# Financial Stability Report

December 2025

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

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

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

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# Executive summary

## Global developments

The global economy was resilient in the first half of 2025, supported by investment and trade flows. Businesses accelerated cross-border trading activities ahead of anticipated policy changes, offsetting weaker household consumption in both advanced and emerging markets. Monetary policy easing and improved financial conditions supported economic growth as inflation continued to decline, albeit unevenly across regions. According to the International Monetary Fund (IMF) in its October 2025 World Economic Outlook, global growth was projected at 3.2 per cent for 2025, reflecting stronger-than-expected investment and trade flows.

Inflation continued to moderate globally, with headline inflation projected to fall to 4.2 per cent in 2025, though remaining above the inflation target in some economies. Core inflation eased significantly in advanced economies, while tariff effects and currency movements kept inflation slightly elevated in the United States. Monetary policy was broadly accommodative as major central banks resumed interest rate cuts with slowing inflation, while emerging markets benefited from a weaker US dollar and improved financial conditions. Fiscal policy remained expansionary, notably in the US following the enactment of the One Big Beautiful Bill Act, though rising debt levels and higher deficits have heightened concerns over long-term fiscal sustainability and amplified market volatility.

Financial conditions eased markedly in early 2025, aided by a weaker US dollar, buoyant equity markets and tighter credit spreads. Banks remained well-capitalised and liquid, with asset quality broadly stable. Yet, vulnerabilities persisted. Renewed escalation in tariffs could trigger sharp repricing in risk assets, while high corporate leverage and inventory overhangs posed risks to earnings and creditworthiness.

Household balance sheets strengthened as interest rate cuts reduced debt servicing burdens and labour markets stayed firm. Nonetheless, consumption patterns reflected caution, with households rebuilding savings amid uncertainty. While systemic risks from households stayed low, any reversal in employment trends or tightening in financial conditions could amplify vulnerabilities.

The near-term outlook for global financial stability was broadly favourable, supported by easing monetary policy and resilient banking systems. However, structural risks intensified. Climate-related shocks and cyber threats emerged as systemic challenges, with the potential to disrupt markets and payment systems.

## Domestic developments

Macrofinancial conditions in Mauritius were broadly stable in the first half of 2025, despite emerging pressures. The country maintained its Investment Grade sovereign rating from Moody's, with negative outlook as from February 2025. Concerns over debt sustainability tempered earlier optimism and weighed on economic sentiment. Fiscal consolidation measures were announced in the National Budget 2025-2026 with the aim to restore credibility and mitigate vulnerabilities, which are expected to support macrofinancial stability.

The economy continued to expand, though at a relatively slower pace. In real terms, the economy grew by 4.0 per cent in the first quarter and 3.1 per cent in the second quarter of 2025. Sectoral performance diverged as activities in the *Construction* sector contracted amid weak investment, whilst *Agriculture, forestry and fishing* and *Public administration* sectors expanded strongly and supported economic growth. Inflation dynamics were mixed, with headline inflation declining to 2.5 per cent in March before rising to 2.9 per cent in June, largely due to tax measures.

Activities in the tourism industry were volatile. The *Accommodation and food services* sector contracted in the first quarter of 2025 but rebounded strongly in the second quarter, reflecting improved external demand. Moreover, tourism arrivals for 2025 exceeded the number of arrivals of 2024, with positive implications on tourism-related activities.

Labour market conditions were broadly stable, with unemployment edging up to 5.9 per cent in June 2025 from 5.7 per cent in December 2024. Participation rates were steady at around 58 per cent, while wages rose by 6.7 per cent on annual basis, supporting household resilience and debt repayment capacity. Continued wage growth and stable employment have helped to restrain household sector risks despite modest labour market pressures.

Risks from the household sector increased moderately in the first half of 2025, driven by increasing borrowing, relatively higher debt servicing costs and persistent rise in residential property prices. Household credit growth remained strong, particularly for housing and motor vehicle loans, while property prices outpaced economic fundamentals, raising concerns about affordability and possibly stretched valuation. Although asset quality indicators were stable, debt service burden reached multi-year highs, signalling growing pressure on household finances. Macroprudential safeguards, prudent lending standards and continued income growth helped contain systemic risk.

The business environment was broadly sound supported by resilient earnings and historically low leverage, despite a rise in credit risk. Vulnerabilities intensified as credit risk for the sector rose to 6.5 per cent in June 2025, from 3.6 per cent in December 2024, reflecting sector-specific strains in *Agriculture, Forestry and Fishing*, *Real Estate Activities* and *Financial Services* sectors. The corporate credit cycle was on an upward trend, as bank credit to businesses continued to grow strongly in the first half of 2025.

Conditions on the domestic foreign exchange (FX) market improved in the first half of 2025 as inflows rose and speculative pressures receded, though demand for FX remained firm. Volatility persisted early in the year, driven by global US dollar weakness and domestic market dynamics. To restore stable conditions and improve liquidity, the Bank implemented targeted measures, including stricter oversight of forward pricing practices and periodic interventions. The February 2025 hike in the Key Rate helped reverse the negative interest rate differential with the US dollar, curbing depreciation pressures and reinforcing confidence on the FX market.

Activity on the FX market intensified in the first semester of 2025. FX turnover by banks and FX dealers amounted to US$7.9 billion in the first six months of 2025, representing an annual increase of 19.0 per cent over the corresponding period in 2024. FX purchases and sales surged, partly reflecting strong demand for import of motor vehicles ahead of tax increases. The Rupee appreciated by 4.9 per cent against the US dollar but weakened by 7.2 per cent against the Euro, mirroring global currency trends. The Bank scaled back its interventions, selling only US$50 million in the first half of 2025, as compared to US$365 million sold in the preceding semester.

The Monetary Policy Committee raised the policy rate by 50 basis points to 4.50 per cent in February 2025 to contain inflationary pressures, before holding it steady in May 2025. Banks adjusted lending and deposit interest rates accordingly, while the Bank focused on aligning short-term market rates with the policy stance. Short-term yields rose across all tenors following the interest rate hike, reflecting tighter conditions.

The Gross Official International Reserves reached an all-time high of US$9.7 billion at the end of June 2025, ensuring all key reserve adequacy benchmarks were met. Import cover stood at 13.3 months and the reserves-to-broad money ratio was at 41.3 per cent, well above IMF norms, underscoring a strong buffer against external shocks. Moreover, the IMF Assessing Reserve Adequacy metric exceeded adequacy thresholds which further affirmed Mauritius' resilience to external vulnerabilities, although the reserves-to-short-term external debt ratio was below the conventional minimum mainly due to structural factors.

The banking sector continued to be the primary conduit for credit and liquidity to support economic activity. Despite moderating asset growth, banks maintained robust capital and liquidity buffers, ensuring effective management of credit and liquidity risks. Stress test results reaffirmed the capacity of the sector to withstand plausible adverse scenarios. Profitability eased during the semester whilst sound liquidity positions and prudent risk management continued to underpin resilience, safeguarding financial stability amid global uncertainty.

Banking sector fundamentals remained strong, backed by steady balance sheet growth. Total banking assets rose to Rs2.7 trillion by end-June 2025, while aggregate deposits increased to Rs2.1 trillion, with resident deposits – particularly FX deposits from Global Business Companies (GBCs) – showing solid momentum. Capital adequacy ratios eased slightly to 20.6 per cent amid rising risk-weighted assets but stayed well above regulatory minimum. Liquidity and funding positions of the banking system were sound as the aggregated Liquidity Coverage Ratio and Net Stable Funding Ratio – in both Rs and FX – hovered above the minimum regulatory threshold of 100 per cent in June 2025.

The stress test exercises confirmed banks' resilience to withstand severe macroeconomic shocks under multiple scenarios. Simulated shocks – including economic downturns, interest rate changes, and currency depreciation – had only a marginal impact on capital adequacy. On the liquidity front, all banks met liquidity requirements under the baseline scenario whilst a few banks with smaller market share showed vulnerabilities under severe stress. Overall, results highlight the strong capacity of the sector to absorb shocks and support financial stability.

Non-bank financial institutions (NBFIs) continued to play an important by expanding the delivery channel of financial products and services, with assets collectively representing around 45 per cent of Gross Domestic Product in June 2025. The asset base of the NBFIs segment grew further, with pension schemes posting the fastest growth, while life insurance and non-bank deposit-taking institutions (NBDTIs) recorded steady increases and general insurance remained broadly stable. Credit risk in NBDTIs improved, with lower non-performing loans (NPLs) and stronger provisioning, while asset quality in the insurance sector was sound, supported by robust solvency positions and prudent investment strategies across both life and general insurance segments.

Conditions in the Global Business (GB) sector remained broadly sound in the first half of 2025, supported by stable market conditions and positive sentiment. Licensing activity was robust, with 1,339 new GBCs registered, representing an annual growth of 7.2 per cent in June 2025, despite a rise in exits recorded during the year ended June 2025. Africa retained its lead as the main target market for live GBCs. Foreign Portfolio Investment flows to both Africa and India moderated amid tighter global conditions. Foreign Direct Investment flows were more resilient, strengthening to India while softening to Africa. GBC deposits surged to a record US$14.5 billion, bolstering the deposit base of banks whilst also reflecting healthy conditions in wholesale funding markets. The exposure of banks' credit portfolio to the GB sector was minimal. However, the sector's NPL ratio stayed elevated at 10.3 per cent although the coverage ratio was at a comfortable level at 80 per cent in June 2025.

Systemic risk eased in the first half of 2025, with the Systemic Risk Indicator trending lower after rising in late 2024. Improvements in the macrofinancial environment – driven by relatively lower inflation and a narrower output gap – offset pressures from a large fiscal deficit and high public debt. External vulnerabilities declined amid favourable exchange rate dynamics and reduced non-resident exposures, while banking sector risk remained low due to strong capital and liquidity buffers. Corporate sector risk stayed minimal, but household vulnerabilities increased slightly as leverage and debt service burdens rose. Overall, systemic risk is assessed as moderate, supported by banking sector resilience, contained sectoral risks and lower macrofinancial vulnerabilities.

Overall, risks to financial stability fell slightly in the first half of 2025 and are expected to remain moderate under the baseline scenario, supported by resilient macrofinancial conditions and strong buffers in the banking system. As domestic fiscal consolidation and global uncertainties shape the outlook, the Bank will continue to assess both existing and emerging risks and stands ready to implement or recalibrate its policy settings to preserve financial stability.

