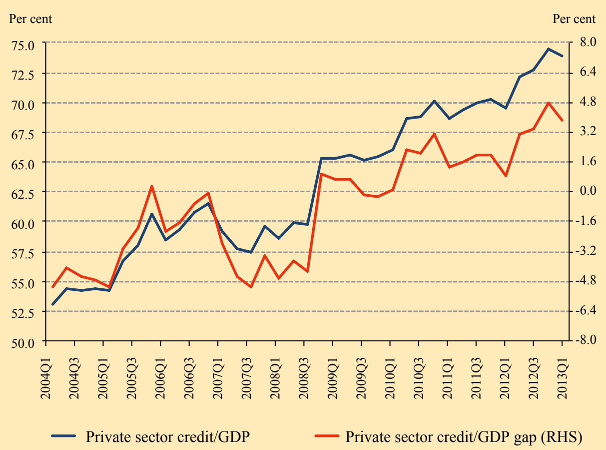


Table 3.1: NPL of Banks

	NPL as a percentage of private sector credit	NPL as a percentage of credit outside Mauritius*	Total NPL as a percentage of total credit
Mar-09	4.5	1.5	2.4
Mar-10	4.6	1.2	2.3
Mar-11	4.9	0.7	2.4
Mar-12	4.8	0.8	2.6
Jun-12	5.4	2.9	3.1
Sep-12	5.3	1.9	3.1
Dec-12	5.1	1.7	3.1
Mar-13	5.2	1.9	3.3

** Including Global Business Licence Holders (GBLH).*

[1] *The credit to GDP gap is the percentage deviation between the credit to GDP ratio and an estimate of its trend.*

3.3.2 Household Sector Credit

Growth of banking sector credit to households was rather robust, with a monthly average y-o-y expansion of more than 16 per cent since the last FSR. The sustained growth in household credit was driven by higher credit expansion for consumption purposes which increased by 17.2 per cent as at end-March 2013 compared to 6.0 per cent in the corresponding period of 2012. Despite an increase in the volume of residential building permits to 1,724 in 2013Q1, from 1,367 a year earlier, credit extended for housing purposes, which account for 62.2 per cent of total household credit, registered lower growth of 17.1 per cent compared to 23.8 per cent a year ago. Credit to households accounted for 26.4 per cent of total private sector credit as at end-March 2013 compared to 25.5 per cent as at end-March 2012. As a percentage of GDP, household credit increased gradually over the past years to reach 19.5 per cent as at end-March 2013 (Chart 3.11).

As an indicator of the quality of household debt, the NPL ratio resulting from credit extended to the '*personal*' sector showed some improvement as it declined from 10.3 per cent to 9.8 per cent over the year to March 2013. Given its increasing share in banks' balance sheets, the evolution of household credit, if sustained, needs to be monitored for an early detection of any risk to financial stability. It is important to ensure that households are not over-leveraged. Meanwhile, a stress testing exercise shows that banks would be able to withstand a 10 per cent increase in NPL of total household credit as at end-March 2013 with a reduction in the capital adequacy ratio (CAR) from 17.0 per cent to 16.5 per cent.

3.3.3 Corporate Sector Credit

Credit to the corporate sector expanded by 11.2 per cent as at end-March 2013 compared to growth of 8.5 per cent in the corresponding period of 2012, but fell from 72.3 per cent to 71.1 per cent as a percentage of total private sector credit.

Credit remained concentrated in five main sectors of the economy, which accounted for around 80 per cent of total corporate credit. The largest share of corporate credit was extended to the '*tourism*' sector, which made up 24.5 per cent of total corporate credit outstanding. Credit extended to '*traders*', '*construction (excluding housing loans)*' and '*financial and business services*' represented 16.4 per cent, 15.0 per cent and 14.6 per cent, respectively, of total corporate credit (Chart 3.12).

Chart 3.11: Household Credit

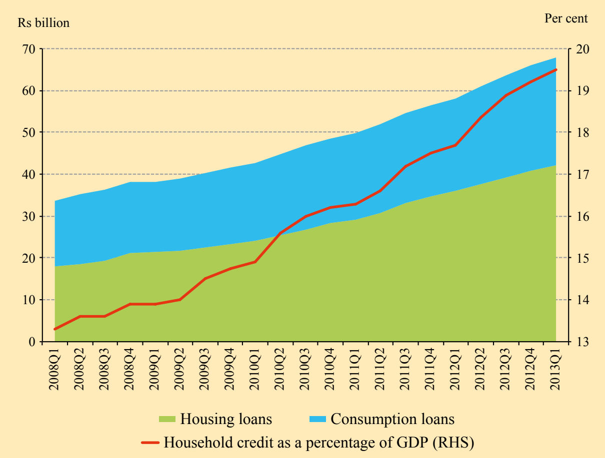


Chart 3.10: NPL and Coverage Ratio

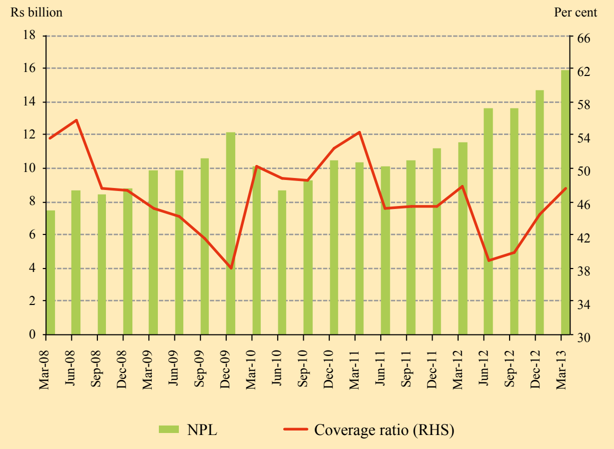
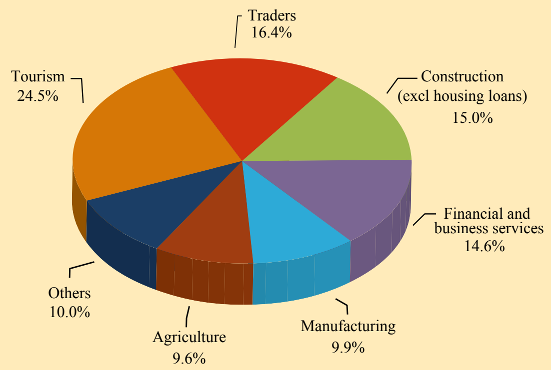


Chart 3.12: Sectorwise Distribution of Credit to Corporates

End-March 2013



The share of credit to the *'manufacturing'* sector fell steadily over the past years and represented less than 10 per cent of total corporate credit as at end-March 2013.

Growth in credit extended to the *'tourism'* sector picked up to 6.7 per cent as at end-March 2013 compared to 4.7 per cent in the corresponding period of 2012. Similarly, growth in credit to the *'financial and business services'* and *'traders'* sectors also increased to 9.7 per cent and 14.9 per cent, respectively, compared to 2.2 per cent and 7.5 per cent. In contrast, *'manufacturing'* sector credit contracted by 0.8 per cent as against growth of 6.4 per cent a year earlier (Chart 3.13).

The rapid increase in credit to *'construction (excluding housing loans)'* was sustained during the period under review and, although a drop in the pace of y-o-y growth to 21.0 per cent was noted in 2013Q1, it still remained above that of other key economic sectors. The growth in credit was largely driven by advances to commercial and residential property development segments. Credit extended to commercial property development, which accounted for the largest share of the property development segment, grew by 20.5 per cent, y-o-y, as at end-March 2013 compared to growth of 63.3 per cent recorded a year earlier. Credit extended for residential property development also maintained a downward trend, albeit at a slower pace than in the commercial segment. As at end-March 2013, growth of 15.3 per cent was recorded as against a contraction of 8.0 per cent a year earlier (Chart 3.14).

Some corporates in Mauritius, especially in the export-oriented sectors that derive a major share of their revenues in foreign currencies, also borrow in foreign currencies to finance their operations. As at end-March 2013, credit extended in foreign currency constituted around 20 per cent of total corporate credit. Sectors that held an important share of outstanding foreign currency loans were: *'transport'* (40.5 per cent), *'tourism'* (35.6 per cent) and *'manufacturing'* (21.5 per cent). Risks from foreign currency borrowing are considered to be rather contained given that foreign currency loans are generally matched with foreign sources of income.

Some sectors witnessed a deterioration in asset quality (Charts 3.15 and 3.16). The *'construction'* sector recorded the largest increase in NPL over the year to end-March 2013, with its NPL ratio rising from 5.4 per cent to 7.9 per cent. The level of NPL in this sector requires close monitoring as the credit off-take, amid lacklustre construction activity, may create financial stability

