3. Debt Indicators of Households and Corporations

3.1 Households

Growth of household indebtedness, as measured by the growth of bank credit to households, decelerated rapidly during the second half of 2014. Bank credit to households, particularly consumption credit grew at relatively high double-digit growth rates during 2013, before registering a marked slowdown in recent months. Growth rates of consumption credit are about those registered in mid-2012, while those of housing credit are even lower than the growth rates registered during the heights of the global financial crisis (2007/09). Housing credit represents around 60 per cent of total bank credit to households. Consumption loans represent the remaining 40 per cent of total bank credit to households.

Household indebtedness has remained broadly constant as a share of household disposable income over the 12-month period to end-September 2014, although it gradually increased between 2009 and 2012 (Chart 3.2). The recent stability of the household indebtedness ratio is consistent with an average growth rate of disposable income of about 7 per cent during the period, and the reported slowdown in the growth of consumption and housing loans to households.

Broadening the definition of household's debt to include borrowing from banks and non-bank financial institutions (i.e., insurance companies) does not change the perceived trends in the household debt ratio (Chart 3.3). The broader definition of household debt to disposable income increased marginally from 56.8 per cent as at end-September 2013 to 58.0 per cent as at end-September 2014, while that of the narrow definition of household indebtedness (only bank credit) increased from 53.0 per cent to 54.5 per cent over the same period. Insurance companies generally extend mortgage loans to households.

The ratio of household debt to disposable income in Mauritius is relatively low by international standards. In Mauritius, the referred ratio is significantly lower than in New Zealand, South

Chart 3.1: Y-o-y Growth of Housing and Consumption Credit

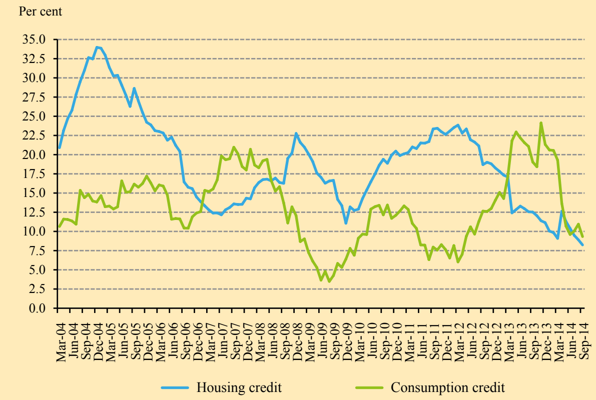


Chart 3.2: Household Debt to Disposable Income

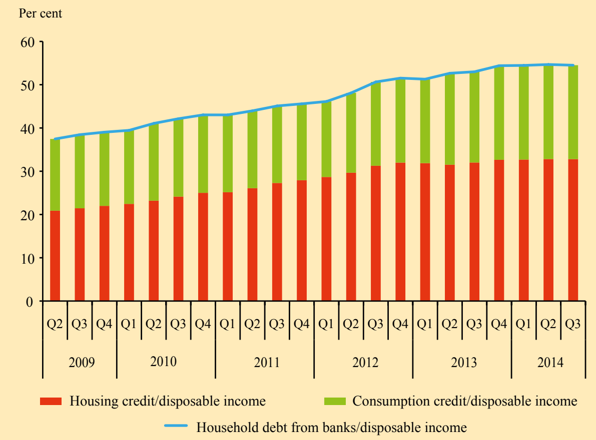
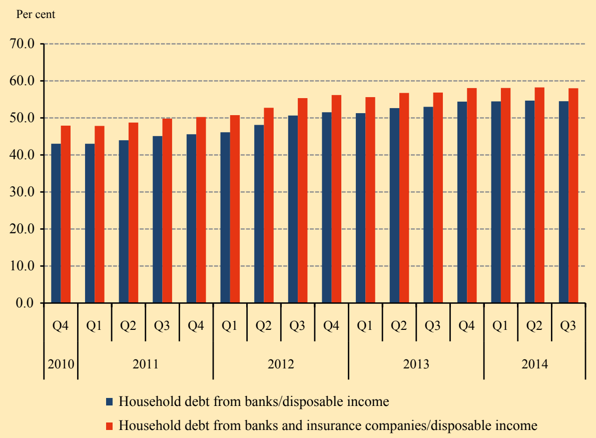