# 1. Macrofinancial environment

*Global economic conditions were resilient firm in the first half of 2025, supported by investment and trade. Inflation continued its downward trajectory, though regional divergences persisted across advanced and emerging economies. Monetary policy continued to ease worldwide at varying pace. Household sector vulnerabilities were contained as lower interest rates reduced debt servicing costs and improved financial resilience. Corporate sector risks persisted, driven by weaker earnings and inventory imbalances amid subdued demand-side conditions.*

*Domestic macrofinancial conditions were broadly stable, though fiscal consolidation efforts and a negative sovereign rating outlook softened optimism. Economic growth slowed with mixed sectoral trends. FX market conditions got better following decisive policy initiatives that restored confidence and reduced volatility. Systemic risk ebbed down with improved macrofinancial conditions, lower external vulnerabilities and strong banking sector resilience.*

## Resilient global economy amid persistent uncertainty

The global economy was resilient, despite emerging tensions, in the first half of 2025. Economic growth was supported by a surge in investment and trade, as businesses responded to anticipated changes in trade policy by front-loading trade activities. However, consumption weakened in both advanced and emerging economies, reflecting cautious household sentiment amid elevated uncertainty. Monetary policy was eased further in many economies to support growth as inflation continued to decline, though at varying pace across countries.

The IMF projected global economic growth at 3.2 per cent for 2025 in its October 2025 World Economic Outlook (WEO), reflecting stronger-than-expected investment and trade activity. The upward revision from the 3.0 per cent growth forecast in July 2025, was driven by improved financial conditions, fiscal support and easing trade tensions. The outlook remains, nonetheless, clouded by elevated uncertainty and geopolitical risks.

Inflation diverged across regions but remained broadly on a declining trend. Global headline inflation is projected to fall to 4.2 per cent in 2025. Core inflation eased in many advanced economies. In the US, inflation went up slightly due to the effects of tariffs and a weaker US dollar whilst in Europe inflation was more subdued. In emerging and developing economies, inflationary pressures moderated supported by falling energy prices and currency appreciation in several countries. However, inflation is projected to remain above target in some countries, particularly where tariffs acted as supply shocks or where fiscal space remains limited.

Monetary policy reflected mixed dynamics across countries in the first half of 2025. Central banks in advanced economies adopted a more cautious easing stance. The US Federal Reserve System and the Bank of England paused briefly before resuming interest rate cuts, responding to signs of slowing inflation and weaker economic momentum. The European Central Bank continued its easing cycle but signalled a potential end to further interest rate cuts as inflation stabilised close to its target of 2 per cent. In emerging market economies, the depreciation of the US dollar and easing global financial conditions allowed several central banks to lower policy interest rates to support domestic demand.

Fiscal policy remained expansionary in advanced economies. The enactment of the One Big Beautiful Bill Act added near-term fiscal stimulus in the US, even though concerns about long-term sustainability persisted. Wider fiscal deficits contributed to higher long-term borrowing costs in many countries. Elevated debt levels and increased debt issuance have heightened market sensitivity and amplified volatility, particularly in emerging markets facing large amortisation and tighter financial conditions. Several large economies were expected to record high fiscal deficits which could lead to increase in term premiums and amplify financial markets volatility.

### *Risk to global financial stability contained but vulnerabilities persisted*

Global financial conditions eased in the first half of 2025 when measured against historical standards, according to the IMF. A weaker US dollar, rebounding equity markets and tighter corporate credit spreads have altogether reduced market volatility, despite ongoing trade policy uncertainty. However, a rebound of tariffs to higher levels following the end of the pauses could weigh on market sentiment, potentially triggering again a repricing of risk assets.

The global banking system was broadly resilient in the first half of 2025, supported by strong capital and liquidity buffers. Notwithstanding a complex macrofinancial environment, banks in most advanced and emerging economies maintained stable asset quality. The easing of monetary policy and improved financial conditions helped reduce short-term funding pressures and the decline in market volatility contributed to more stable interbank and credit markets.

Household sector vulnerabilities were contained in the first semester of 2025. Interest rate cuts in many countries helped ease the debt servicing burden for households, thereby improving debt servicing capacity. Household balance sheets were generally sound, supported by favourable labour market conditions. However, consumption patterns reflected increased caution, with households in some countries rebuilding savings given uncertainty.

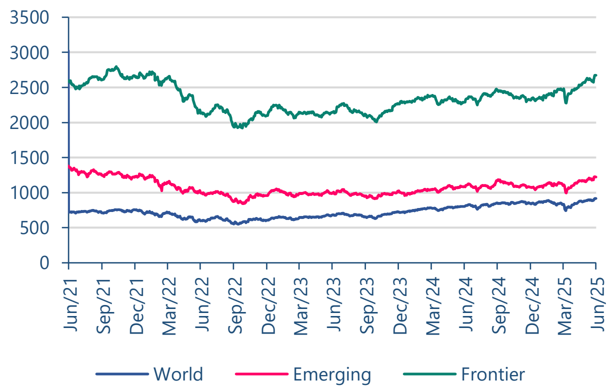
Risks from the corporate sector persisted in the first semester of 2025. Many businesses, especially smaller firms in export-oriented economies, struggled with rising costs and weaker consumer demand. Earnings declined in several regions, making it harder for companies to cover interest payments and maintain sound financial health. Some firms built up large inventories early in the year – driven by expectations of price increases – but slower sales increased the risk of losses.

Climate change and cybersecurity have emerged as increasingly significant threats to global financial stability. Climate-related risks – both physical and transition – are affecting asset prices, insurance liabilities and credit exposures, particularly in carbon-intensive sectors and vulnerable regions around the world. Separately, the growing frequency and sophistication of cyber-attacks pose systemic risks to financial institutions, with potential disruptions to payment systems and market confidence. The IMF's April 2025 Global Financial Stability Report (GFSR) underscores the urgency of addressing these vulnerabilities but noted that robust frameworks were still lacking in many countries to manage climate and cyber threats effectively.

### *Global markets gain ground as monetary signals soften and investor sentiment improves*

Global financial markets gathered positive momentum in the first half of 2025. Equity markets rallied across developed and emerging economies, supported by easing of financial conditions and improved investor sentiment. Government bond yields moved unevenly across regions, declining in the US due to expectations of monetary policy easing but rising in other economies on the back of improving growth outlooks. Moreover, the US dollar weakened as expectations of lower interest rates and modest demand for safe-haven assets impacted currency markets.

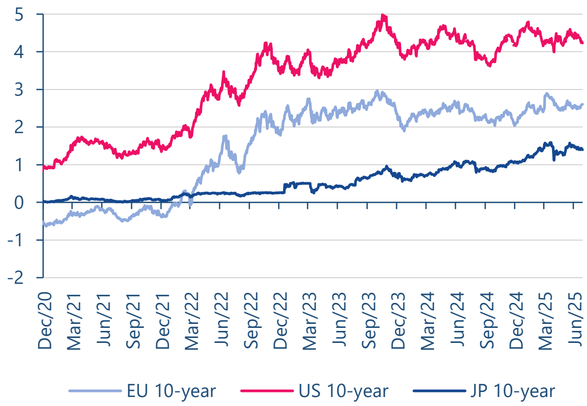
Chart 1.1: MSCI Indices




Global equities maintained an upward momentum in the first semester of 2025. Easing global financial conditions contributed to broad-based equity gains across regions. The Morgan Stanley Capital International (MSCI) World Index rose by 9.1 per cent in the first semester of 2025, supported by sustained investor confidence in developed markets. The MSCI Emerging Market Index registered a robust gain of 13.7 per cent in the first half of 2025, reflecting a rebound in sentiment toward emerging economies, particularly in Asia and Latin America. Meanwhile, the MSCI Frontier Market Index increased by 15.3 per cent, suggesting improving conditions in smaller and less-developed markets (Chart 1.1).

Government bond yields across major economies showed diverging trends in the first semester of 2025. The US 10-year Treasury yield declined by 34 basis points to 4.2 per cent in the first half of 2025, reflecting a recalibration of monetary policy expectations. In contrast, the EU 10-year yield rose by 24 basis points to 2.6 per cent amid improving growth prospects and reduced inflation risks. Japan's 10-year yield increased by 29 basis points, to 1.4 per cent, suggesting a gradual shift in investor expectations regarding the Bank of Japan’s ultra-loose monetary stance (Chart 1.2).

Chart 1.2: Selected government bond yields




*Source: Bloomberg*

The US Dollar Index (DXY) displayed a general downward trajectory during the first half of 2025, reflecting evolving macroeconomic conditions and shifting investor sentiment (Chart 1.3). The depreciation also partly corrected earlier overvaluation of the US dollar against the Euro, restoring some balance in global currency markets. In the first quarter, the index declined by 3.9 per cent influenced by subdued inflation expectations and growing anticipation of monetary policy easing by the US Federal Reserve. The second quarter saw an acceleration in the depreciation, with the DXY falling by 7.0 per cent as weak economic data and dovish policy signals reinforced market anticipation of rate cuts. Overall, the DXY contracted by 10.7 per cent over the semester to close at 96.9 at the end of June 2025, with the weakening of the US dollar underscoring a recalibration of global capital flows and a relative moderation in US economic performance.

Chart 1.3: US dollar index


*Source: Bloomberg*

## Resilient domestic macrofinancial environment

Macrofinancial conditions were broadly stable in Mauritius during the first semester of 2025, shaped by a mix of resilience and emerging pressures. The release of the State of the Economy report in December 2024 prompted a reassessment of economic growth and fiscal metrics, tempering earlier optimism and weighing to some extent on consumer and business sentiment. The Moody's Baa3 negative sovereign rating outlook for Mauritius as from February 2025 reinforced caution, as concerns over fiscal sustainability added to uncertainty in the financial environment.

The domestic economy expanded further in the first half of 2025, albeit at a slower pace than in the preceding semester. The economy grew, in real terms, by 4.0 per cent and 3.1 per cent annually in the first and second quarters of 2025 respectively. The *Construction* sector contracted in the first semester of 2025, driven by weakened investment dynamics. Conditions in the *Accommodation and food service activities* sector were mixed, with a contraction noted in the first quarter before recovering robustly in the second quarter of 2025. On the other hand, economic activities in the *Agriculture, forestry and fishing* and *Public administration* sectors expanded strongly and supported economic growth.