Chart 3.13: Evolution of Credit to Corporates

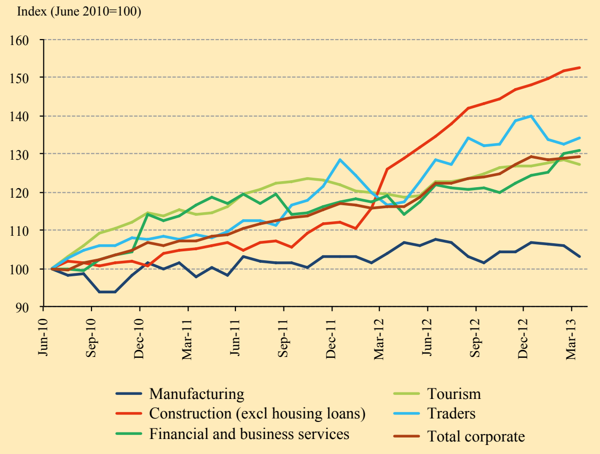


Chart 3.14: Y-o-y Growth of Credit to the Construction Sector

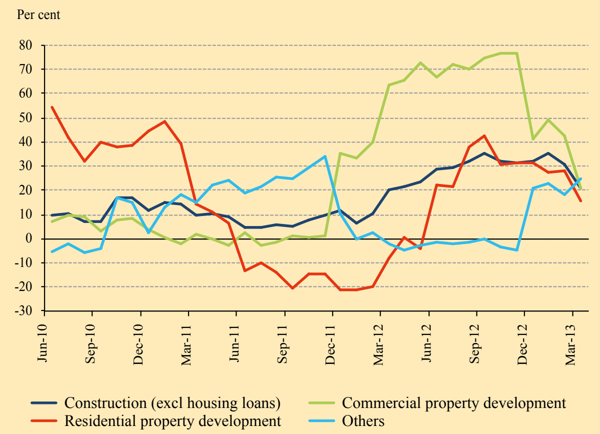
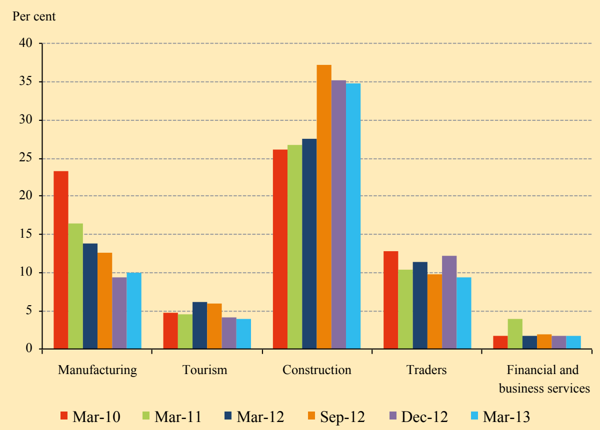


Chart 3.15: Sectoral NPL to Total NPL



concerns. Although the NPL ratio was rather unchanged at 8.7 per cent in the *'manufacturing'* sector, it increased from 5.5 per cent to 6.8 per cent in the *'export-oriented enterprises'* sub-sector. In the '*tourism*' sector, the NPL ratio remained below 2 per cent. The Bank is closely monitoring the evolution of corporate balance sheets with rising private sector debt with a view to better assess any potential impact on financial stability should some large players face increased difficulties in terms of their debt repayment capacity.

3.3.4 Concentration of Credit

Large credit exposures refer to total exposures to a customer or a group of closely-related customers that are above 15 per cent of the capital base of a bank. The overall credit concentration in the banking sector - measured by the ratio of aggregate large exposures to the capital base of all banks - dropped from 232.0 per cent as at end-March 2012 to 182.3 per cent as at end-March 2013, indicating that banks are presently operating well below the prudential limits imposed on aggregate large credit exposures (Table 3.2).

As at end-March 2013, large exposures represented 25 per cent of total private sector credit, and a granular analysis indicates that credit exposure to the ten largest borrowers increased from 36 per cent to 39 per cent (Table 3.3). The relative increase in credit exposure to the ten largest borrowers warrants close monitoring of the evolution of credit extended to these conglomerates as the latter may be engaged in inter-related economic activities.

3.3.5 Cross-Border Activities of Banks

The banking sector derives a major proportion of its foreign currency funds from abroad in the form of deposits and borrowings that are used to finance global business activities. Credit risks linked with cross-border activities of banks may be gauged by the amount of credit granted outside Mauritius, the geographical region where the borrowers reside and the expected level of impairment arising from these exposures. As at end-March 2013, cross-border sources of funds grew by 18.9 per cent to constitute 28.2 per cent of total banking sector liabilities whereas cross-border uses of funds expanded by 2.2 per cent and represented 55.7 per cent of total banking assets.

Chart 3.16: NPL as a percentage of Sectoral Credit

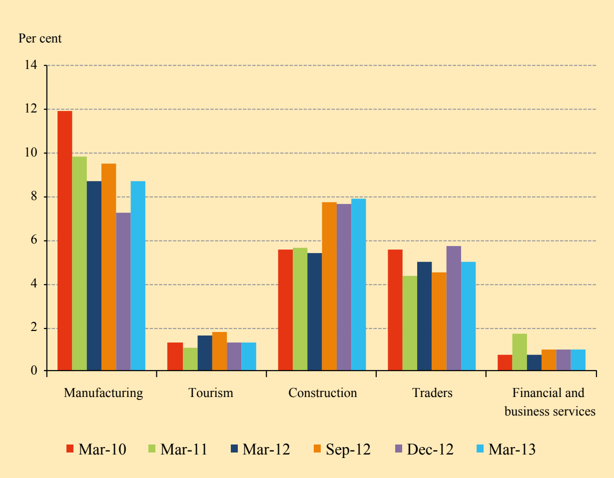


Table 3.2: Credit Concentration Risk

	Aggregate large exposures to capital base (Per cent)	Aggregate large exposures to total credit (Per cent)
Mar-09	211	26
Mar-10	209	26
Mar-11	200	23
Mar-12	232	29
Jun-12	233	29
Sep-12	229	30
Dec-12	200	26
Mar-13	182	25

Table 3.3: Exposure of Banks to Ten Largest Borrowers

	Ten largest borrowers (Rs million)	Ten largest borrowers to total large exposures (Per cent)	Ten largest borrowers to total capital base (Per cent)
Mar-12	65,248	36	83
Sep-12	78,680	37	92
Dec-12	77,417	39	85
Mar-13	69,679	39	73

Among the sources of cross-border funds, deposits registered a robust growth rate of 41.9 per cent as at end-March 2013 compared to 10.2 per cent as at end-March 2012 while borrowings from abroad grew by 1.0 per cent, significantly down from growth of 29.5 per cent recorded a year earlier. Europe continued to be the most important source of cross-border deposits and borrowings although funds mobilised from Asia and America have increased. In contrast, the relative importance of Africa has somewhat diminished (Chart 3.17).

As at end-March 2013, loans, placements with banks abroad and investments represented 49.9 per cent, 37.4 per cent and 11.6 per cent, respectively, of the uses of cross-border funds. Banks were exposed to the tune of Rs272 billion to borrowers outside Mauritius. Loans were mainly extended to Asia, in particular India, which has a Double Taxation Avoidance Agreement with Mauritius. With regard to placements with banks abroad, Europe and America together accounted for 70.2 per cent of the total. The share of placements in the African continent increased substantially to 15.9 per cent (Chart 3.18).

Impairment in Cross-Border Loans

Risks to the domestic banking sector soundness arising from cross-border loans are considered to be contained given that the level of impairment across regions is relatively low. Excluding GBLH, the ratio of impaired loans to total cross-border loans was 0.6 per cent in Asia, 0.7 per cent in Europe and 1.6 per cent in Africa as at end-March 2013.

Chart 3.17: Cross-Border Deposits and Borrowings

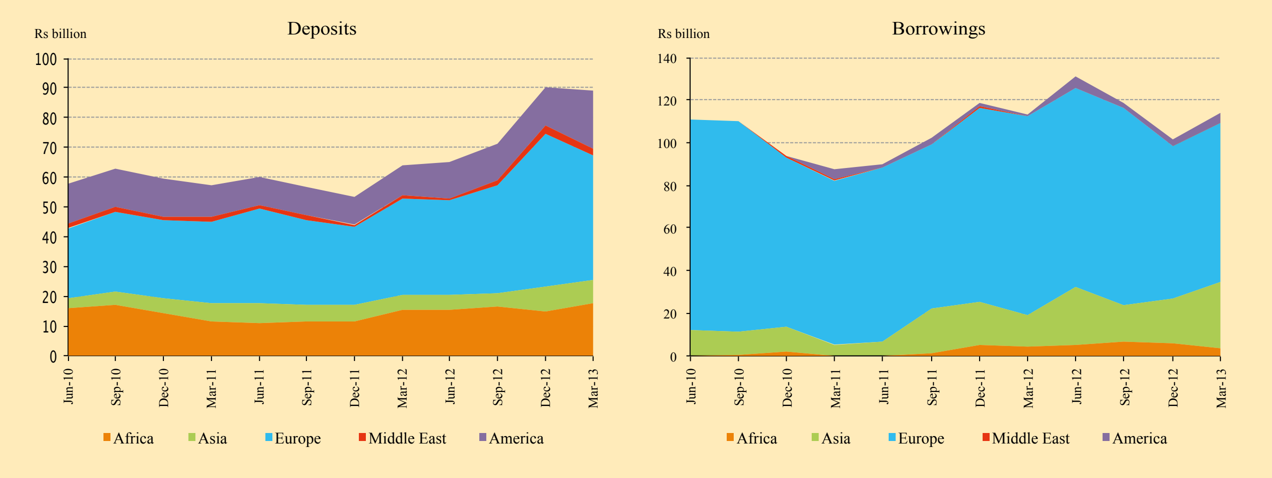
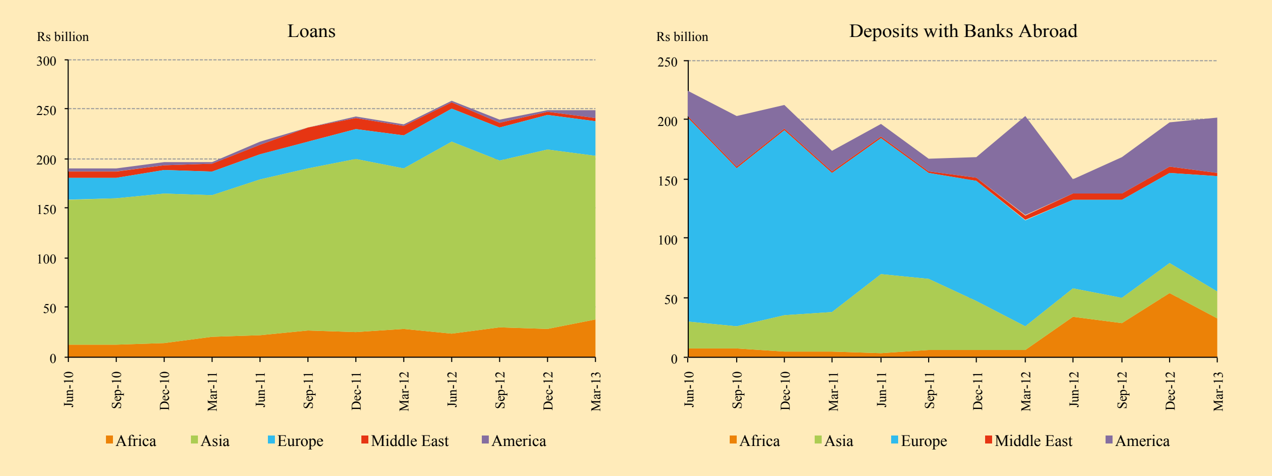