Chart 3.3: Alternative Estimates of Household Indebtedness Ratio

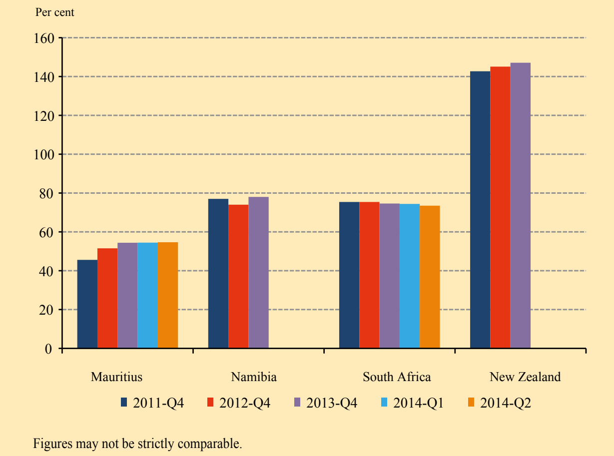


Africa and Namibia, for instance (Chart 3.4). However, international comparisons are not straightforward, as some countries may capture more comprehensive funding information of household indebtedness than in the case of Mauritius.

Debt Service Ratio

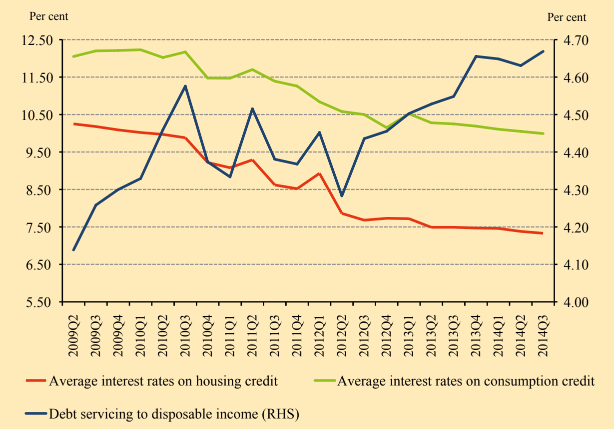
Households' debt service ratio, as measured by the households' financial burden[3] as a share of disposable income, has been gradually increasing during the last five years, but remains low by international standards (Charts 3.5 and 3.6). The financial burden increased from an equivalent of about 4 per cent of disposable income in early 2009 to about 4.5 per cent by end-September 2014. The increase in the debt service ratio has taken place against the background of generally declining interest rates. On a cross-country basis, households' debt service costs in Mauritius are significantly lower than in comparator countries.

Chart 3.4: Household Indebtedness in Selected Countries



Sources: Various central banks' FSR and Bank of Mauritius staff estimates.

Chart 3.5: Household Debt Service Cost and Interest Rates



Source: Bank of Mauritius staff estimates.

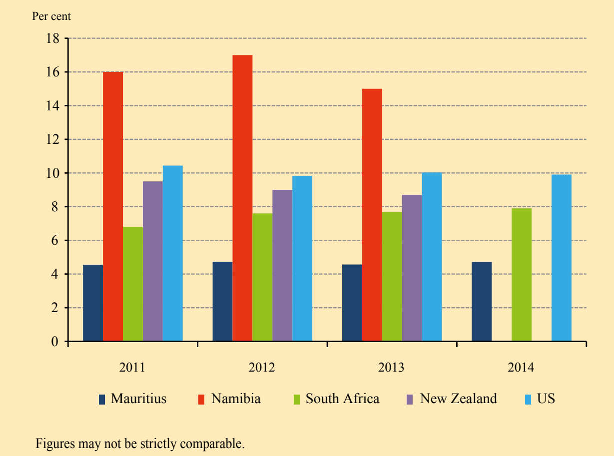
[3] *Amortization and interest payments due.*

3.2 Corporations

Corporate debt - as measured by domestic bank credit to corporates and corporates' external financial liabilities - declined in nominal terms during the first three quarters of 2014 (Table 3.1). Corporate debt had been equivalent to about 57 per cent of GDP during 2011-13, before gradually declining to about 53 per cent of GDP as at end-September 2014. The decline in corporate debt has mainly mirrored a contraction in corporates' domestic debt, while corporates' external debt has hovered around an equivalent 5 per cent of GDP.