Inflation in Mauritius showed mixed dynamics, declining in the first quarter before surging in the second quarter. Headline inflation fell to 2.5 per cent in March but subsequently rose to 2.9 per cent in June 2025. The surge in inflation was mostly influenced by budgetary measures – particularly through increased taxes on tobacco and alcoholic beverages. The uptick in inflation in June 2025 is unlikely to exert significant pressure on household real incomes and compromise their financial soundness, as wage growth supported consumption.

The labour market environment was broadly stable, although a slight rise in unemployment was noted. The unemployment rate rose to 5.9 per cent in June 2025, from 5.7 per cent in December 2024. However, labour force participation was steady and hovered around 58 per cent. On the wage front, the Wage Rate Index (WRI) rose by 6.7 per cent on an annual basis in June 2025, supporting the financial soundness of households and safeguarding their debt repayment capacity. The continued growth in wages and stable participation rates have contributed to contain risks in the household sector.

Macrofinancial risks remained stable during the first semester of 2025, supported by resilient economic fundamentals. The fiscal consolidation measures introduced in the National Budget 2025-2026 aimed to restore fiscal credibility and addressing economic vulnerabilities, thereby supporting long-term macroeconomic and financial stability. Real Gross Domestic Product (GDP) growth is estimated at 3.2 per cent in 2025, reflecting a primarily a slowdown in external demand.[1]

[1] Mauritius: 2025 Article IV Consultation-Press Release; and Staff Report

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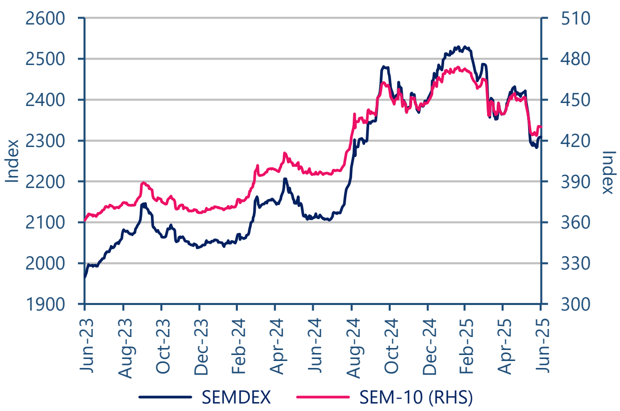
Macroeconomic imbalances—such as elevated public debt, fiscal deficit, and current account deficit—posed risks of systemic disruptions that could dampen economic outlook and impair the functioning of financial markets. Government debt reached 79.5 per cent of GDP at the end of June 2025.[2] The government has committed to a strategy focused on promoting economic growth, rationalising public expenditures, enhancing revenue mobilisation, and protecting vulnerable groups. These measures are expected to improve debt sustainability, bolster investor confidence, and enhance the resilience of the financial system.

Looking ahead, macrofinancial conditions are expected to remain resilient barring any unforseen shocks. Nonetheless, sector-specific vulnerabilities, particularly in construction and tourism-related activities, alongside a modest rise in unemployment, could weigh on household and corporate balance sheets. Sustained expansion in wages and corporate earnings have so far helped buffer these risks but slower economic growth could weaken the financial resilience of households and businesses. The economic and fiscal consolidation policies announced by the government in June 2025 are expected to support macrofinancial conditions in the medium term.

### *Stock market activity lost momentum*

Domestic equity markets shifted from strong gains early in the first quarter of 2025 to a phase of consolidation in the second quarter. The SEMDEX declined by 94 points during the semester, closing at 2,309 points at the end of June 2025, while the SEM-10 fell by 19 points to reach 430 points (Chart 1.4). Market sentiment in early 2025 was buoyant, with the SEMDEX reaching a peak of 2,530 points in mid-February 2025 before retreating. Despite the pullback, equity valuations remained above mid-2024 levels. The volatility underscores the sensitivity of domestic markets to shifts in investor sentiment and global conditions, which could amplify mark-to-market risks for investors.

Chart 1.4: Trend of stock market indices

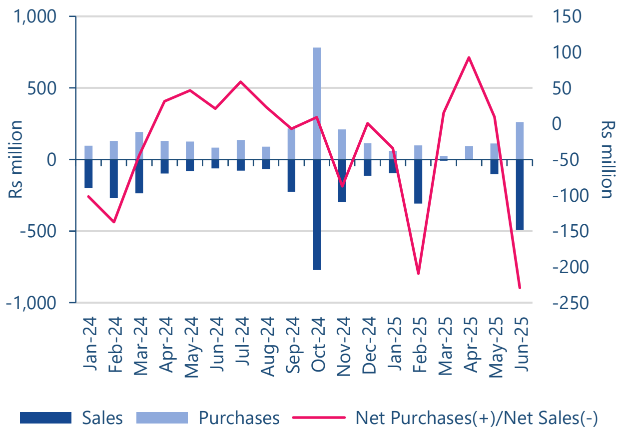



*Source: Stock Exchange of Mauritius*

2 mof.govmu.org/Pages/Debt-Data.aspx

Foreign investor activity on the SEM weakened markedly in the first half of 2025. After a broadly neutral position in the second half of 2024, foreign investors disinvested around Rs356 million during the first semester of 2025. The outflows were concentrated in February and June 2025, which together accounted for the bulk of the net disinvestment (Chart 1.5).

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




*Source: Stock Exchange of Mauritius*

## *FX market improved*

Conditions on the FX market improved in the first half of 2025 as inflows increased, though demand pressures persisted. The combination of domestic FX conditions and pressures on the US dollar on the global currency markets triggered some volatility on the FX market.

To curb excessive volatility and remove distortions as well as improve market liquidity, the Bank implemented a series of targeted measures as from December 2024. These measures included stricter oversight of the FX market and forward pricing practices. The hike in the Key Rate (KR) by 50 basis points in February 2025 contributed to reverse the negative interest rate differential with the US dollar, curbing pressures on the domestic currency. These initiatives, alongside periodic FX interventions, helped to improve confidence on the FX market and curtailed volatility. Speculative activities receded in the light of actions taken by the central bank and the fiscal authorities.

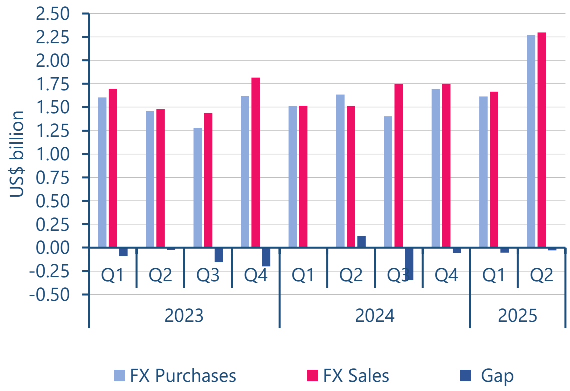
FX market activity strengthened in the first half of 2025. Aggregate turnover by banks and FX dealers rose by 19.0 per cent to US$7.9 billion compared to the second half of 2024 (Chart 1.6b). Over the same period, purchases expanded by 25.4 per cent to reach US$3.9 billion, while sales grew by 13.3 per cent to US$4.0 billion, resulting in a net outflow of around US$80 million (Chart 1.6a). The spike in purchases and sales observed in the second quarter of 2025 was primarily caused by strong demand for FX for the import of vehicles in anticipation of higher taxes on motor vehicles.

FX transactions were driven mainly by import-sensitive and tourism-related activities. FX turnover in the *Wholesale and retail trade*, *Financial* and the *Accommodation and Food Service* sectors accounted for the bulk of flows, representing around 34 per cent of total FX turnover recorded in the first semester of 2025 (Chart 1.6c). The household sector purchased US$103.2 million in the first half of 2025, roughly in line with the US$100.9 million acquired in the preceding semester. The concentration of sources and uses of FX heightens market sensitivity to global and domestic developments.

Exchange rate movements were mixed and reflected chiefly a weaker US dollar on the international market in addition to domestic FX market dynamics (Chart 1.7). The exchange rate of the Rupee strengthened against the US dollar but lost ground to the Euro in the first half of 2025. The Rupee appreciated by 4.9 per cent against the US dollar but depreciated by 7.2 per cent against the Euro in the first semester of 2025. The Bank reduced its FX interventions, selling only US$50 million during the semester, as compared to US$365 million in the second half of 2024.

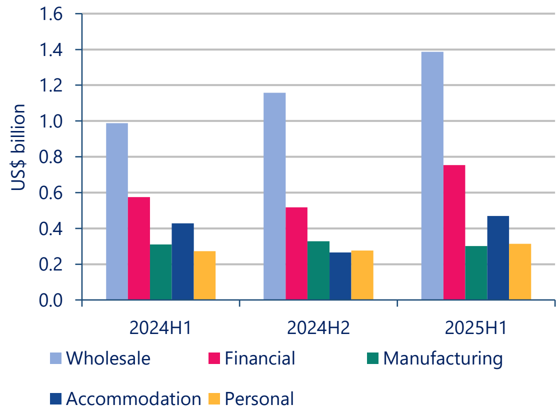
Chart 1.6: Foreign exchange turnover

a. Quarterly FX purchases & sales by banks



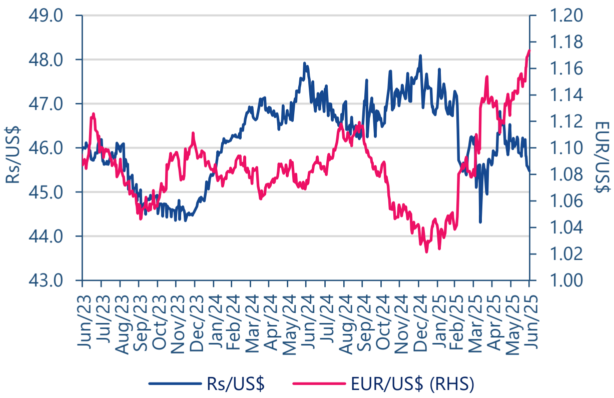

b. Aggregate


c. Sector-wise



The Euro, however, surged against both the US dollar and the Rupee. Specifically, the Euro appreciated by 12.8 per cent against the US dollar during the first half of 2025, despite a cumulative interest rate cut of 100 basis points by the ECB bringing the deposit facility, the main refinancing operations and the marginal lending facility to 2.00 per cent, 2.15 per cent and 2.40 per cent, respectively, effective 11 June 2025. Meanwhile, the US Federal Reserve held its benchmark rate steady at 4.25 - 4.50 per cent, opting for a wait-and-see approach amid lingering inflationary pressures.