Chart 3.18: Cross-Border Loans and Deposits with Banks Abroad



3.4 Banking Sector

3.4.1 Balance Sheet Structure and Risk Profile

Though banks in Mauritius faced a difficult economic environment, activity in the sector continued to expand, albeit at a slower rate. Aggregate banking sector assets grew by 7.1 per cent as at end-March 2013 compared to a growth of 10.8 per cent a year earlier. The decline in growth was largely driven by a sharp deceleration in Segment B[2] assets, which more than offset growth in Segment A assets. Segment A and Segment B assets grew by 13.1 per cent and 3.5 per cent, respectively, compared to growth of 7.0 per cent and 13.2 per cent recorded over the year to end-March 2012 and constituted 60.1 per cent and 39.9 per cent, respectively, of total assets (Chart 3.19).

As a percentage of nominal GDP at market prices, total banking sector assets increased to 291.1 per cent as at end-March 2013, from 276.2 per cent a year earlier. Both Segment A and Segment B assets rose as a percentage to GDP over the year.

Segment A assets were mostly made up of advances (64.8 per cent) while Segment B assets were mainly constituted of advances (59.9 per cent) and balances with banks (34.8 per cent) (Chart 3.20).

Asset Diversification

The asset diversification matrix for the banking sector over the year to end-March 2013 showed that banks have maintained a major proportion of their assets in the 100 per cent and zero per cent risk-weight buckets while they increased the share

Chart 3.19: Banking Sector Assets

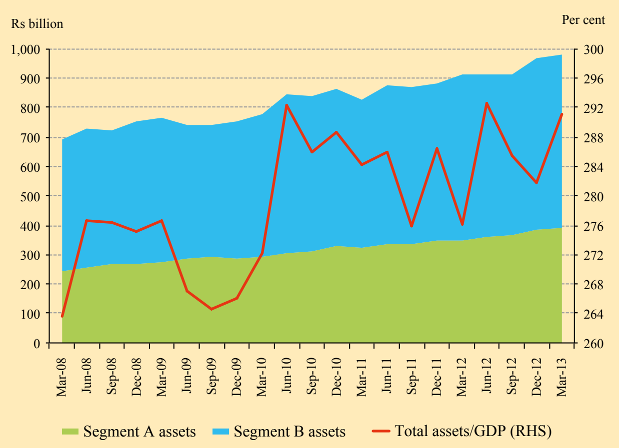


Chart 3.21: Asset Diversification Matrix

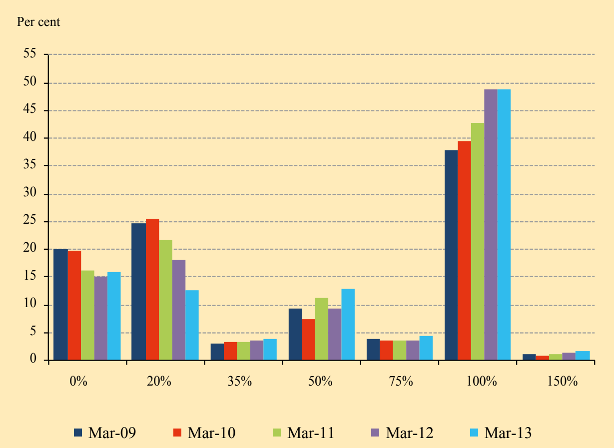
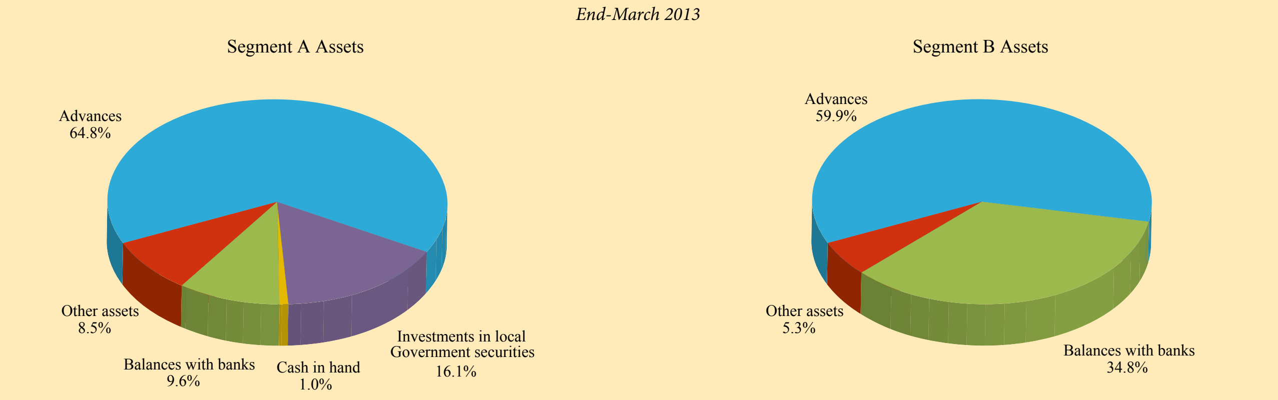


Chart 3.20: Components of Banks' Total Assets



[2] *Segment B activity relates to provision of international financial services that give rise to foreign source income. Segment A activity refers to all banking activities other than Segment B activities.*

of assets held in the 50 per cent risk-weight category. Overall, 77.7 per cent of total assets were held in these three risk-weight buckets. In recent years, the share of assets held in the 20 per cent risk-weight category has fallen markedly to stand at 12.5 per cent as at end-March 2013 (Chart 3.21).

3.4.2 CAMEL Rating

The latest CAMEL rating of banks as at end-December 2012, published in June 2013, indicated an overall improvement. The composite ratings of five banks were upgraded compared to end-June 2012 while one bank was downgraded. The remaining fourteen banks maintained the same ratings (Table 3.4). As such, fifteen banks were assigned a 'satisfactory' rating and five banks were classified in the 'fair' category. Based on the CAMEL ratings, the banking sector is considered to have maintained its stability and soundness as at end-December 2012.

3.4.3 Market Concentration

Over the past five years, the Herfindahl-Hirschman Index (HHI)[3] for total deposits and total assets has continued to trend downward, reaching 1,150 and 1,068, respectively, as at end-March 2013 and indicated an improvement in market concentration within the moderate band (Chart 3.22). This improvement has been reflected in banks' extension of credit to the private sector. A comparison of private sector credit distribution using a Lorenz curve, which plots the distribution of private sector credit against the total number of banks, shows that 77.8 per cent of total private sector credit was extended by four banks as at end-March 2013 compared to 87.1 per cent five years ago (Chart 3.23). Smaller banks are increasingly extending credit to the private sector and, with new entrants, competition in the banking sector is expected to improve further.

Table 3.4: CAMEL Rating

Bank	Jun-12	Dec-12	Change
ABC Banking Corporation Ltd	3+	3+	↔
AfrAsia Bank Limited	2-	2+	↑
Bank of Baroda	2+	2+	↔
Bank One Limited	2-	2-	↔
Banque des Mascareignes Ltée	3-	3+	↑
Barclays Bank PLC	2-	2-	↔
Bramer Banking Corporation Ltd	3+	3+	↔
Century Banking Corporation Ltd	2-	3+	↓
Deutsche Bank (Mauritius) Limited	2+	2+	↔
Habib Bank Limited	2-	2+	↑
HSBC Bank (Mauritius) Limited	2+	2+	↔
Investec Bank (Mauritius) Limited	2+	2+	↔
Mauritius Post and Cooperative Bank Ltd	3+	3+	↔
P.T Bank Internasional Indonesia	2-	2+	↑
SBI (Mauritius) Ltd	3+	2-	↑
Standard Bank (Mauritius) Limited	2-	2-	↔
Standard Chartered Bank (Mauritius) Limited	2-	2-	↔
State Bank of Mauritius Ltd	2+	2+	↔
The Hongkong and Shanghai Banking Corporation Limited	2+	2+	↔
The Mauritius Commercial Bank Limited	2-	2-	↔

[3] *The HHI is a measure of market concentration and indicates the level of competition among firms within an industry. An HHI lying in the range of 0-1,000 generally shows low market concentration, while an HHI above 1,800 is associated with high concentration.*

3.4.4 Regulatory Capital

The level of capitalisation of banks in Mauritius remained comfortably above the current regulatory minimum of 10 per cent, standing at 17.0 per cent of risk-weighted assets as at end-March 2013 compared to 16.0 per cent a year earlier. A few banks withstood some losses on their credit exposures to corporates outside Mauritius during the period under review, helped by their relatively sound capital position.

Over the year to end-March 2013, risk-weighted assets increased by 14.3 per cent to Rs559.4 billion, driven mainly by balance sheet expansion. The regulatory capital of banks concurrently rose by 21.4 per cent to Rs95.0 billion through retention of earnings and new capital injection in a few banks (Table 3.5).

The aggregate Tier 1 capital ratio rose to 15.5 per cent as at end-March 2013, from 14.4 per cent as at end-March 2012. Tier 1 capital remains the main component of banks' capital and comprises mainly common equity, which has the highest loss-absorbing capacity.