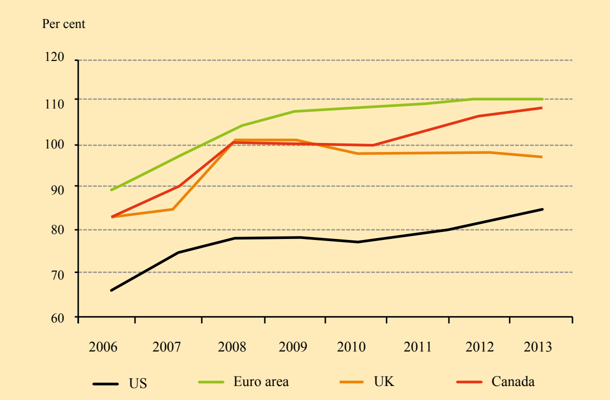
The level of corporate debt in Mauritius (as a share of GDP) is lower than the level in advanced economies and in regional comparators, except for Namibia (Charts 3.7 and 3.8). In advanced economies, corporate debt to GDP ratios (averaging 80 per cent of GDP) have either shown broad stability or marginal increases in the aftermath of the global financial crisis. At a regional level, the observed declining trend in the ratio of corporate debt to GDP contrasts with the increasing trend of South Africa's ratio, for example.

Chart 3.6: Household Debt Service Cost in Selected Countries



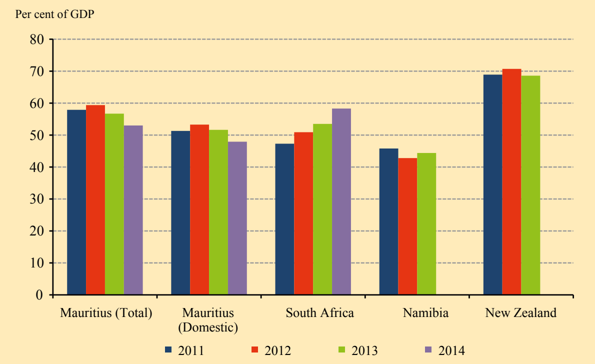
Sources: Various central banks' FSR and Bank of Mauritius staff estimates.

Chart 3.7: Advanced Economies: Corporate Debt to GDP Ratio



Sources: International Monetary Fund and Bank for International Settlements.

Chart 3.8: Other Country Comparators: Corporate Debt to GDP Ratio



1. Mauritius (Total) includes credit extended by banks to corporates and corporates' external debt.
2. Mauritius (Domestic) includes credit extended by banks to corporates only.
3. For 2014, data for Mauritius and South Africa relates to the third quarter and second quarter, respectively.
4. Figures may not be strictly comparable.

Sources: Various central banks' FSR and Bank of Mauritius staff estimates.

Table 3.1: Domestic and External Debt of Corporates

	2011	2012	2013		2014		
	4th Quarter	4th Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter*
					Rs million		
Total Corporate Debt	187,640	204,863	207,677	208,477	207,768	205,238	203,028
Corporate External Debt	21,929	21,680	19,389	19,367	18,871	19,475	20,205
Short Term[1]	*3,086*	*3,534*	*3,922*	*4,051*	*4,080*	*4,117*	*4,149*
Long Term[2]	*18,843*	*18,146*	*15,467*	*15,315*	*14,791*	*15,358*	*16,056*
Corporate Domestic Debt	165,711	183,183	188,288	189,110	188,897	185,763	182,823
					Per cent of total corporate debt		
Total Corporate Debt	100	100	100	100	100	100	100
Corporate External Debt	11.7	10.6	9.3	9.3	9.1	9.5	10.0
Short Term[1]	*1.6*	*1.7*	*1.9*	*1.9*	*2.0*	*2.0*	*2.0*
Long Term[2]	*10.0*	*8.9*	*7.4*	*7.3*	*7.1*	*7.5*	*7.9*
Corporate Domestic Debt	88.3	89.4	90.7	90.7	90.9	90.5	90.0
					Per cent of GDP		
Total Corporate Debt	58.1	59.6	57.6	56.9	56.0	54.4	53.2
Corporate External Debt	6.8	6.3	5.4	5.3	5.1	5.2	5.3
Short Term[1]	*1.0*	*1.0*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*
Long Term[2]	*5.8*	*5.3*	*4.3*	*4.2*	*4.0*	*4.1*	*4.2*
Corporate Domestic Debt	51.3	53.3	52.2	51.6	50.9	49.2	47.9
Memo item: GDP (Rs million)	323,010	343,833	360,402	366,228	370,884	377,256	381,464

** Provisional.*

1. Refers mainly to trade credit as recorded in BoP statistics.

2. Excluding loans of Global Business Companies.

Sources: Mauritius SDDS country page and Bank of Mauritius.