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




*Tighter monetary policy stance to curb inflation*

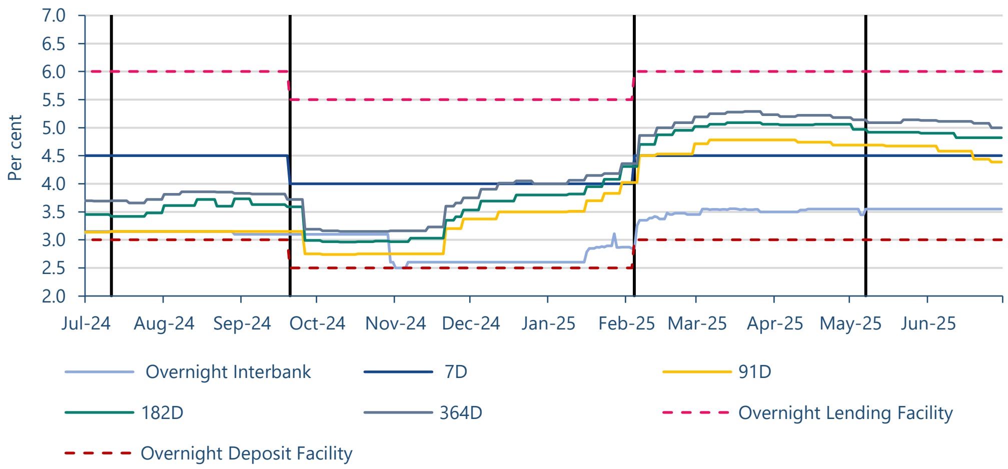
The Monetary Policy Committee (MPC) raised the policy rate by 50 basis points to 4.50 per cent at its meeting held on 4 February 2025 to keeping inflation within the target range of 2 to 5 per cent. Market interest rates adjusted accordingly in a timely manner. The policy rate was maintained at the subsequent MPC meeting held on 7 May 2025.

Banks responded to the interest rate hike by altering their savings deposit and prime lending rates in line with the increase in the KR. In conjunction, monetary policy operations focussed on aligning short-term market rates with the policy stance. Short-term interest rates shifted toward the upper bound of the interest rate corridor. The 7-Day Bank of Mauritius Bills were issued at a fixed rate of 4.50 per cent, and the Overnight Deposit Facility (ODF) rate was adjusted upward to 3.00 per cent.

The Bank reduced its issuance of central bank securities during the first half of 2025 and shifted the conduct of monetary operations to the ODF. As a result, the outstanding stock of Bank of Mauritius instruments fell by 4.9 per cent to Rs126.0 billion on 30 June 2025. The ODF was a key liquidity absorption tool, with the amount deposited by banks reaching Rs57.7 billion on 30 June 2025. Further liquidity was mopped up through FX operations, amounting to Rs2.3 billion in the first half of 2025.

The overnight interbank rate – the operational target – hovered close to the lower bound of the interest rate corridor. Reflecting the tighter monetary policy stance, short-term yields rose across all tenors. The 91-Day yield increased to 4.39 per cent at end-June 2025. The 182-Day yield rose to 4.82 per cent while the 364-Day yield moved to 5.00 per cent (Chart 1.8). However, by mid-June 2025, the 91-Day yield dropped below the KR, indicating an easing in short-term market expectations or a shift in liquidity dynamics.

Chart 1.8: Evolution of market interest rates




*Source: Bank of Mauritius*

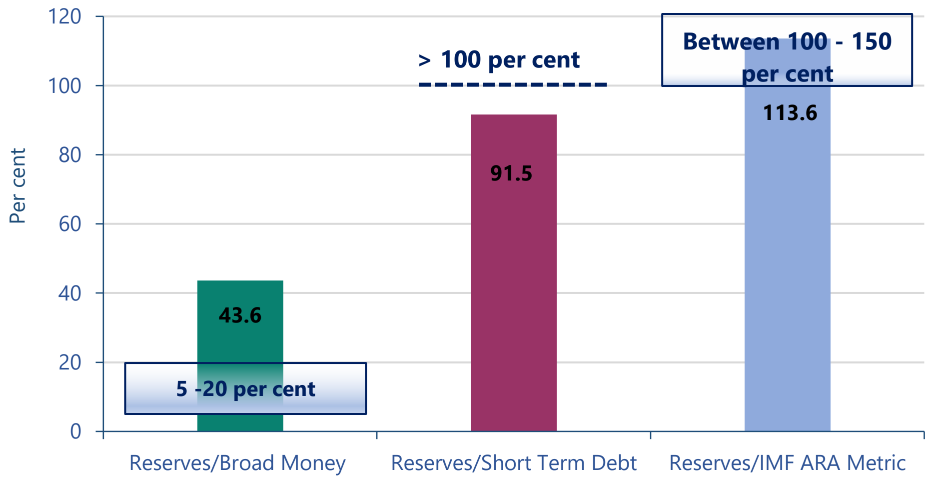
## *International reserves adequate*

For a small, open economy like Mauritius, maintaining an adequate level of foreign exchange reserves is essential to contribute to macroeconomic and financial stability, especially in times of heightened global uncertainty. The FX reserves allow the authorities to respond effectively to external shocks, mitigate exchange rate volatility, and maintain confidence in the financial system.

The FX reserves reached an all-time high of US$9.7 billion at the end of June 2025, from US$8.5 billion recorded at the close of December 2024. This level of the Gross Official International Reserves (GOIR) implied that all key benchmarks for reserve adequacy were met. The import cover stood at 13.3 months while the reserves-to-broad money ratio was 41.3 per cent – well above the IMF's recommended range of 5 to 20 per cent, highlighting a robust buffer against external vulnerabilities.

Two other rigorous metrics are used to assess the adequacy of the reserves and evaluating external vulnerability – namely, the reserves-to-short-term external debt ratio (Greenspan-Guidotti rule) and the IMF's Assessing Reserve Adequacy (ARA) framework – but they do not fully account for the specificities of Mauritius as an International Financial Centre.[3] [4] [5] The reserves-to-short-term external debt ratio stood at 91.5 per cent, below the conventional minimum of 100 per cent. The GOIR-to-ARA metric ratio has been estimated at 113.6 per cent, exceeding the IMF's adequacy lower threshold of 100 per cent (Chart 1.9). Refer to Box 1 for an analysis of the ARA framework.

Chart 1.9: Select reserve adequacy metrics




*Source: Bank of Mauritius*

## *Systemic risk eased but vulnerabilities remain*

The Systemic Risk Indicator (SRI) assumed a declining trend in the first half of 2025 after rising in the second half of 2024, reflecting an improvement in the overall risk environment. The sources of systemic risks depicted varied dynamics, with positive improvements in the macrofinancial landscape and external vulnerabilities while risk from the household sector went up (Chart 1.10).

Macrofinancial vulnerabilities moderated relative to the second half of 2024, driven by subdued inflation and a narrowing output gap partly offset by a persistently large fiscal deficit

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

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

[5] *Refer to Box 1.*

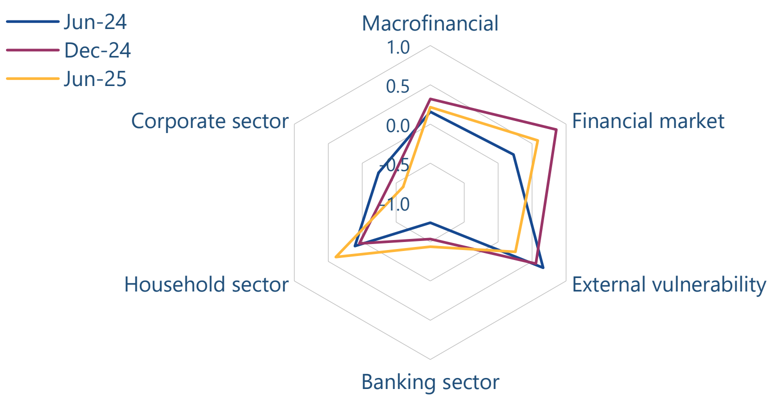
and high public debt levels. Risk in financial markets stayed elevated similar to the second half of 2024, given elevated volatility in the stock market.

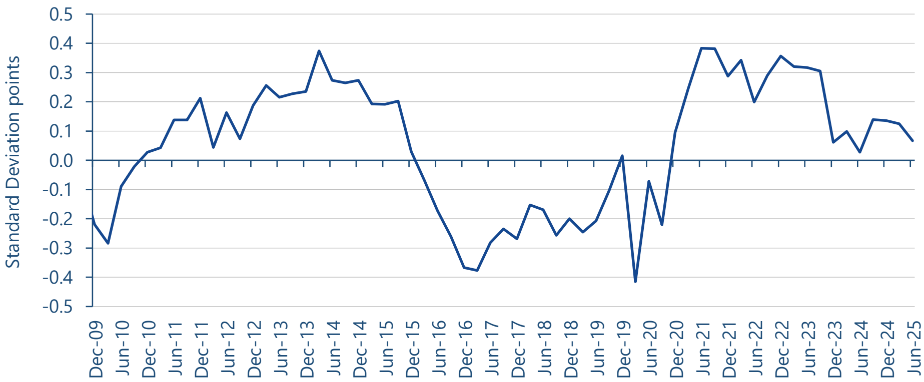
External vulnerabilities diminished amid narrowing interest rate differential between Rupee-denominated assets and US dollar assets, favourable real exchange rate developments, and a drop in the exposure of banks to non-residents. Risks from the large and volatile nature of GBC and non-resident deposits in the banking sector were contained by the sizeable foreign assets held by banks as well as the robust inventory of FX reserves.

Risk in the banking sector remained low. Banks continued to demonstrate resilience through strong capital and liquidity buffers, supporting its ability to absorb potential shocks and pursue financial intermediation. Corporate sector vulnerabilities lingered at its lowest levels for the past twelve months as corporate indebtedness stayed well below its historical trend. Risk in the household sector rose slightly as leverage of households continued to grow and accompanied a modest rise in the debt serviceability metric for the sector.

Looking ahead, systemic risk is expected to remain moderate. While macrofinancial and external conditions continue to present challenges, the resilience of the banking sector and contained sectoral risks are expected to support financial stability.