Moreover, as an indication of the relative strength of individual banks' capital position, the dispersion of total assets by Tier 1 capital shows that, in aggregate, 70.0 per cent of total assets of the banking sector were held by banks having Tier 1 capital ratios of more than 10.0 per cent as at end-March 2013 (Chart 3.24).

Chart 3.23: Distribution of Private Sector Credit

Chart 3.22: Herfindahl-Hirschman Index

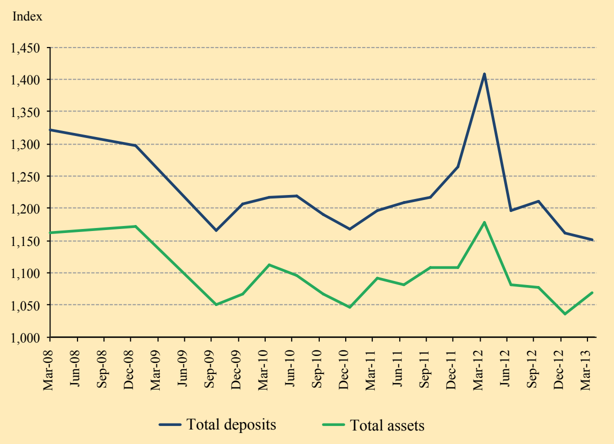


Chart 3.24: Dispersion of Total Assets by Tier 1 Capital

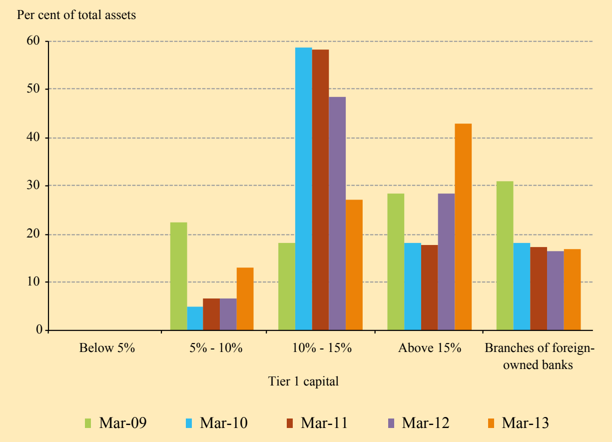


Table 3.5: Components of Capital Base and Risk-Weighted Assets

	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
Total capital (Rs billion)	59.7	62.1	72.5	78.3	95.0
Tier 1 capital (Rs billion)	52.1	53.8	63.1	70.7	86.6
Tier 2 capital (Rs billion)	7.5	8.3	9.4	7.6	8.4
Risk-weighted assets (Rs billion)	350.1	372.3	420.0	489.4	559.4
Tier 1 capital ratio (Per cent)	14.9	16.7	15.0	14.4	15.5
Capital adequacy ratio (Per cent)	17.0	14.5	17.2	16.0	17.0

Note: Figures may not add up to total due to rounding.

Progress in the implementation of Basel III is on-going. Following the issue of a *Consultative Paper on the Implementation of Basel III in Mauritius* in October 2012, a draft *Guideline on the Scope of Application of Basel III and Eligible Capital* has been issued in May 2013 for further consultation with the industry.

Box III: Regulatory Initiatives

While focusing on strengthening capital requirements at the consolidated level, the post-crisis international reform proposals aim at reducing the complexity of structures to enable the efficient resolution of financial institutions without having recourse to taxpayers' money. In this connection, the Bank has examined the corporate structure of banking groups in Mauritius, particularly with regard to concerns arising from contagion risks.

Some banks operating in Mauritius are organised under the Bank-Subsidiary model whereby they act as parent of all subsidiaries of the group. Considering the key risks posed by such a model, banks concerned have been directed to simplify their structures and separate banking from non-banking activities. This measure seeks to limit the risks of contagion to the banks, enhance market discipline and transparency and ensure that bank management focuses its attention on the core business of banking. It is expected that such a measure will benefit depositors and shareholders, and strengthen the financial system as a whole by minimising potential vulnerabilities from contagion; it is an essential part of the Bank's on-going reform initiative to strengthen the domestic banking sector. The re-organisation of the structure of the two largest banking groups in Mauritius is progressing satisfactorily.

In addition to the above, the Bank has examined the branch-form presence of foreign banks compared to locally-incorporated subsidiaries of foreign banks. On balance, it was viewed that the subsidiary model has explicit advantages over the branch model. In this perspective, the Banking Act 2004 was amended in April 2013, with the introduction of a new section (32A). This section, *inter-alia*, enables a bank to restructure its business with the approval of the Bank, and is in line with the Bank's objective to protect affiliates of cross-border banks operating in the Mauritian jurisdiction from any potential problem affecting their parents in their home country and thereby reducing financial stability risks. Further to this amendment to the law, one branch of a foreign bank (Barclays Bank PLC, Mauritius Branch) transferred the whole of its undertaking to a locally-incorporated bank (Barclays Bank Mauritius Limited).

Leverage

Leverage, a measure of resilience that does not use weights to determine risks, remained almost unchanged over the past years as most banks have maintained a reasonable balance between the size of their balance sheets and their equivalent in terms of total risk-weighted assets. The leverage ratio of the banking sector (excluding branches of foreign-owned banks operating in Mauritius) increased marginally by 76 basis points over the past twelve months to 5.7 per cent as at end-March 2013 (Chart 3.25).

3.4.5 Financial Performance

The banking sector remained profitable despite a decline in the level of pre-tax profits - measured as the sum of pre-tax profits for the preceding four quarters - from Rs16.9 billion as at end-March 2012 to Rs14.3 as at end-March 2013. The reduction in profits was mainly due to a fall in the profitability of a few foreign-owned banks conducting mainly global business activities. Movements in the level of pre-tax profits were uneven across the banking sector as some domestic-owned banks recorded improved profitability.

Components of Revenue and Expense

Net interest income, which remains the major source of banks' income, rose by Rs3.2 billion during the year ended March 2013 to Rs21.1 billion (Chart 3.26). As a percentage of total assets, net interest income increased slightly to 1.7 per cent as at end-March 2013, from 1.6 per cent as at end-March 2012. The rise in net interest income was driven mostly by higher interest earnings on domestic banking activities relative to cross-border activities of banks.

Net fees and commission income have been steady over the years. As at end-March 2013, net fees and commission income increased by 3.7 per cent to Rs5.3 billion and represented 0.4 per cent of total assets.

Net trading income dropped by 79.0 per cent to Rs1.0 billion. The fall in the fair value of some assets, which were marked-to-market, contributed towards the decline in net trading income. The latter represented 0.1 per cent of total banking sector assets as at end-March 2013 compared to 0.4 per cent as at end-March 2012.

Other income increased by Rs0.3 billion over the period under review to Rs2.8 billion, mainly on account of higher dividend income. It rose to 0.3 per cent of banks' total assets as at end-March 2013.

With regard to expense, impairment charges increased by Rs1.8 billion during the year ended March 2013 due to a rise in bad and doubtful debt. This increase concerned only a few banks and did not have any system-wide implication given that credit losses were related to a few corporates overseas. Adequate provisions have been made by banks to contain the losses. Net impairment charges represented 0.3 per cent of total assets as at end-March 2013.

Non-interest expense of banks, which represented 1.3 per cent of the total assets as at end-March 2013, rose by Rs1.1 billion to Rs12.5 billion on account of higher personal expenses and depreciation of fixed assets.

Return on Assets and Return on Equity

The annualised return on assets (ROA) for the banking sector, as measured by the ratio of pre-tax profit to average assets, decreased to 1.2 per cent as at end-March 2013, from 1.5 per cent as at end-March 2012 (Chart 3.26). During this period, the performance of domestic-owned banks, which derive a larger proportion of their revenue from activities conducted locally, was steady while the performance of foreign-owned banks worsened.

The decline in the profitability of banks has contributed to a fall in the level of pre-tax return on equity (ROE), as measured by the ratio of pre-tax profit to average equity, from 20.3 per cent as at end-March 2012 to 15.3 per cent as at end-March 2013. The reduction in the ROE was, however, not generalised across the banking sector as some banks achieved a higher ROE. As at end-March 2013, 44.5 per cent of total assets of the banking sector (excluding branches of foreign-owned banks) have contributed to generate a ROE of more than 20 per cent (Chart 3.27).

Chart 3.25: Leverage Ratio

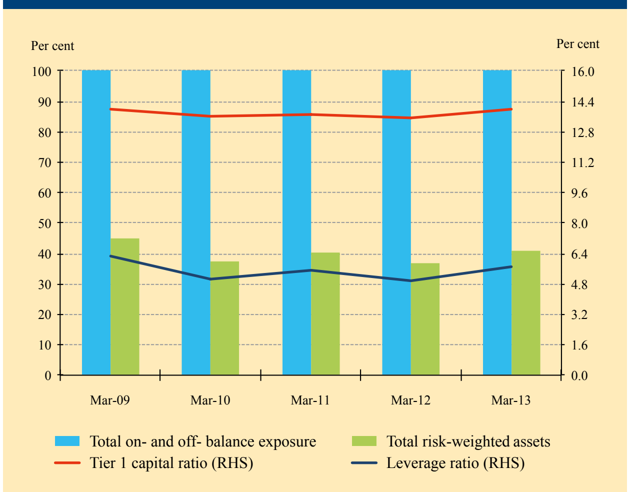
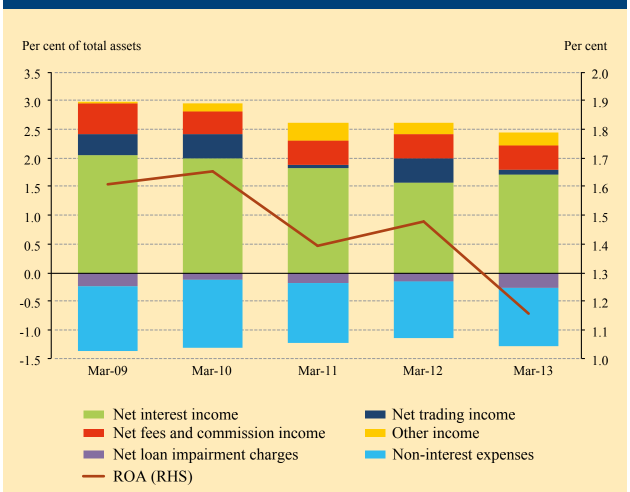


Chart 3.26: Components of Revenue and Expense



3.4.6 Funding and Liquidity Risks

Conditions in the wholesale funding market have improved internationally as market sentiment recovered. In Mauritius, banks have operated in a favourable and stable funding environment for most of the past years. Funding and liquidity risks remain relatively low as both domestic-owned and foreign-owned banks have maintained access to their main sources of funding, both locally and abroad.

