



BANK OF MAURITIUS

Guideline on Cash Reserve Requirement

24 February 2023

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1. Introduction

The Cash Reserve Requirement (CRR) is a tool used for both prudential and liquidity management by the Bank of Mauritius (Bank). It refers to the minimum amount of cash that banks must keep at the Bank in line with their deposit liabilities. The CRR helps to control liquidity in the banking system, while contributing to keep liquidity buffers for financial stability purposes.

Purpose

The purpose of this Guideline is to provide the necessary guidance to banks to ensure that they comply with the CRR.

Authority

This Guideline is issued under the authority of Section 49 and Section 50 of the Bank of Mauritius Act 2004.

Scope of Application

This Guideline applies to all banks licensed under the Banking Act 2004.

Effective date

This Guideline shall come into effect on 24 February 2023.

Interpretation

In this Guideline,

“Authorised Company” has the same meaning as in the Financial Services Act 2007.

“Bank” means the Bank of Mauritius established under the Bank of Mauritius Act 2004.

“bank” has the same meaning as in the Banking Act 2004.

“central government” refers to those government units that exercise legislative, judicial, or executive authority over other institutional units within a specified area. The government units subsector is made up of (i) budgetary central government, (ii) extra-budgetary units and (iii) social security funds (e.g. National Pensions Fund).

“Euro Short Term Rate” means the rate which reflects the wholesale euro unsecured overnight borrowing costs of banks in the euro area.

“Global Business Corporation” has the same meaning as in the Financial Services Act 2007.

“nonresidents” means affiliated foreign financial corporations, including associated companies, fellow subsidiaries and parents, unaffiliated foreign financial corporations, including unrelated overseas correspondents, foreign governments, non-financial corporations, households and non-profit institutions serving households (NPISHs) having their main economic centre of interest in a country

other than Mauritius, as well as foreign embassies and consulates in Mauritius, and offices of international organisations located in Mauritius.

“Overnight Deposit Facility” means the standing deposit facility that the Bank offers to banks at their discretion on an overnight basis at the “Key Rate” minus 100 basis points.

“Overnight Lending Facility” means the standing facility that the Bank makes available to banks at their discretion on an overnight basis at the “Key Rate” plus 100 basis points.

“residents” means institutional units and/or individuals who have engaged in economic activities and transactions on a significant scale in the territory of the Republic of Mauritius for one year or more, or intend to do so. They include banks, non-bank deposit taking institutions, other financial corporations, central government, state and local government, public nonfinancial corporations, other nonfinancial corporations, households and NPISHs.

“sectoral balance sheet” refers to the assets and liabilities of banks disaggregated information by type of financial instrument, currency, and counterpart sector, in line with accrual accounting principles.

“Secured Overnight Financing Rate” is a broad measure of the cost of borrowing US dollar cash overnight, collateralized by US Treasury securities.

“state and local government” typically provide a wide range of services to local residents, some of which may be financed from higher levels of government. They cover units like municipalities, districts, cities, towns, villages and the administration of Rodrigues.

“Sterling Overnight Index Average” refers to the average interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

2. Cash Reserves Requirement

2.1. Statutory Requirement

Section 49 of the Bank of Mauritius Act provides that the Bank may require all banks to maintain minimum cash balances up to 25 per cent of each bank’s total deposit and other liabilities as the Bank may specify.

2.2. Minimum Cash Reserve Requirement

On average, over the maintenance period as defined below, banks shall maintain minimum cash balances equivalent to 9.0 per cent (hereinafter referred to as the “Cash Reserve Ratio”) of their average rupee (MUR) and foreign currency (FCY) deposits in the preceding 28-day period. The Cash Reserve Ratio shall be subject to review by the Bank as and when required.

2.3. Maintenance period

Banks shall maintain cash balances at the Bank during a maintenance period of 28 days. The 28-day maintenance period shall start on a Friday, as specified by the Bank, and end on a Thursday, and shall include public holidays, bank holidays as well as weekends.

2.4. Eligible Cash Balances

- 2.4.1. Cash balances held by banks with the Bank, excluding balances held in the Overnight Deposit Facility, shall be eligible towards meeting the CRR.
- 2.4.2. For foreign currency deposits denominated in US dollar (USD), Pound sterling (GBP) and Euro (EUR), the maintenance of cash balances shall be in accordance with the respective currency composition of the deposit liability.
- 2.4.3. The Bank may, in special circumstances, agree for a bank to maintain the required cash balances in relation to USD, GBP and EUR deposits in either of these three currencies.
- 2.4.4. The maintenance of cash balances with regard to deposit liabilities denominated in foreign currencies other than USD, GBP and EUR shall be in USD equivalent terms.

2.5. Eligible Deposit Liabilities

- 2.5.1. The eligible deposit liabilities of a bank shall be based on sectoral balance sheet reporting.
- 2.5.2. Both rupee and foreign currency deposit liabilities, as specified below, shall be subject to the CRR.

2.5.2.1. Rupee deposits

All rupee deposits of residents, nonresidents, Global Business Corporations and Authorised Companies.

2.5.2.2. Deposits denominated in foreign currencies

All foreign currency deposits of residents.

Foreign currency deposits of nonresidents, Global Business Corporations and Authorised Companies shall not be subject to the CRR.

3. Compliance with CRR

A bank shall be deemed to be compliant with the CRR if, on average, cash balances kept at the Bank equal or exceed the minimum CRR during the maintenance period.

4. Infringement

Pursuant to Section 49(6) of the Bank of Mauritius Act, the Bank may impose on any bank which fails to maintain the minimum balances required under this section a penalty charge at such rate of interest, which shall not be more than 3 times the prevailing published interest rate on advances to banks in accordance with section 8 of the Bank of Mauritius Act, as the Bank may determine from time to time

calculated on the deficiency for so long as the failure continues and such charge may be recovered by deduction from any balance of, or money owing to, the bank concerned, or as if it were a civil debt.

For the purpose of Section 49(6) of the Bank of Mauritius Act, the applicable interest rates for the computation of the penalty charge for any shortfall in MUR, USD, GBP and EUR cash balances during a maintenance period shall be as follows:

- MUR – Overnight Lending Facility Rate.
- USD – Secured Overnight Financing Rate.
- GBP – Sterling Overnight Index Average.
- EUR – Euro Short Term Rate.

The Bank shall inform a bank, in writing, of any shortfall in failing to maintain the minimum cash balances, the period during the shortfall occurred, and the penalty charge being imposed by the Bank.

The bank shall arrange to pay through the Mauritius Automated Clearing and Settlement System the penalty charge to the Bank within two working days.

5. Transitional Arrangements

In order to allow banks to transition to sectoral balance sheet reporting, Section 2.5 of this Guideline shall be fully implemented within 6 months of the effective date (the 'transitional period').

6. Repeal

Following the transitional period, Section 5.0 of the Guideline on 'Segmental Reporting under a Single Banking Licence Regime' shall be repealed and the said Guideline shall stand amended accordingly.

BANK OF MAURITIUS