Chart 1.10: Systemic Risk Indicator






*Source: Bank of Mauritius*

## Box 1 – Assessing Reserve Adequacy

The degree of external vulnerability of an economy is usually measured by the adequacy of its international foreign exchange reserves. The FX reserves, therefore, provide financial resources to a country to meet its external obligations during times of stress. When a country holds sufficient FX reserves, it reduces the likelihood of balance of payments strains and supports stable conditions on the FX market, contributing altogether to sustaining economic and financial stability. Adequate reserves also help to boost investor confidence and support the domestic currency that are key elements to the stability of the financial system.

Assessing the adequacy of the FX reserves of a country is essential to ensure it has sufficient FX buffers to withstand external shocks. The conventional approach to assess reserve adequacy relies on standard metrics – such as the import cover, the reserves-to-broad money ratio and the reserves-to-short-term debt ratio. While these metrics provide a useful baseline, they offer limited insights into broader vulnerabilities, particularly those stemming from volatile capital flows. For highly open economies, traditional measures – focusing on trade-related shocks – have become less relevant as sudden capital movements pose greater risks.

To address these limitations, the IMF's Assessing Reserve Adequacy framework offers a more stringent and comprehensive evaluation. The IMF developed the ARA metric through an analysis of historical crisis episodes spanning various countries and time periods.[6] The IMF employed panel data to estimate the likelihood of reserve depletion during crises and to calibrate the risk weights assigned to each component of the ARA formula.

Emerging markets face heightened vulnerability to fluctuating capital flows. The metric is consequently designed to cover various outflow channels. The ARA framework for emerging markets integrates diverse potential external sector risks to facilitate a forward-looking evaluation of reserve adequacy. For advanced economies, the IMF utilises an approach distinct from the emerging markets-style ARA formula, putting emphasis on market access, the establishment of swap lines, and the assessment of policy credibility.

The ARA benchmark plays a vital role in upholding the stability of the financial system. The adoption of the ARA framework aligns a country's reserve management practices with global standards and provides a forward-looking approach to mitigating systemic risks. The widespread recognition of a favourable ARA metric by international rating agencies enhances a country's credibility, reinforcing investor confidence and improving access to capital markets.

The IMF's ARA standard metric for emerging markets is designed to assess a country's resilience to balance of payments vulnerabilities, through a weighted composite framework that incorporates four key risk elements (Table 1):

1. exports of goods and services – to capture exposure to external demand shocks and trade disruptions;
2. broad money liabilities – reflecting the potential for resident capital flight and domestic liquidity pressures;
3. short-term external debt – addressing rollover and refinancing risks; and
4. other portfolio liabilities – accounting for volatility of non-resident holdings of equity and debt markets.

The ARA formula for emerging markets incorporates an adjustment factor based on the exchange rate regime.

Table 1: Standard ARA metric for emerging markets

| Components | Exports of goods and services | Broad money | Short-term debt | Other liabilities |
|---|---|---|---|---|
| Weights under floating exchange rate regime | 5% | 5% | 30% | 15% |

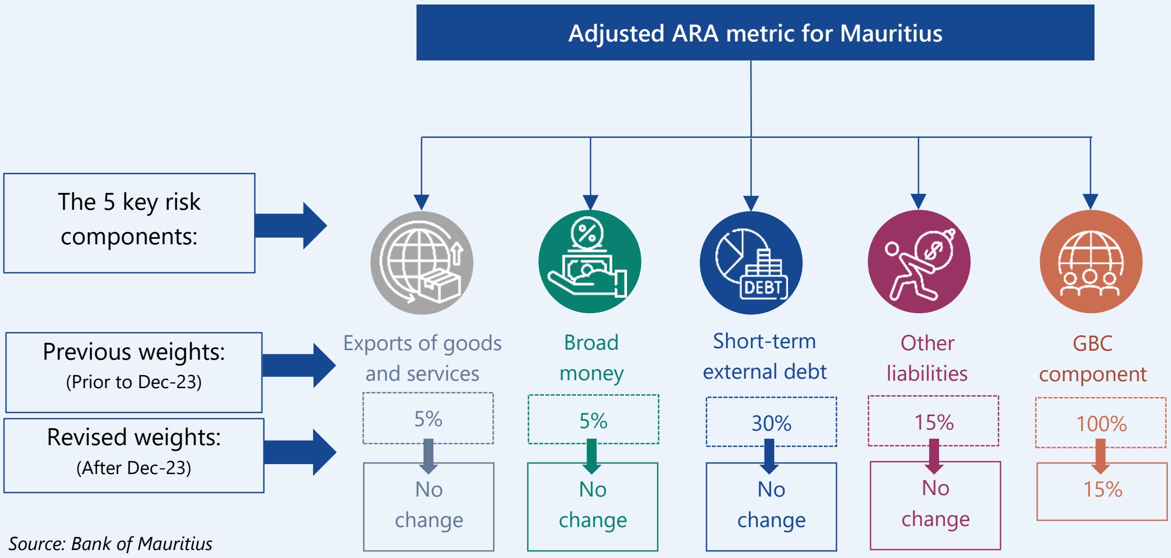
*Source: Bank of Mauritius*

### *The ARA metric for Mauritius*

To reflect Mauritius' unique characteristics as an International Financial Center (IFC), the IMF adjusted the ARA framework by introducing a GBC component (Figure 1). This additional component addresses external vulnerabilities arising from potential capital flight through GBC structures. Following extensive discussions between the Bank and the 2024 IMF Article IV Consultation mission, the GBC component was revised effective December 2023 to better reflect the stringent liquidity risk management standards imposed by the central bank on the banking system. Specifically, the weight of the GBC component weight was reduced from 100 per cent to 15 per cent, and its application broadened to cover gross GBC deposits across all banks, replacing the previous methodology that applied only to non-DSIBs and was calculated net of their liquid assets.

[6] *Assessing Reserve Adequacy – Specific Proposals*, IMF, April 2015.

Figure 1: Adjusted ARA metric for Mauritius




Source: Bank of Mauritius

The ARA metric is calculated as follows:

$$5\% \times Exports + 5\% \times Broad\ Money + 30\% \times Short\ Term\ Debt + 15\% \times Other\ Liabilities\ + 15\% \times GBC\ component$$

*Liquidity risk management framework*

The Bank's macroprudential toolkit on liquidity risk is aligned with Basel III standards. Banks are subject to the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) requirements, which pre-emptively protect the banking system from liquidity and funding shocks. In addition, banks are also required to adhere to liquidity regulations as stipulated in the Bank's *Guideline on Liquidity Risk Management*, which *inter alia* require banks to maintain contingency funding plans to address potential funding mismatches and liquidity stress situations.

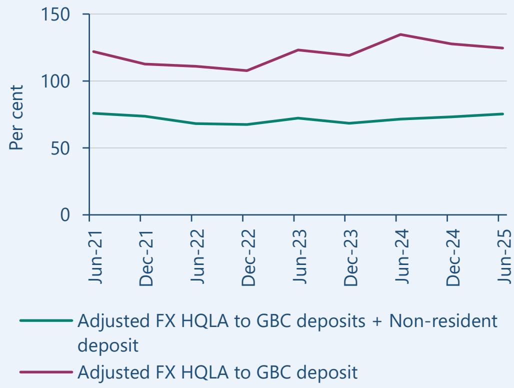
Chart I: FX LCR


Source: Bank of Mauritius

Banks historically held LCR well above the regulatory minimum, given the structure of deposit base which consists mostly of wholesale deposits. Banks held FX LCR at 184.3 per cent in June 2025, well above the 100 per cent regulatory threshold (Chart I). The average NSFR in FX stood at 147.3 per cent in June 2025 – exceeding significantly the minimum regulatory requirement of 100 per cent. This reflects the robust liquidity buffers in the banking system and underscores the resilience and sustainability of banks' funding strategies.

The adjustment to the weight of the GBC component in the ARA metric hinged on the liquidity risk management regime in the banking sector, both the regulatory standards and banks' internal risk management frameworks. For instance, banks generally maintain FX LCR well above the required 100 per cent and hold significant deposits with overseas institutions as a supplementary buffer to High-Quality Liquid Assets (HQLA). FX HQLA and deposits with banks abroad – referred together as adjusted HQLA – was around 124.5 per cent of GBC deposits and 75.3 per cent of GBC and non-resident deposits combined in June 2025 (Chart II). The NSFR, effective December 2023, further strengthened liquidity risk management. Due to the inherent volatility of GBC deposits, banks tend to redeploy these funds into more liquid and less risky assets.

Chart II: FX Liquidity buffers

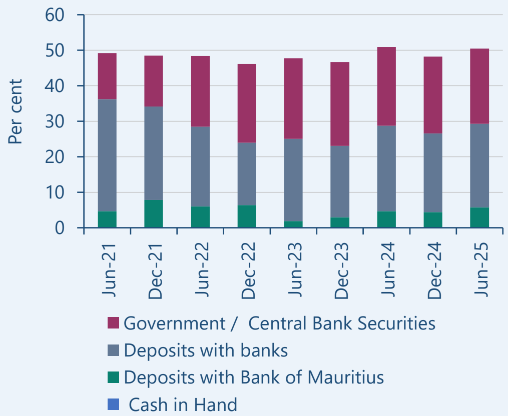



*Source: Bank of Mauritius*

Importantly, historical evidence shows that, even during episodes of large drops in GBC deposits, banks were able to sustain FX outflows without resorting to central bank funding due to prudent liquidity management. The net foreign assets held by the banking sector amounted to around US$15 billion in June 2025, which shows that the sector can easily withstand GBC deposit outflows.

The share of FX liquid assets accounted for around 50 per cent of the total FX assets in the banking sector over the years (Chart III). By maintaining such a substantial proportion of their assets in liquid form, banks demonstrate a prudent and conservative approach to managing potential liquidity pressures.

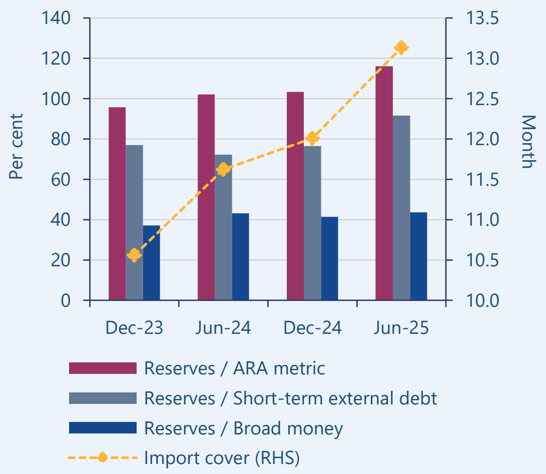
Chart III: Components of FX liquid assets to total FX assets




*Source: Bank of Mauritius*

The conventional reserves adequacy metrics showed that the level of the GOIR satisfied different coverage criteria. Based on imports of goods and services, the GOIR level provided a commendable import cover of 13.1 months by mid-2025 (Chart IV) The reserves-to-broad money ratio stood at 43.6 per cent in June 2025, well above the 5-20 per cent range advocated by the IMF.