Domestic-owned banks continued to source most of their funding from customer deposits, which are generally considered as a stable source of funding. Deposits from resident and non-resident customers accounted for 75.8 per cent of banks' total liabilities as at end-March 2013. Because of the prolonged period of low interest rates in major international markets, domestic-owned banks may find it more attractive to finance their global business operations from wholesale funding derived from abroad. Borrowing from banks, mainly from banks abroad, increased by 230 basis points to 5.0 per cent of total liabilities. Other sources of funding as a percentage of domestic-owned banks' total liabilities were: shareholders' fund (11.8 per cent), deposits from banks in and outside Mauritius (1.2 per cent), subordinated debt (0.6 per cent), interbank loan (0.3 per cent) and others (5.4 per cent) (Chart 3.28).

The principal source of funding of foreign-owned banks (including subsidiaries and branches of foreign-owned banks) operating in Mauritius remained the deposits from resident and non-resident customers that represent around two thirds of their funding. Foreign-owned banks continued to finance a large proportion of their global business operations from wholesale borrowings from parent banks and related entities. As at end-March 2013, borrowings from banks on the part of foreign-owned banks declined by 120 basis points to 17.2 per cent of total liabilities. Other funding sources as a percentage of total liabilities were: shareholders' fund (9.7 per cent), interbank loan (1.1 per cent), subordinated debt (0.7 per cent) and others (5.0 per cent) (Chart 3.29).

Growth in private sector credit in Mauritius has continued to outpace growth in resident customer deposits for the past years. The difference between deposits from resident customers and private sector credit - a measure of the funding gap that needs to be filled in from wholesale funding and other sources - shows that surplus fund in the domestic banking

Chart 3.27: Dispersion of ROE by Total Assets

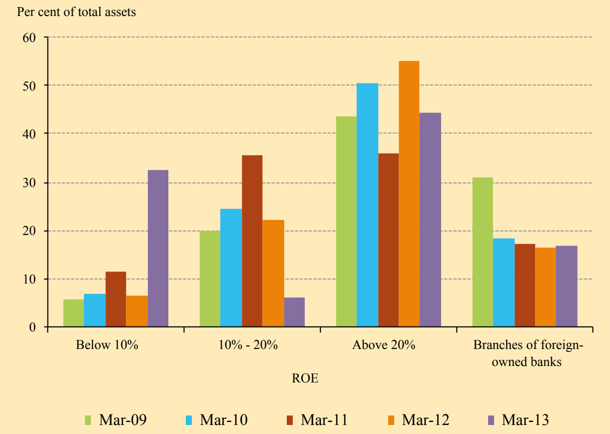


Chart 3.28: Components of Liabilities of Domestic-Owned Banks

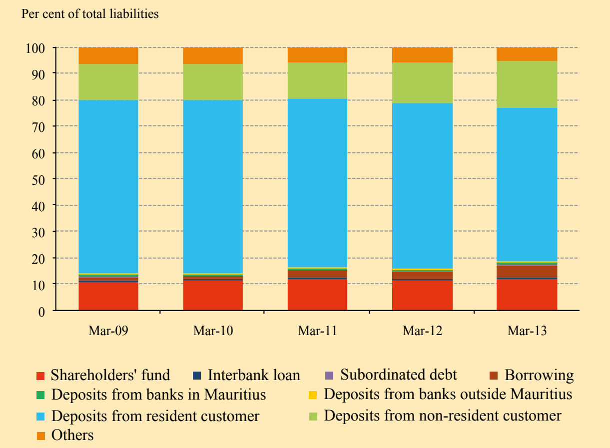
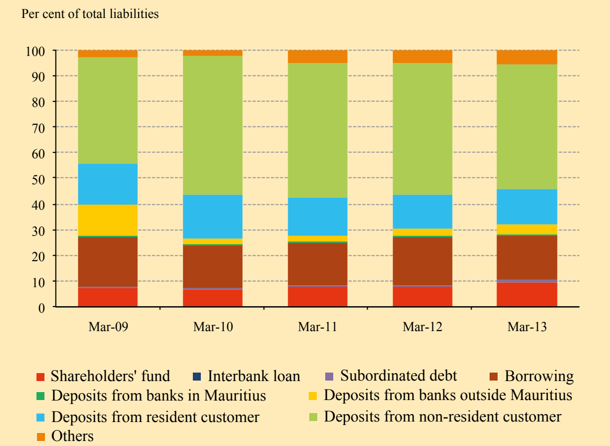


Chart 3.29: Components of Liabilities of Foreign-Owned Banks



sector as a percentage of total liabilities has declined by 310 basis points over the past four years, from 8.5 per cent as at end-March 2009 to 5.4 per cent as at end-March 2013 (Chart 3.30). While the funding gap does not create immediate concerns for financial stability, its decreasing trend indicates that it may represent a potential area of risk over the longer term.

Banks engaged in cross-border activities manage their funding and liquidity risks across currencies cautiously by matching, to a large extent, most of their liabilities with assets in the same currency and maturity range. Banking regulation does not permit individual banks to run an overall net foreign exposure position of more than 15 per cent of Tier 1 Capital with a limit of 10 per cent for each currency. As at end-March 2013, foreign currency deposits, which represented 42.8 per cent of total liabilities of the banking sector, rose by 2.0 per cent to Rs419.0 billion.

As at end-March 2013, demand and savings deposits accounted for 61.4 per cent of total deposits while time deposits, which represent a more permanent source of funding, accounted for the remaining 38.6 per cent of total deposits. The maturity pattern of time deposits has remained stable, with customers having a broad preference for shorter maturities, typically six months or less (Chart 3.31).

Since demand and savings deposits have no contractual maturity and customers may withdraw funds on request, there is a risk that a significant portion of such deposits is withdrawn within a short period of time in response to any adverse development affecting banks. Hence, in order to meet their obligations, banks in Mauritius hold a reasonable proportion of liquid assets to manage liquidity risk. As at end-March 2013, the ratio of liquid assets to total deposits stood at 31.0 per cent, down by 1.0 percentage point compared to end-March 2012. The three main components of liquid assets as at end-March 2013 consisted of deposits with banks abroad (70.4 per cent), Government securities (17.7 per cent) and balances with the Bank of Mauritius (7.8 per cent).

A reverse stress test conducted on data as at end-March 2013 indicated that most banks would, on average, be able to sustain a drawdown in demand and savings deposits of more than 15 per cent without having recourse to liquidity-injecting operations by the Bank of Mauritius. Moreover, system-wide risk arising from interbank contagion would be limited by the relatively

Chart 3.31: Components of Total Deposits

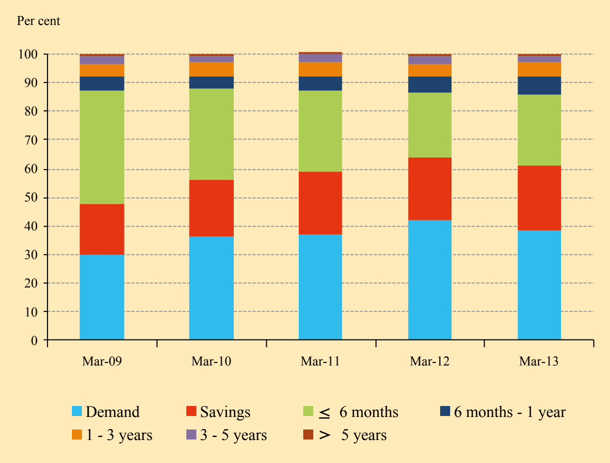
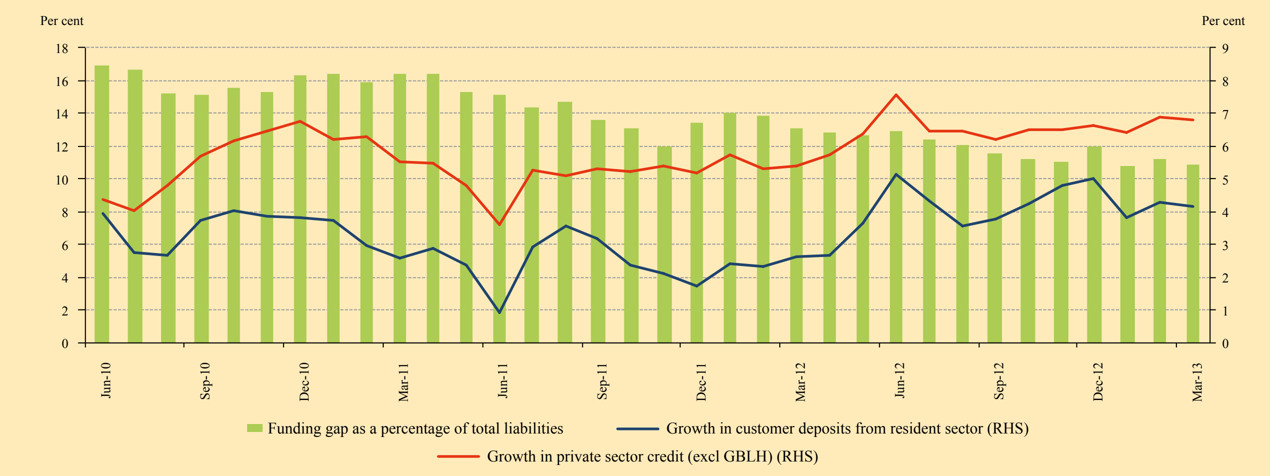


Chart 3.30: Y-o-y Growth in Private Sector Credit and Deposits from Customers



small amount of interbank loans. Overall, with adequate levels of capital and a strong liquidity and funding position, the banking system is expected to be able to cope with periods of market stress.

