BANK OF MAURITIUS

Public Notice

13 May 2016

Double Tax Avoidance Agreement Between Mauritius and India

1. The Bank of Mauritius (Bank) has taken note of the signing of a Protocol for the amendment of the Double Tax Avoidance Agreement (DTAA) between Mauritius and India on 10 May 2016.

2. Following concerns expressed in the media and in certain quarters regarding the likely impact of the revision of the DTAA between Mauritius and India, the Bank wishes to highlight some recent trends in the evolution of the robustness of the domestic banking system for the benefit of the public:

    a. Since India decided in 2012 to implement the General Anti-Avoidance Rule (GAAR) provisions, domestic banks had started diversifying their deposit portfolios and reducing reliance on businesses with India.

    b. The Bank has since been closely monitoring the initiatives taken by the banking industry to enhance its resilience to shocks stemming from external market environment, including from its exposure to India.

    c. In 2015, the Bank, as the regulatory authority of deposit-taking institutions in Mauritius, reiterated the continuing need for banks to further diversify their asset portfolios with a view to mitigating excessive reliance on treaty-dependent advantages. Banks doing business with India-related Global Business Companies (GBCs) reinforced their initiatives regarding risk mitigation and market diversification.

    d. The chief concern of the Bank is the potential impact on the liquidity position of international banks exposed to GBCs doing businesses with India. The public is informed that the Bank had, for years, set down prudential norms on liquidity risk that banks have been observing.

    e. In line with the Guideline on Liquidity Risk Management, banks have to establish and implement prudent liquidity management policies. Banks are required to have adequate liquidity buffers, including readily accessible lines of credit, to meet unexpected liquidity-stressed situations. Most banks have committed lines of credit with foreign banks to meet any contingency arising out of liquidity-stressed situations.

f. Importantly, the Bank requires banks to carry out regular stress testing on, inter alia, liquidity and credit. Banks use various scenarios for the stress tests. Volatility of GBC deposits, including those stemming from the revision of the DTAA, is also factored in.

g. The banking industry in Mauritius is well capitalised with a capital adequacy ratio of 17.8 per cent in December 2015 against a minimum of 10 per cent. Banks dealing with the GBC sector also have comfortable capital buffers, standing at 18.3 per cent in December 2015. The strong capital base of international banks gives additional comfort regarding their capacity to withstand adverse shocks.

h. The Governor of the Bank met with the Chief Executive Officers (CEOs) of systemically important banks over the last two days to take stock of the situation following the signing of the Protocol. It is comforting to note that the systemically important banks, including the two largest domestic banks, do not have consequential India DTAA-related liquidity concerns. Nearly all of the 22 banks operating in our jurisdiction have drastically reduced their exposure to liquidity risks arising from India-DTAA related activities. The domestic foreign exchange market has remained flushed with foreign currencies.

i. The Governor's meetings with the CEOs of banks bear out that a revision of the DTAA will have mitigated impact on our banking industry in the foreseeable future. However, in the years ahead, the mass of businesses generated in our jurisdiction could suffer should there be a failure to take imaginative actions to review, alter and innovate the business model that the sector has embraced for years.

j. The last Financial Sector Assessment Programme (FSAP) conducted by the IMF and the World Bank in November 2015 stress-tested the banking sector resilience to liquidity shocks arising from significant outflows of GBC deposits in case of an unfavourable DTAA re-negotiation. The result revealed that the banking sector can withstand significant withdrawals.