Chart IV: Reserve adequacy metrics




*Source: Bank of Mauritius*

The ratio of reserves-to-short-term external debt stood at 91.5 per cent at the end of June 2025, below the 100 per cent threshold (Greenspan-Guidotti rule). This ratio falls short of the minimum threshold. The key reason is that deposits of non-residents accounted for around 95 per cent of short-term external debt. While banks maintain adequate FX liquid assets to manage liquidity risks arising from non-resident and GBC deposits in line with prudential standards, these assets are not considered in the computation of the ratio of reserves-to-short-term external debt.

The reserves-to-ARA metric climbed steadily to reach at 116.1 per cent in June 2025, well within the 100 to 150 per cent range. It is important to note that, while the ARA metric methodology includes of GBC and non-resident deposits, the sizeable FX buffers held by banks to manage liquidity risk from these sectors are excluded from the methodology. For instance, banks held net foreign assets of US$14.7 billion in June 2025, along with an FX LCR of 183.1 per cent. Still, the reserves-to-ARA metric shows that the level of FX reserves held by Mauritius provides a sound buffer against external shocks.

# 2. Financial soundness of households and corporates

*Risks from the household and corporate sectors diverged in the first half of 2025. Borrowing by the household sector intensified ahead of fiscal changes, mainly for housing and motor vehicles. Household debt service burden went up following the interest rate hike of 50 basis points in February 2025 but stayed within its long-term trend. Corporate sector risk remained contained, underpinned by improved earnings and sustained access to credit. However, credit risk edged up reflective of sector-specific vulnerabilities. Going forward, the household and corporate sectors were expected to face tighter financial conditions amid fiscal consolidation and global uncertainty, although the banking sector was projected to remain resilient and support financial stability.*

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Risks to financial stability evolved differently in the household and corporate sectors in the first semester of 2025. While risk from the corporate sector remained well contained, risk from the household sector edged up. Credit demand was strong across both sectors driven by policy expectations, consumption momentum and operational financing needs. Households responded to anticipated fiscal changes in June 2025 by front-loading borrowing, particularly for housing and motor vehicles, while corporates increased borrowing to meet operational and investment needs. The surge in credit reflects both cyclical momentum and policy-driven factors, though it also signals rising leverage particularly in the household sector.

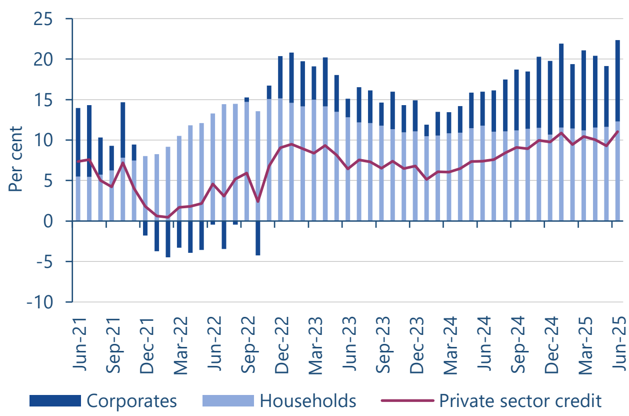
Household sector vulnerabilities went up in the first half of 2025, after receding during 2024. Higher debt servicing costs, inflation picking up slightly, surging residential property prices, and a marginal rise in the unemployment rate contributed to push up risk from the sector to some extent. The rapid appreciation of residential property prices – outpacing credit growth and economic fundamentals – raised concerns about affordability and potential overvaluation. Household borrowings from banks were primarily meant for investment in residential properties and motor vehicles. While asset quality indicators were broadly stable, the debt service burden reached multi-year highs, suggesting growing pressure on household finances. Nonetheless, the continuous rise in households' nominal income together with macroprudential safeguards and prudent lending standards by banks helped to contain the transmission of risks to the financial system.

The corporate sector continued to exhibit low vulnerabilities, supported by improved earnings and sustained access to bank credit. However, sector-specific vulnerabilities began to surface, particularly in *Agriculture, Forestry and Fishing*, *Real Estate Activities* and *Financial Services* sectors, where the quality of the bank credit portfolio deteriorated. The overall NPL ratio for the sector rose in June 2025, reflecting some sectoral stress in the economy. Still, corporate leverage remained contained, with credit growth aligned with operating surplus. The exposure of the banking sector to the commercial real estate (CRE) market stabilised. Looking ahead, fiscal consolidation and external uncertainties may weigh on corporate performance but banks are expected to remain resilient, with sufficient buffers to absorb shocks and support credit intermediation.

## Credit momentum led by broad-based demand

Credit conditions were buoyant in the first half of 2025, with banks maintaining a steady flow of credit to both household and corporate sectors. Bank credit to the private sector expanded at an annual rate of 11.0 per cent in June 2025, reflecting broad-based credit growth (Chart 2.1). Corporate credit growth rose sharply to 10.1 per cent in June 2025. This uptick was likely due to increased working capital needs. Household credit growth, meanwhile, remained robust, growing by 12.3 per cent in June 2025.

Chart 2.1: Annual growth of private sector credit




*Source: Bank of Mauritius*

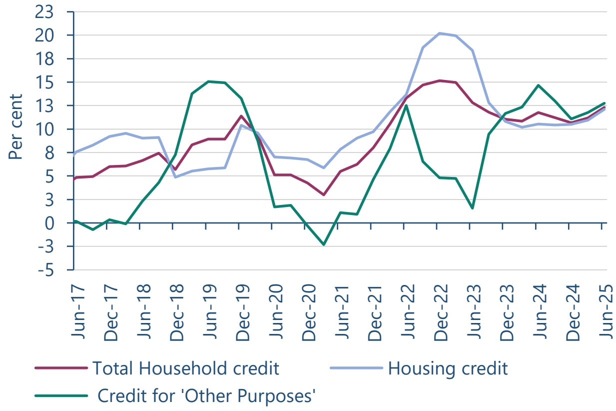
The persistence of double-digit credit growths point to robust consumer and corporate demand for credit. However, the pace of household credit expansion – in particular for housing loans and to a lesser extent for loans for *'Other purposes'* – also sets household indebtedness on a steep trajectory, with implications for financial stability.[7]

[7] *Credit extended to households for 'other purposes' includes purchase of land, purchase of other consumer durable goods, purchase of motor vehicles, education purposes, medical purposes, investment purposes, and other unspecified purposes.*

## Household borrowing picked up momentum

Bank credit to households resumed its upward momentum in the first half of 2025 after slowing down in the second semester of 2024, growing at an annual rate of 12.3 per cent in June 2025 (Chart 2.2). The anticipated fiscal policy measures outlined in the National Budget 2025-2026 had catalysed a surge in household borrowing, particularly for housing and motor vehicles, as consumers moved swiftly ahead of the expected increase in taxes and prices of motor vehicles.

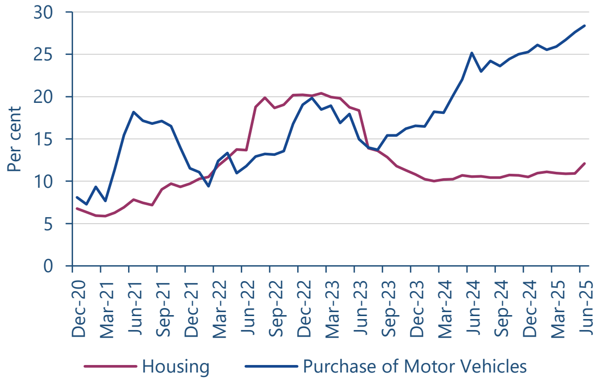
Chart 2.2: Annual growth of credit to households




*Source: Bank of Mauritius*

Mortgage activity remained a predominant share of household credit extended by banks. Credit for housing purposes grew at annual rate of 12.1 per cent in June 2025 whilst credit for the purchase of motor vehicles expanded by 28.4 per cent (Chart 2.3). Credit facilities for the purchase of motor vehicles have gained prominence in recent years, with the growth rate outpacing that of housing credit since August 2023. Still, the share of car loans was relatively low, representing 5.6 per cent of bank credit extended to households in June 2025, and posed relatively modest concerns for systemic risk.

Chart 2.3: Annual household credit growth by purpose




*Source: Bank of Mauritius*

The prolonged expansion of household credit reflects both cyclical and policy-driven factors. Nonetheless, prudent lending standards by banks along with borrower-based macroprudential policy requirements have contributed to prevent a major surge in risks to financial stability from the household segment.

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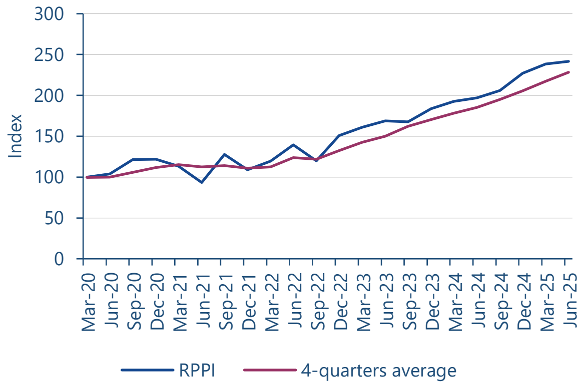
*Residential property prices continued to rise*

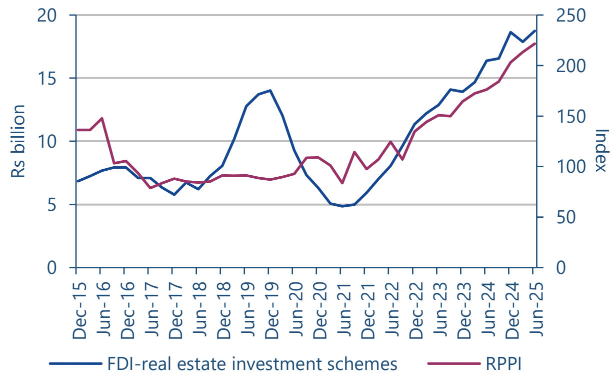
Chart 2.4: Residential Property Price Index




*Source: Statistics Mauritius*

The residential property market in Mauritius continued to exhibit strong price momentum in the first semester of 2025. The Residential Property Price Index (RPPI) reached 247.8 in June 2025, representing a 25.8 per cent annual growth – a pace that significantly outstrips the growth in housing credit and raising concerns about potential excessive valuation of residential property prices from a medium- to long-term demand and supply perspective (Chart 2.4).