Stress Testing

As at end-March 2013, the distribution of credit exposure in key sectors was generally concentrated among banks with CAR of above 12 per cent (Chart 3.32). A stress test was conducted to assess the ability of banks in absorbing possible shocks on their credit portfolio in the event of a general weakening in economic activity causing 10 per cent of the loan portfolio in key sectors and 5 per cent of the loan portfolio in the remaining sectors to become impaired as at end-March 2013.

The size of the impact of the shock varied among banks, depending on the composition and quality of their portfolio and the amount of capital they hold to withstand the shock. Results concluded that banks (excluding branches of foreign-owned banks) would generally be resilient to the adverse shock affecting key sectors, with banks' CAR dropping from 15.5 per cent to 12.7 per cent as at end-March 2013 (Chart 3.33). Overall, the banking sector is assessed to withstand the impact of the specified shock.

Stress tests carried out by the IMF during the 2013 Article IV Mission also indicated that the Mauritian banking system is well-capitalised and resilient against credit risk and external shocks.

Chart 3.32: Bankwise Distribution of Credit by CAR

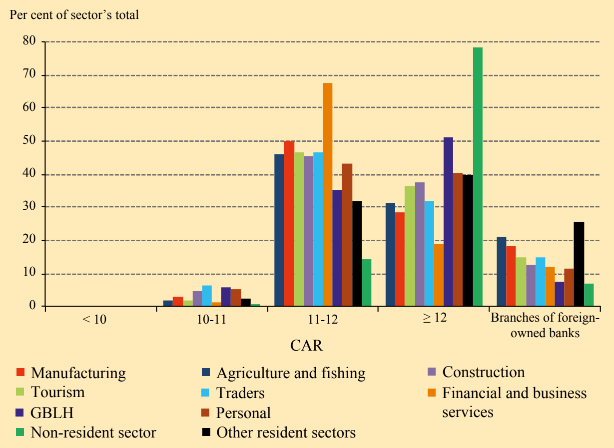
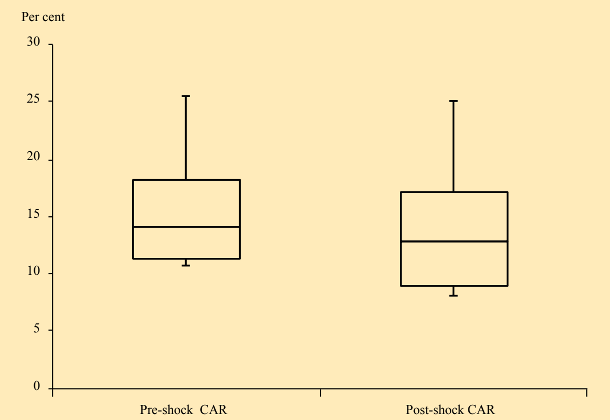


Chart 3.33: Bankwise Distribution of CAR



Box IV: Alleged Financial Scams

In light of the recent financial scams, the Bank conducted several special on-site examinations at banks and is investigating other entities which might be involved. The Bank has requested banks to be more vigilant in applying "Know Your Customer" procedures and conducting due diligence processes. Banks have also been requested to strengthen their compliance function to avoid recurrence of such situations. The need for enhanced on-going monitoring of bank accounts and strengthening of the anti-money laundering monitoring system has also been underscored.

Assistance of the IMF and the Reserve Bank of India has also been sought to enhance the legal framework, including the banking laws, to deal with Ponzi schemes and other financial scams and develop new parameters for generation of alerts on such fraudulent schemes. The Bank is also pursuing its financial literacy programme with the aim of increasing awareness of the public on financial matters.

3.5 Non-Bank Deposit-Taking Sector

The activities of NBDTIs in Mauritius mainly comprise the mobilisation of deposits and extension of leasing and loan facilities. As at end-March 2013, there were eight NBDTIs in operation, representing around 5 per cent of banking sector assets and accounting for around 15 per cent of GDP. Activity in the sector continued to increase during the period under review and was largely supported by growth of total credit.

Balance Sheet Structure

NBDTIs' assets grew by 5.4 per cent as at end-March 2013 compared to 9.4 per cent in the corresponding period of 2012, largely driven by a fall of 13.2 per cent in leasing facilities that was partly offset by a rise of 4.5 per cent in loans. As at end-March 2013, leases and loan facilities accounted for 71.4 per cent of the total assets of NBDTIs. On the liabilities side, deposits, which accounted for 64.1 per cent of the total, registered lower growth of 6.3 per cent as at end-March 2013 compared to an increase of 14.6 per cent recorded a year earlier (Chart 3.34).

Liquidity

NBDTIs have remained relatively liquid during the period under review, with a liquidity ratio above the statutory minimum of 10 per cent. As at end-March 2013, the liquid assets to total assets ratio and the liquid assets to total deposits ratio stood at 14.2 per cent and 22.1 per cent, respectively, and remained almost unchanged compared to the corresponding period of 2012.

Profitability

The NBDT sector proved to be resilient and profitable in 2012, with net profit increasing by 18.4 per cent compared to 20.3 per cent in 2011. Reflecting improvement in financial indicators, NBDTIs' ROA increased to 3.2 per cent in 2012, from 2.7 per cent in 2011, while their ROE improved from 16.0 per cent in 2011 to 17.9 per cent in 2012 (Chart 3.35).

The major sources of NBDTIs' interest income are derived from the extension of loans and leases while interest expense arises mainly on deposits. During the year 2012, interest income contracted by 0.3 per cent as against an expansion of 6.7 per cent in 2011. Interest expense declined by 5.2 per cent in 2012 compared to a contraction of 0.6 per cent in 2011. Consequently, growth of net interest income fell from 19.7 per cent to 7.1 per cent over the same period (Chart 3.36).

Chart 3.34: Y-o-y Growth of Total Assets and Deposits

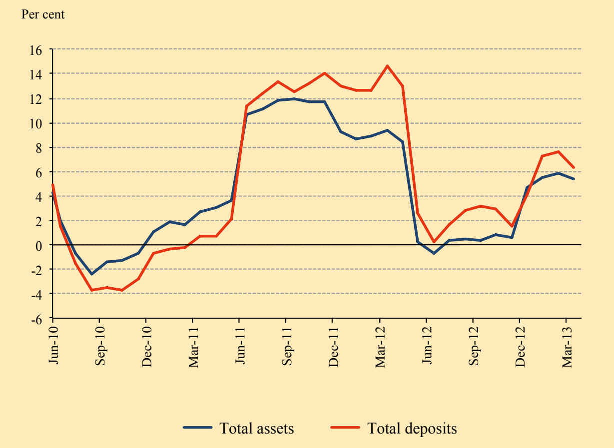


Chart 3.35: ROA and ROE of NBDTIs

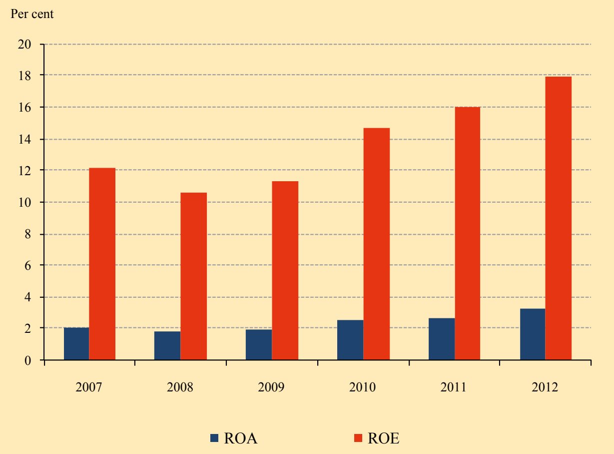
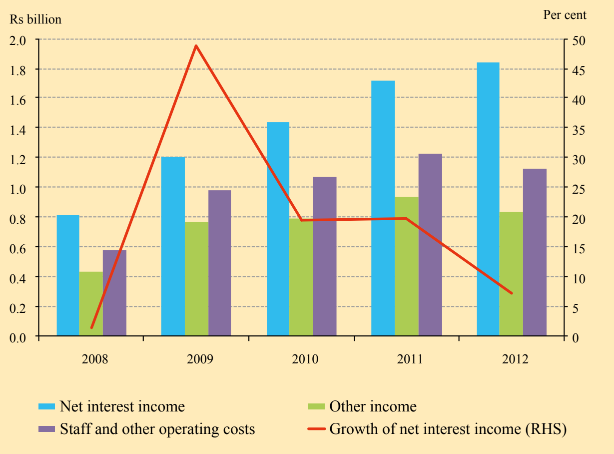


Chart 3.36: Revenue and Expense of NBDTIs



Capital Adequacy

The sector is considered as sound as NBDTIs are well-capitalised, with a CAR of 24.3 per cent as at end-March 2013 compared to 21.8 per cent as at end-March 2012. NBDTIs parked a major portion of their assets in the 50 per cent and 100 per cent risk-weight buckets, which as at end-March 2013 accounted for 43.2 per cent and 23.9 per cent, respectively, of total NBDTIs' assets.

Sectoral Credit

NBDTIs' credit to the private sector represented 13.6 per cent of total private sector credit as at end-March 2013. Credit was channelled mainly to the *'personal'* and *'construction'* sectors, which accounted for 64.8 per cent and 17.7 per cent, respectively, of total NBDTIs' credit. Credit to the *'manufacturing'*, *'tourism'* and *'financial and business services'* sectors collectively accounted for around 6 per cent of total NBDTIs' credit (Chart 3.37).