The decline in corporate domestic debt (as a share of GDP) has been generally broad-based (Table 3.2 and Charts 3.9 & 3.10). All leading sectors in the Mauritian economy namely tourism, construction, manufacturing, traders and financial services registered a decline in their respective credit to GDP ratios, suggesting slack actual and potential growth in economic activity. These sectors, in aggregate, account for a large portion of GDP and total bank credit. Notwithstanding its decline as a share GDP, credit to traders has shown a growth spike in recent months.

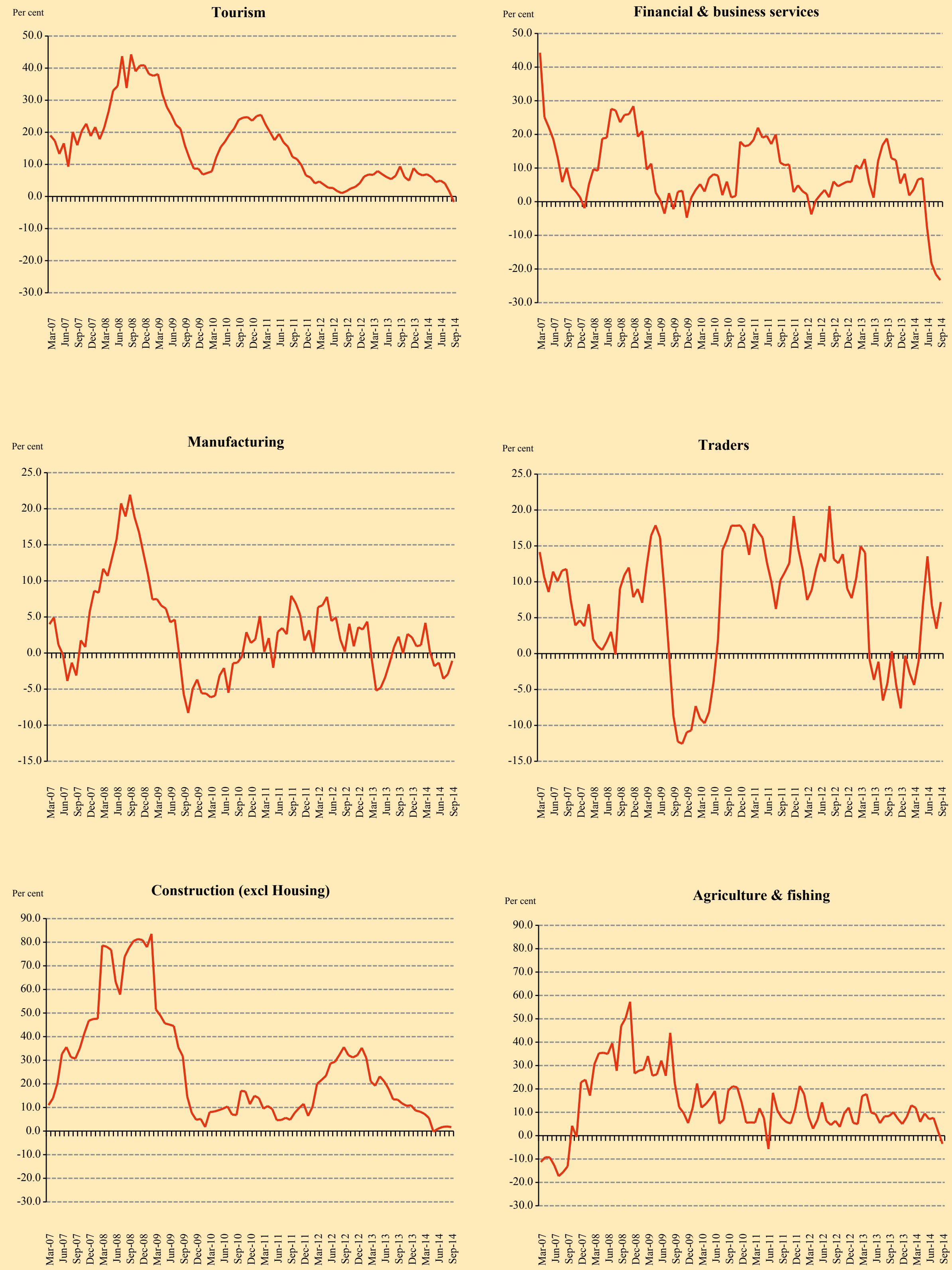
The decline in corporate indebtedness signals financial stress in leading financial enterprises, albeit with some differences across economic sectors (Table 3.3). While all leading sectors remain significantly leveraged, traders and financial services may be fairing marginally better than tourism, construction and real estate sectors. Indeed, tourism, construction and real estate (representing, in total, some 40 per cent of total bank credit to corporates) have witnessed a sharp decline in their return-to-equity (ROE) ratios that was sharper than the decline in the cost of debt between 2005-10 and 2011-13. By contrast, traders have benefitted from an increase in their ROE ratio that further profited from a decline in the cost of debt. Enterprises in the financial services sector registered an increase in ROE that was higher than the increase in the cost of their debt.