Chart 2.5: Residential Property Price Index and Foreign Direct Investment in real estate investment schemes




*Source: Bank of Mauritius and Statistics Mauritius*

This protracted increase in residential property prices despite a moderation of mortgage credit growth – from peaks attained in 2022 and 2023 – suggests that demand-supply pressures have been key drivers of price dynamics in recent years. The trend could likely have been amplified by attractive interest rates on housing loans, demand for residential properties by foreigners, and expectations about the withdrawal of fiscal incentives. The surge in housing loans in the second quarter of 2025 was likely in anticipation of fiscal policy changes in the National Budget 2025-2026, as households secured financing ahead of projected withdrawal of fiscal incentives.[8]

In addition to domestic credit conditions, foreign direct investment (FDI) into real estate and property acquisitions by non-residents have also contributed to upward price pressures.[9] Sustained FDI inflows for the four quarters to June 2025 in various property investment schemes reached Rs18.7 billion by June 2025, coinciding with RPPI rising to 216.5.[10] There is a strong positive correlation between FDI and RPPI which underscores the influence of foreign acquisitions, even when such purchases are not financed through local borrowing. In 2023

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

[9] *FDI into Integrated Resort Scheme, Real Estate Scheme, Invest Hotel Scheme, Property Development Scheme and Smart City Scheme.*

[10] *The RPPI has been rebased to 2015 as the base year to facilitate comparability across periods.*

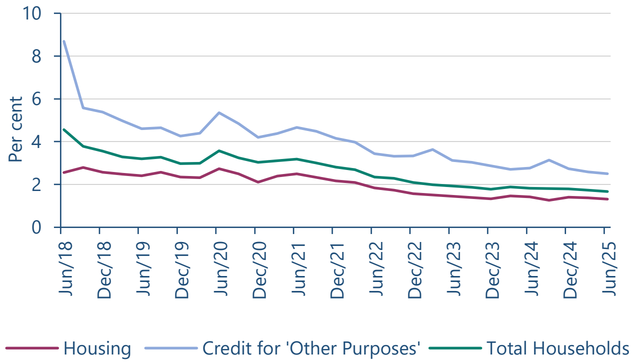
alone, 646 residential units were sold to foreigners, generating Rs23.8 billion in sales under schemes approved by the Economic Development Board. These dynamics amplify valuation risks in the housing market, with potential spillovers to financial stability through exposure of banks to property-related lending.

Looking ahead, the tighter fiscal stance – including the removal of certain incentives and adjustments to public spending – could alleviate domestic demand in the housing market. This may lead to a moderation in both credit growth and property price appreciation, particularly if consumer sentiment stays moderate. A cooling in property prices would help restore balance and reduce the risk of asset price inflation spilling into financial stability concerns.

### *Households' asset quality holds firm*

The quality of the household credit portfolio on banks' balance sheet was sound and stable in the first half of 2025. The NPL ratio of the sector stayed unchanged at 1.8 per cent in June 2025 relative to December 2024. The credit quality of the sector reflected continued resilience of the housing segment, where the NPL ratio declined to 1.2 per cent (Chart 2.6).

Chart 2.6: NPL ratio for households



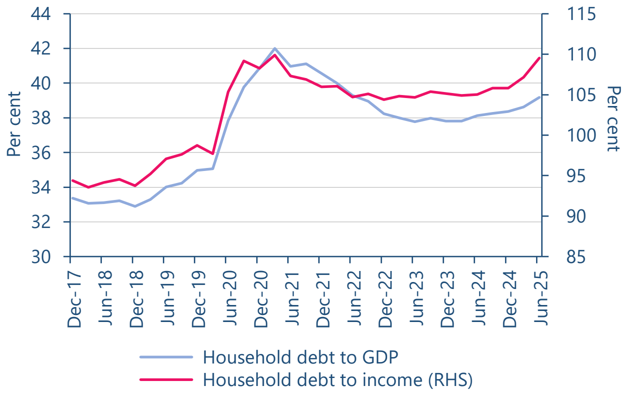

*Source: Bank of Mauritius*

The picture is more nuanced for credit extended for *'Other purposes'*, which includes personal and consumption loans. The NPL ratio in this segment stayed relatively higher at 3.7 per cent, suggesting that, while demand for such credit remains strong, repayment capacity may be under pressure. Housing loans are mortgage-backed exposures, which benefit from collateral and longer tenures, whilst unsecured lending is more sensitive to income shocks and macroeconomic headwinds. Still, the household credit portfolio was overall sound, with provisioning levels aligned to risk exposures.

### *Household indebtedness on an unsustainable trajectory*

Household debt ratios went up due to robust credit demand and sustained credit expansion. Household indebtedness to the financial system relative to GDP went up to 39.2 per cent in June 2025.[11] Relative to income, household indebtedness increased to 109.5 per cent in June 2025 (Chart 2.7). The total household debt is estimated to have attained Rs281.1 billion in June 2025. The increase in household indebtedness – especially in the second quarter of 2025 – is partly caused by anticipatory behaviour. Households may have front-loaded credit before expected fiscal measures took effect, contributing to the spike in debt ratios. Going forward, the fiscal consolidation regime may moderate on further debt accumulation by households. Higher costs and removal of selected fiscal support could also strain repayment capacity, particularly among lower income and highly leveraged borrowers.

Chart 2.7: Indicators of household indebtedness to financial system

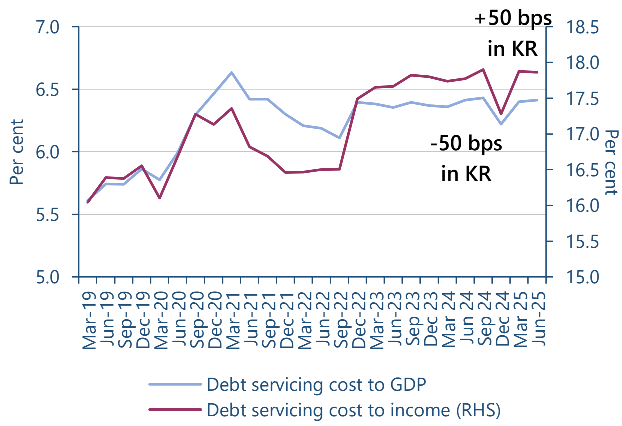



*Source: Bank of Mauritius*

### *Debt servicing burden on the rise*

Debt serviceability metrics in the household sector edged marginally higher in the first semester of 2025. The increase in the debt servicing costs reflects both the impact of the 50 basis points rise in the policy rate in February 2025 and elevated borrowing levels. The estimated household debt servicing cost to GDP and income ratios went up to 6.4 per cent and 17.9 per cent, respectively, in June 2025 (Chart 2.8).

Chart 2.8: Estimated debt servicing cost to income




*Source: Bank of Mauritius*

The increase in the debt servicing burden suggests that a growing share of household income is allocated to loan repayments, with implications for household consumption and savings. However, from a longer horizon, the debt servicing indicators in June 2025 were broadly

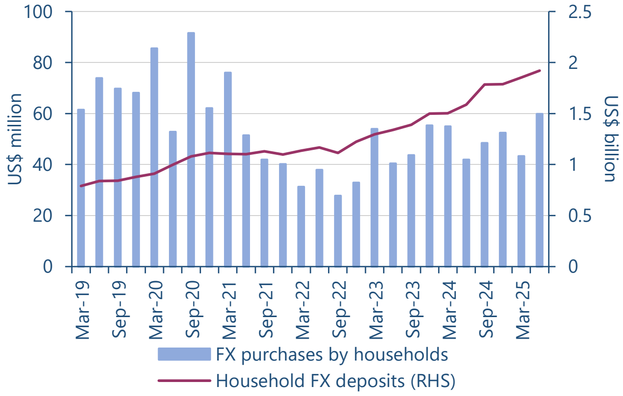
[11] *Household indebtedness to the financial system comprises credit facilities availed from banks, NBDTIs, insurance, leasing, credit finance and pension funds companies.*

aligned with their levels in pre-September 2024, indicating a return to pre-interest rate cut conditions rather than a sustained upward trend.

### *Households' appetite for FX sustained*

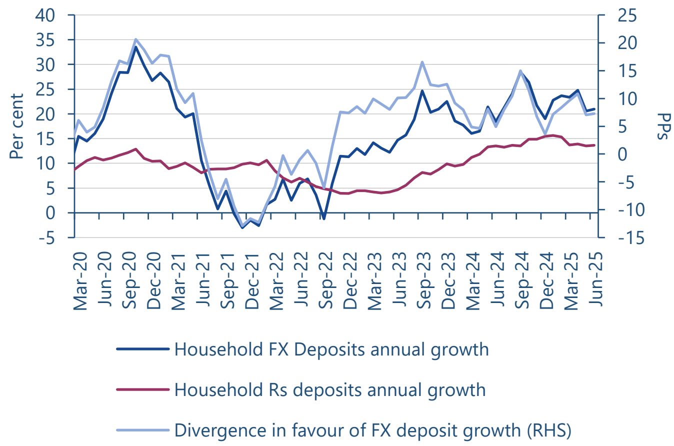
Household FX deposits rose steadily in the first half of 2025, suggesting sustained appetite to hold a portion of wealth in FX (Chart 2.9). Households primarily seek to preserve wealth and hedge against currency risks. Entrenched expectations of currency depreciation over a protracted period has led households to build up FX deposits, which expanded at an annual rate of 20.9 per cent since June 2019. However, the exchange rate has not depreciated against the US dollar in line with expectations, though some volatility was noted.