Growth of credit extended by NBDTIs fell to 7.3 per cent as at end-March 2013, from 10.6 per cent in the corresponding period of 2012. Credit extended to the *'personal'* and *'tourism'* sectors increased over the year to end-March 2013 while credit extended to *'construction'*, *'manufacturing'* and *'financial and business services'* declined over the same period.

Asset quality improved, with the overall ratio of NPL to total NBDTIs' credit standing at 5.5 per cent as at end-March 2013 compared to 7.2 per cent registered in the corresponding period of 2012. Congruent to trends in the banking sector, *'construction'* recorded the highest NPL ratio of 23.9 per cent as at end-March 2013. The *'personal'* sector, to which the largest share of NBDTIs' credit is channelled, recorded NPL ratio of 0.8 per cent. NBDTIs improved their capacity to absorb losses as their coverage ratio increased from 38.5 per cent to 45.7 per cent over the year to end-March 2013 (Chart 3.38).

3.6 Insurance Sector

Insurance penetration[4] in Mauritius was estimated at 6.0 per cent of GDP in 2012. According to latest data available from the FSC, total assets for the life insurance industry increased by 10.0 per cent y-o-y to Rs92.6 billion in 2012. Total net premiums were up by 7.1 per cent to Rs13.5 billion. For the general insurance business sector, total assets and total net premiums increased by 6.4 per cent and 5.7 per cent y-o-y to Rs12.4 billion and Rs3.9 billion, respectively.

The ROA and ROE for the life insurance industry increased noticeably to 92.9 per cent and 9.9 per cent, respectively, in 2012 compared to 54.9 per cent and 5.8 per cent in the previous year (Chart 3.39). The improved performance of the long-term insurance segment was driven by higher returns on securities, an increase in underwriting income and a significant decline in the expense ratio (Chart 3.40).

Chart 3.37: Distribution of Credit to Key Sectors

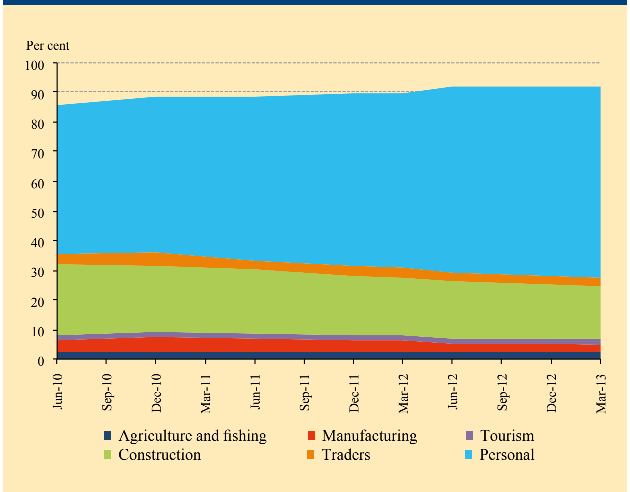
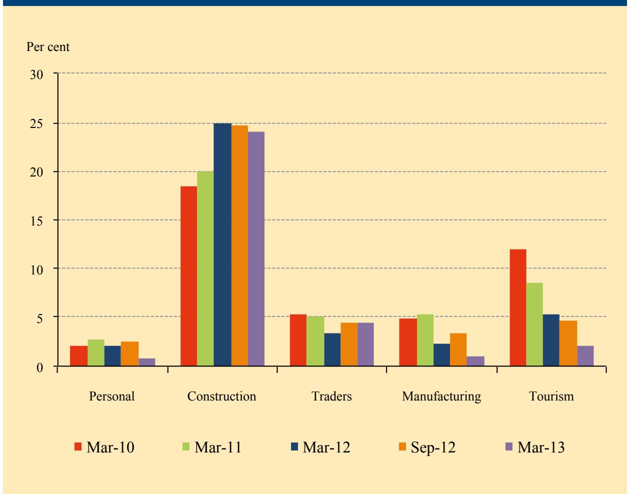


Chart 3.38: NPL as a Ratio of Sectoral Credit



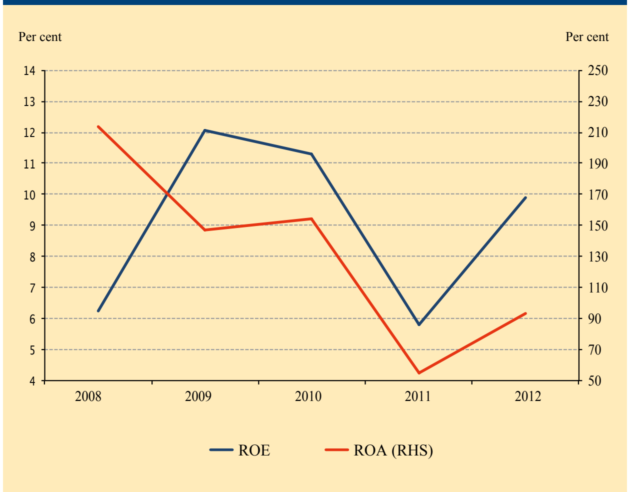
[4] *Penetration is defined as nominal premium volume divided by nominal GDP.*

For the general insurance business sector, the ROA and ROE worked out to 8.4 per cent and 20.1 per cent, respectively, in 2012, down from 10.0 per cent and 22.2 per cent in 2011 (Chart 3.41). Against the backdrop of the prevailing low interest rate environment, investment income dropped substantially for general insurers. It was, however, offset by an increase in underwriting income, resulting in a further improvement in the combined ratio, expressed as a proportion of total revenue over net earned premium, to 84.0 per cent in 2012 compared to 87.2 per cent in 2011 (Chart 3.42). A combined ratio of over 100 per cent indicates that insurers need to increase reliance on investment income to cover underwriting losses.

Latest available data indicate that both the general and long-term insurance industries were solvent in 2012. The average solvency ratio for general insurance improved from 257.9 per cent in 2011 to 318.5 in 2012, and for life insurance, rose from 144.9 to 181.7 over the same period. According to the FSC, the insurance sector as a whole is considered to be well-capitalised and to have adequate buffer to withstand shocks that might affect its soundness. Insurance companies that operate with weak solvency margins are being closely monitored.

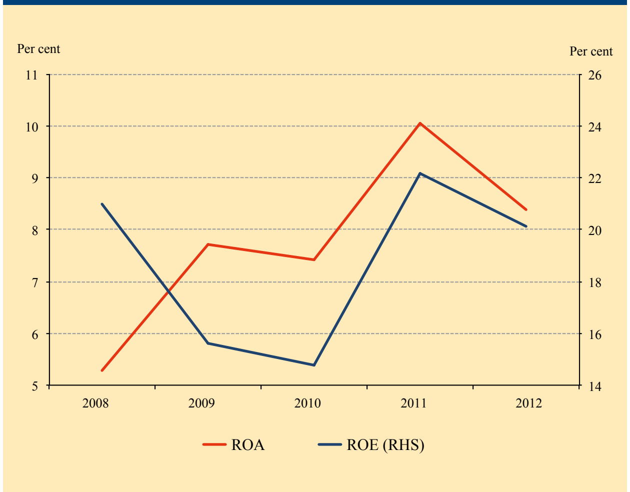
Overall, the insurance sector has performed relatively well in 2012 and has displayed stability and soundness. Following the flash flood of 30 March 2013, most of the big general insurers are expected to recover over 70 per cent of the insured claims from their reinsurers. Hence, claims net of reinsurers are not expected to impact the underwriting profit of the industry in 2013.

Chart 3.39: ROE and ROA for Life Insurance



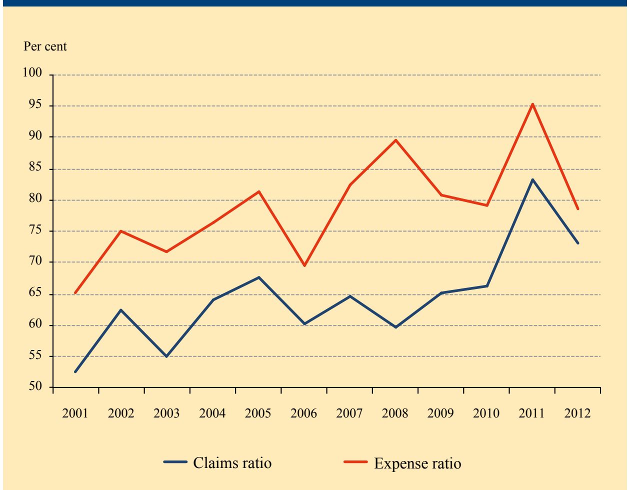
Source: Financial Services Commission.

Chart 3.41: ROE and ROA for General Insurance



Source: Financial Services Commission.

Chart 3.40: Life Insurance Claims and Expense Ratios



Source: Financial Services Commission.

Chart 3.42: General Insurance Combined Ratio

Source: Financial Services Commission.

4. Financial System Infrastructure

During 2013H1, the total value of transactions on the Mauritius Automated Clearing and Settlement System (MACSS) exceeded Rs1 trillion, representing an increase of 15.2 per cent compared to the same period in 2012 (Chart 4.1). All transactions were settled on the system without delay and loss, indicating that MACSS is properly sized to cater for peaks in the volume of transactions.

With regard to availability, MACSS suffered two outages of 30 minutes and 4 hours durations each, owing to failures in network infrastructure. Contingency procedures were immediately deployed and transactions were settled, albeit late, with same day value and without loss. The overall availability of MACSS over the period remained above 99 per cent, indicating that the system's overall resilience remained unaffected.

4.1 Cheque Truncation and Bulk Clearing

Since February 2013, returned cheques are also being cleared electronically at the Port Louis Clearing House. The volume and value of cheques cleared on the system remained stable over the period, with about 20,000 cheques cleared daily for a value of around Rs1 billion. The network infrastructure supporting cheque clearing in truncation mode was adequate to handle the volume of images and the system performed well even during peak periods.