Table 3.2: Distribution of Credit to the Private Sector

	2005-2011	2012-14	2013-14
Per cent of GDP			
Total credit to private sector	**65.3**	**73.4**	**72.8**
Corporates	**47.0**	**51.6**	**50.6**
Construction	*5.0*	*8.0*	*8.0*
Tourism	*11.1*	*13.0*	*13.0*
Traders	*8.5*	*8.2*	*8.0*
Financial services	*7.3*	*7.3*	*7.0*
Manufacturing	*6.4*	*5.2*	*5.1*
Agriculture & Fishing	*4.4*	*5.1*	*5.1*
Other	*4.4*	*4.8*	*4.4*
Households	**14.8**	**20.2**	**20.8**
Consumption credit	*6.4*	*7.9*	*8.3*
Housing	*8.4*	*12.2*	*12.5*
(Average annual growth rates; in per cent)			
Total credit to private sector	**12.0**	**6.9**	**4.9**
Corporates	**12.8**	**4.7**	**2.7**
Construction	*26.9*	*12.8*	*6.4*
Tourism	*18.3*	*6.2*	*6.9*
Traders	*9.5*	*2.6*	*0.5*
Financial services	*14.3*	*1.9*	*0.5*
Manufacturing	*3.7*	*2.2*	*1.7*
Agriculture & Fishing	*12.9*	*9.0*	*8.0*
Other	*11.8*	*-3.0*	*-9.6*
Households	**14.9**	**13.7**	**12.7**
Consumption credit	*11.4*	*16.1*	*16.7*
Housing	*17.6*	*12.2*	*10.2*

Source: Bank of Mauritius.

Chart 3.9: Y-o-y Growth of Corporate Credit



High frequency data point to the ongoing deleveraging in the construction sector, while leverage ratios (i.e., the ratio of total assets to equity) in the tourism and traders sectors have remained unchanged or even increased in recent years (Chart 3.11). After a rise in 2011, the leverage ratio of construction sector has gradually declined, possibly related to the completion of some large projects, although it remains very high by international standards. Yet, according to the national accounts data, investment in construction activity continues to decline, thus suggesting that the sector's leverage ratios remain a challenge, while there is limited demand for new housing and commercial construction.

Table 3.3: Risk Analysis of Leading Enterprises in Mauritius Listed on the Stock Exchange of Mauritius

	2005-2010 (1)	2011-2013 (2)	% Change (2)/(1)
Construction & Real Estate			
Return on Assets	*4.44%*	*3.80%*	*-14.5*
Return on equity	*9.34%*	*7.23%*	*-22.6*
Cost of debt	*7.78%*	*6.75%*	*-13.3*
Leverage (Debt-to-equity)	*55.5%*	*41.1%*	*-25.9*
Leverage (Total assets-to-equity)	*192.8%*	*163.1%*	*-15.4*
Debt service capacity	*1.34*	*1.69*	*26.2*
Tourism			
Return on Assets	*4.40%*	*0.53%*	*-87.8*
Return on equity	*12.92%*	*1.39%*	*-89.2*
Cost of debt	*6.61%*	*5.61%*	*-15.2*
Leverage (Debt-to-equity)	*82.3%*	*129.2%*	*57.0*
Leverage (Total assets-to-equity)	*213.4%*	*262.6%*	*23.1*
Debt service capacity	*1.28*	*0.60*	*-53.0*
Traders			
Return on Assets	*3.99%*	*5.56%*	*39.6*
Return on equity	*9.36%*	*10.46%*	*11.7*
Cost of debt	*9.69%*	*6.58%*	*-32.1*
Leverage (Debt-to-equity)	*47.3%*	*47.4%*	*0.3*
Leverage (Total assets-to-equity)	*176.0%*	*189.7%*	
Debt service capacity	*1.43*	*1.29*	*-9.8*
Financial services			
Return on Assets	*7.35%*	*6.13%*	*-16.6*
Return on equity	*9.29%*	*11.77%*	*26.7*
Cost of debt	*8.54%*	*10.08%*	*18.0*
Leverage (Debt-to-equity)	*108.8%*	*109.3%*	*0.4*
Leverage (Total assets-to-equity)	*115.3%*	*167.0%*	*44.8*
Debt service capacity	*3.68*	*2.12*	*-42.3*