Electronic File Transfer (EFT), which refers to low value retail transactions such as salary payments that are sent to the clearing house in bulk, has been an integral part of the cheque truncation system since its introduction in 2011. In 2013H1, the number of electronic transactions rose by 11.2 per cent while the value of transactions increased by 19.1 per cent compared to 2012H1 to represent 26.7 per cent of the total value of cheques cleared on the system (Chart 4.2). The adoption of electronic clearing in the payments mainstream represents an alternative to cheque payments and contributes towards reducing the risks associated with cheques.

Chart 4.1: Transactions on MACSS

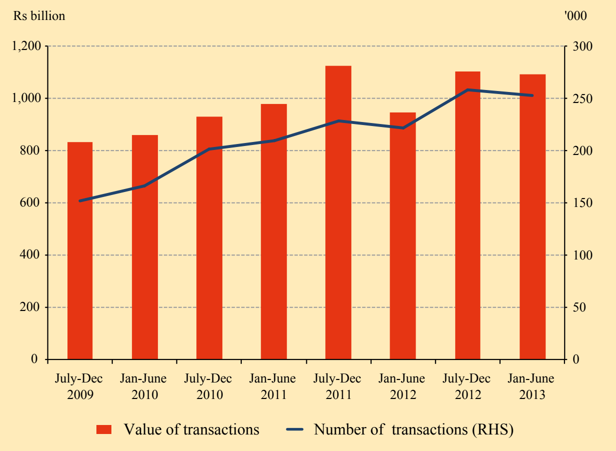


Chart 4.2: Electronic Clearing Transactions

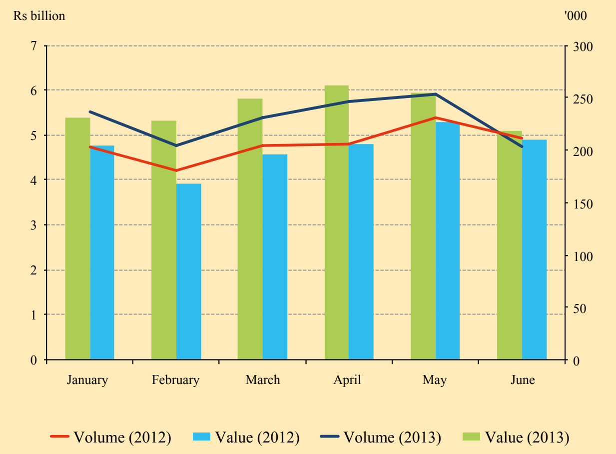


Table 4.1: Breakdown of Returned Cheques

Value range	Below Rs1,000	Rs1,000 - Rs10,000	Rs10,000 - Rs100,000	Rs100,000 - Rs1 million	Rs1 million - Rs10 million	Above Rs10 million
Number	3,295	30,074	26,805	4,867	385	6
Returned cheques as a percentage of total cheques	5.0	46.0	41.0	7.4	0.6	0.0

'Returned cheque' is one factor that may cause cheques to become risky payment instruments. During 2013H1, a total number of 65,432 cheques were returned, representing 2.7 per cent of the total volume of cheques cleared on the system (Table 4.1). Around 92 per cent of returned cheques were below the value of Rs100,000. They were returned mainly due to insufficient funds in the drawers' accounts. The low value of returned cheques compared to the total value of settled cheques does not constitute a significant risk to the system.

4.2 Mauritius Credit Information Bureau

During 2013H1, the MCIB continued its expansion. A third utility service provider was admitted as participant, bringing the total number of participants to 42. The expansion of the participant base resulted in an increase in the number of entities registered in the MCIB Database to 653,058 as at end-June 2013, from 638,227 as at end-December 2012. To further increase the coverage of institutions providing credit in the country and guard against default, procedures have been initiated for the inclusion of cooperative credit unions, telecommunication and internet service providers and private companies offering transmission of television channels by end-2013. The Bank is also exploring the possibility for the MCIB to collect information from consumer credit financing institutions.

When the MCIB became operational in 2005, there was no obligation for banks to report on their Segment B activities. With a view to strengthening the safety and soundness of the banking sector and assess vulnerabilities arising from foreign lending, the Bank decided to make the reporting of Segment B activities to the MCIB mandatory as from 2013.

The MCIB, which is already operating along the lines of the World Bank's General Principles for Credit Reporting, periodically reviews its role in maintaining the robustness of the credit market and preventing adverse selection problems. As from April 2013, the credit history coverage has been extended from two to three years to provide lenders with a better insight of borrowers' account conduct and repayment pattern for a better creditworthiness assessment.

Annex 1: Selected Financial Stability Indicators

Core Set of Financial Soundness Indicators	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Capital Base					
Regulatory capital to risk-weighted assets	16.0%	16.4%	17.2%	17.1%	17.4%
Regulatory Tier 1 capital to risk-weighted assets	14.5%	15.0%	15.7%	15.5%	15.9%
Non-performing loans net of provisions to capital	10.7%	15.8%	14.7%	12.4%	11.8%
Asset Quality					
Non-performing loans to total gross loans	3.0%	3.8%	3.8%	3.6%	3.9%
Sectoral distribution of loans to total loans					
Interbank loans	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*0.5%*
Other financial corporations	*1.3%*	*1.3%*	*1.3%*	*1.2%*	*1.3%*
Non-financial corporations	*32.9%*	*31.9%*	*32.8%*	*32.9%*	*33.5%*
Other domestic sectors	*15.0%*	*19.1%*	*20.2%*	*19.7%*	*20.5%*
Non-residents	*50.5%*	*47.5%*	*45.5%*	*46.0%*	*44.2%*
Earnings and Profitability					
Return on assets	1.5%	1.5%	1.5%	1.4%	1.2%
Return on equity	20.3%	19.6%	19.6%	18.0%	15.7%
Interest margin to gross income	59.7%	63.0%	65.2%	65.7%	69.8%
Non-interest expenses to gross income	33.8%	39.0%	38.6%	38.7%	41.5%
Liquidity					
Liquid assets to total assets	19.1%	14.8%	16.4%	19.1%	19.1%
Liquid assets to short-term liabilities	28.8%	22.6%	25.1%	27.5%	27.9%
Sensitivity to Market Risk					
Net open position in foreign exchange to capital	3.0%	3.8%	3.0%	2.1%	2.2%
Encouraged Set of Financial Soundness Indicators					
Capital to assets	7.1%	7.9%	8.0%	8.5%	8.6%
Value of large exposures to capital	232.7%	220.1%	214.8%	187.2%	171.7%
Customer deposits to total (non-interbank) loans	134.9%	120.1%	124.0%	128.7%	134.2%
Residential real estate loans to total loans	7.2%	7.4%	7.8%	7.9%	7.1%
Commercial real estate loans to total loans	7.6%	7.2%	7.5%	7.4%	7.4%
Trading income to total income	15.9%	10.0%	9.6%	8.7%	3.1%
Personnel expenses to non-interest expenses	53.9%	50.5%	50.2%	50.2%	49.3%

Annex 1: Selected Financial Stability Indicators (Continued)

Macroeconomic Indicators	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Headline inflation	5.9%	5.1%	4.4%	3.9%	3.6%
Year-on-year inflation	3.8%	3.9%	3.9%	3.2%	3.6%
Key Repo Rate (end of period)	4.90%	4.90%	4.90%	4.90%	4.90%
Total public sector debt/GDP (end of period)	58.4%	58.6%	58.2%	57.7%	57.9%
Total external public sector debt/GDP (end of period)	12.8%	13.4%	13.6%	13.4%	13.7%
Import coverage of Gross International Reserves (No. of months)	4.3	4.6	4.7	4.9	5.2
Deposits/Broad Money Liabilities*	93.5%	93.6%	93.6%	93.0%	93.0%
Household debt/GDP (end of period)**	17.7%	18.3%	18.9%	19.2%	19.5%
Corporate debt/GDP (end of period)**	50.3%	52.1%	52.0%	53.3%	52.6%
	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1
Real GDP growth***	3.1%	3.2%	3.5%	3.5%	3.7%
Unemployment rate	8.0%	8.2%	7.9%	7.8%	8.7%
Current account deficit/GDP	5.3%	10.3%	12.9%	12.3%	8.2%

** Banks deposits excluding GBLH deposits, deposits from non-residents, government deposits, and deposits from banks inside and outside Mauritius.*
*** Debt contracted with banks only.*
**** Percentage change over corresponding period of previous year.*

1. *Financial Stability Indicators are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide of the IMF. Figures may be slightly different from other parts of this Report.*
2. *As from June 2012, figures include NBDTIs.*
3. *Total loans include advances to non-residents.*
4. *Figures may not add up due to rounding.*

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Glossary

BoE	Bank of England
BoJ	Bank of Japan
CAMEL	Capital, Asset, Management, Earnings and Liquidity
CAR	Capital Adequacy Ratio
ECB	European Central Bank
EFT	Electronic File Transfer
Fed	Federal Reserve
FSC	Financial Services Commission
FSR	Financial Stability Report
GBC1s	Global Business Companies
GBLH	Global Business Licence Holders
GDP	Gross Domestic Product
H1	First Semester
HHI	Herfindahl-Hirschman Index
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MACSS	Mauritius Automated Clearing and Settlement System
MCIB	Mauritius Credit Information Bureau
MERI	Mauritius Exchange Rate Index
NBDTIs	Non-Bank Deposit-Taking Institutions
NPL	Non-Performing Loans
OIS	Overnight Indexed Swap
ORR	Operation Reserves Reconstitution
PE	Price Earnings
PRA	Prudential Regulatory Authority
Q1	First Quarter
ROA	Return on Assets
ROE	Return on Equity
SEM	Stock Exchange of Mauritius
WEO	World Economic Outlook
Y-o-y	Year-on-year

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