Note:

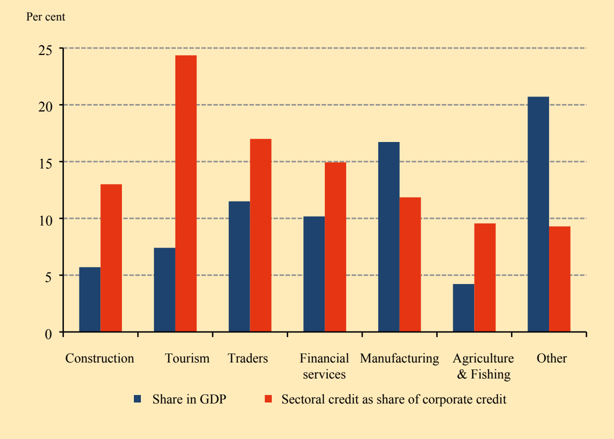
[1] Cost of debt: interest expense-to-total debt.

[2] Debt service capacity: Earnings before interest, taxes, depreciation and amortisation-to-interest expense.

Sources: Thomson Reuters and Bank of Mauritius staff calculations.

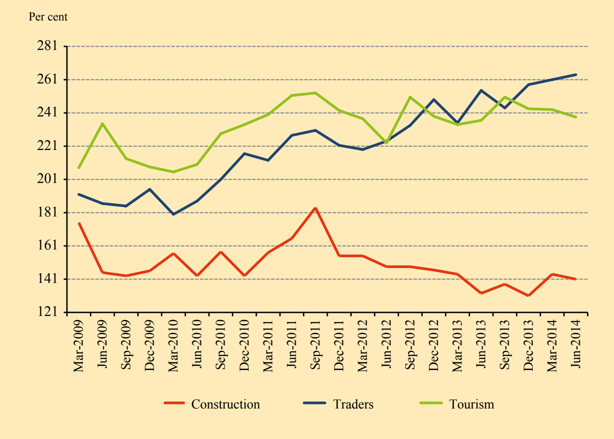
Comparison of financial fundamentals of local corporates with those of corporates in other middle income countries warrants monitoring (Table 3.4). Local enterprises' fundamentals compare poorly against those of corporates around the world, especially in terms of leverage ratios and debt service capacity (i.e., earnings before interest, taxes, depreciation and amortisation, as a ratio to interest expense).

Chart 3.10: Importance of Selected Sectors in GDP and in Total Corporate Credit (2007-2014)



Sources: Bank of Mauritius and Statistics Mauritius.

Chart 3.11: Leverage Ratio of Leading Economic Sectors



Sources: Thomson Reuters and Bank of Mauritius staff calculations.

Table 3.4: Fundamentals of Corporates: International Comparison [1]

	Mauritius		Latin America[2]	Asia[3]	Europe, Middle East and Africa[4]
	2005-2011	2011-2013			
Return on Assets					
Simple average	5.04%	4.01%	3.85%	3.23%	3.30%
GDP weighted average	1.79%	1.52%			
Return on equity	10.23%	7.71%	…	…	…
Cost of debt	8.16%	7.26%	…	…	…
Leverage[5]	73.5%	81.7%	62.75%	37.83%	42.75%
Debt service capacity	1.93	1.42	4.48	6.73	5.60

[1] *GFSR data for Latin America, Asia, Europe, Middle East and Africa are based on 2013 financial statements.*

[2] *Average for Argentina, Brazil, Chile and Mexico.*

[3] *Average for China, India, Indonesia, Malaysia, Philippines and Thailand.*

[4] *Average for Poland, Russia, South Africa and Turkey.*

[5] *Leverage: debt-to-equity.*

Sources: Thomson Reuters, IMF GFSR Oct 2014 and Bank of Mauritius staff calculations.