Chart 2.9: Households FX purchases and deposits




*Source: Bank of Mauritius*

Chart 2.10: Annual growth of household deposits




*Source: Bank of Mauritius*

The share of FX deposits in aggregate household deposits has gone up noticeably in the last six years or so, rising from 9.5 per cent in June 2019 to 15.4 per cent in June 2025. Household FX deposits expanded at an annual rate of 20.9 per cent to reach US$1.9 billion in June 2025. Household FX deposits continued to grow at a faster rate than Rupee deposits, with the positive gap in the growth rate widening in the first half of 2025 (Chart 2.10). Purchases of FX by households stayed broadly stable relative to the preceding semester, aggregating US$103.2 million in the first half of 2025. The increase in household FX deposits was US$300 million, implying that household FX deposit growth was funded by other sources than solely FX purchases from the domestic FX market – such as repatriation of FX deposits.



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*Household sector vulnerabilities rose slightly*

Risks in the household sector increased moderately in the first half of 2025, driven by growing leverage, elevated debt servicing costs and surging residential property prices. The rise in residential property prices outpaced credit growth, raising concerns about affordability and potential overvaluation. Credit risk from the sector remained low but debt sustainability and serviceability indicators deteriorated moderately, signalling some pressure on households' financials.

Looking ahead, the household sector is expected to face tighter financial conditions, a shift relative to the preceding semester. Fiscal consolidation and moderate economic growth may constrain disposable income growth, potentially slowing household credit growth. If income growth does not keep pace with rising debt servicing obligations, vulnerabilities could intensify, particularly among low income households. Elevated property prices and high leverage also increase sensitivity to interest rate shocks and macroeconomic downturns. In the baseline scenario, households' financial soundness is expected to remain resilient in the coming quarters, assuming no material macroeconomic shocks.

## Risk from the corporate sector contained

Conditions in the corporate sector were broadly sound, supported by a relatively stable macrofinancial environment. Earnings of corporates have generally improved as compared to the same period last year.[12] However, some sector-specific vulnerabilities have emerged leading to a marginal rise in credit risk. Businesses have continued to avail of credit facilities to support investment and operational needs. The banking sector remained the primary conduit for corporate financing.

From a sectoral perspective, the performance of key economic sectors diverged in the first half of 2025. Economic activities in the *Manufacturing, Wholesale and retail trade, Financial Services* and *Real Estate activities* sectors expanded further whilst the *Accommodation and food service activities* sector contracted in the first quarter of 2025 and the *Construction* sector contracted in the first semester of 2025. The demand for credit – both in domestic and foreign currencies – reflected a cautiously optimistic outlook among businesses, even as they navigated external uncertainties. The resilience of corporate earnings and unhindered access to credit markets contributed to support macrofinancial stability.

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

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### *Sustained momentum in corporate credit expansion*

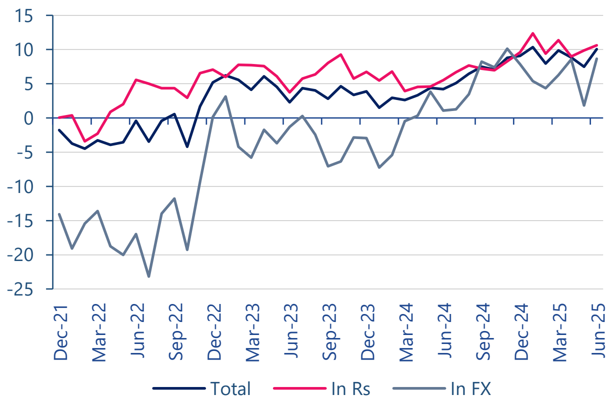
The corporate credit cycle stabilised in the first semester of 2025, though at a historically high level, after trending upwards in the preceding semester. Credit facilities extended by banks to the corporate sector expanded at an annual rate of 10.1 per cent in June 2025. This momentum was mainly supported by an increase in credit facilities to corporates engaged in the *Manufacturing*, *Professional, scientific and technical activities* and *Construction* sectors. Robust demand for credit indicates increased confidence among businesses in the economic outlook. Overall, corporate indebtedness relative to GDP was 33.1 per cent in June 2025, at about 5 percentage points below its long-term trend.

Bank lending continued to serve as the dominant source of financing for businesses despite the growing availability of alternative market-based financing options. This trend underscores the vital role of the banking sector in funding the sector. The corporate credit portfolio of banks was heavily concentrated in loans, accounting for 84.0 per cent, while bank holdings of debt securities issued by corporate entities represented 16.0 per cent in June 2025.

### *FX corporate credit picked up*

The expansion of corporate FX credit was robust in the first half of 2025, except for a slowdown witnessed in May 2025. Corporate FX credit rose at an annual rate of 8.7 per cent in June 2025 (Chart 2.11). Demand for FX credit facilities was primarily driven by businesses operating in trading activities namely *Manufacturing*, *Wholesale and retail trade*, and *Agriculture* sectors. The ability of import-oriented corporates to avail of FX-denominated credit facilities demonstrates a well-functioning FX credit market, which is essential to support macrofinancial stability.

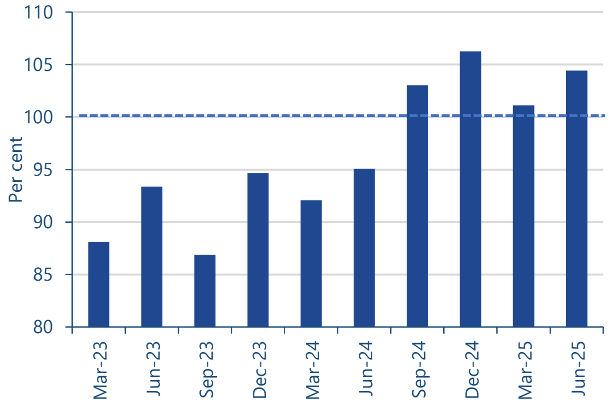
Chart 2.11: Annual growth of credit to the corporate sector




*Source: Bank of Mauritius*

The FX loan-to-deposit (LTD) ratio in the corporate sector was elevated but stayed close to 100 per cent in the first half of 2025.[13] The FX LTD ratio for the corporate sector was at 104.4 per cent in June 2025 (Chart 2.12). The high LTD ratio suggests strong demand for FX credit – particularly from import-oriented corporates – whilst it also indicates that banks are largely funding these exposures through FX deposits mobilised from the corporate segment, which provides a degree of natural hedge. This alignment between FX assets and liabilities helps mitigate currency mismatch risk and supports balance sheet resilience.

Chart 2.12: FX LTD ratio of the corporate sector




*Source: Bank of Mauritius*

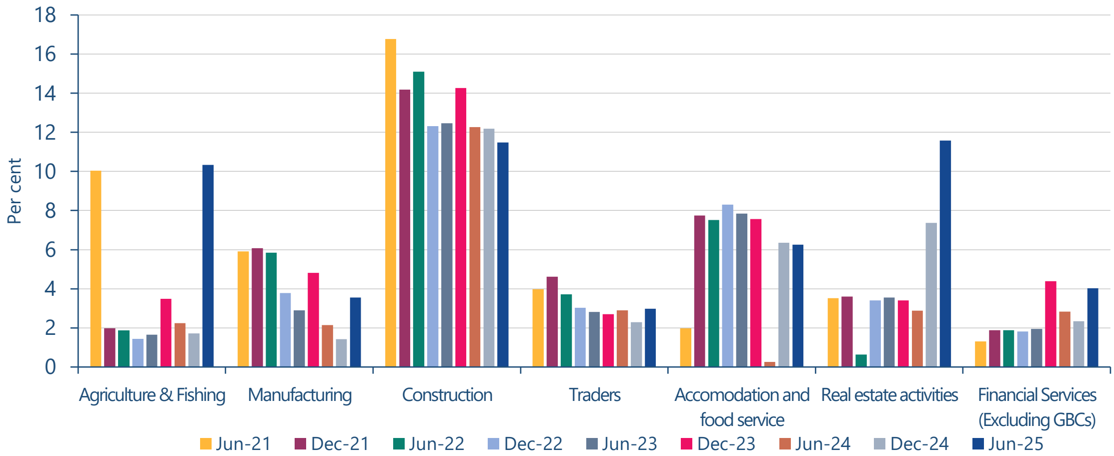
## *Credit risk in the corporate sector rose*

Sector-specific vulnerabilities emerged in the first half of 2025, translating in a rise in credit risk from the corporate sector. The asset quality of the corporate credit portfolio of the banking sector weakened as the NPL ratio rose to reach 6.5 per cent in June 2025, as compared to 3.6 per cent in December 2024. The rise in credit risk was primarily driven by pronounced deteriorations in the asset quality of the *Agriculture, Forestry and Fishing, Real Estate activities* and *Financial Services* sectors.

Some heavily leveraged sectors witnessed a deterioration in their asset quality indicators. The *Agriculture, Forestry and Fishing* sector's NPL ratio rose to 10.3 per cent in June 2025, from 1.7 per cent in December 2024. Similarly, the NPL ratio for the *Real Estate activities* sector increased to reach 11.6 per cent in June 2025, higher to the ratio of 7.4 per cent in December 2024 (Chart 2.13). In addition, the NPL ratio for the *Financial Services* sector climbed to 4.0 per cent in June 2025, from 2.3 per cent in December 2024. The credit risk metric of other sectors such as *Manufacturing* and *Wholesale and retail trade* also deteriorated but to a lesser magnitude. On a more positive note, the credit quality for the *Construction* sector improved.

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

Chart 2.13: Sector-wise NPL ratio for selected key sectors

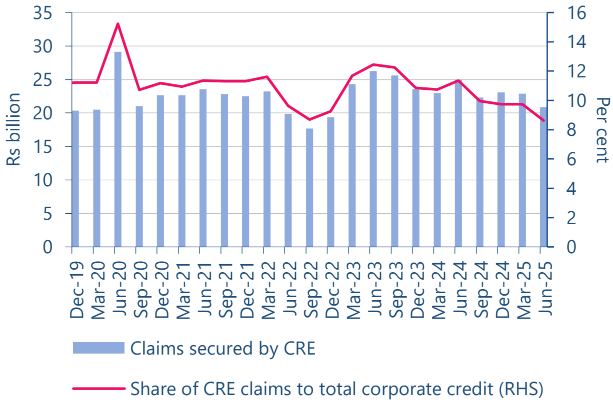



Source: Bank of Mauritius

## *Credit to commercial real estate stabilised*

Corporate indebtedness from the CRE segment has remained low. Credit facilities extended by banks to this segment plummeted in the first semester of 2025, representing 8.6 per cent of total private sector credit in June 2025 (Chart 2.14). The relatively low exposure of banks to the CRE market, combined with specific macroprudential requirements for such exposures, contribute to contain risks from this segment.

Chart 2.14: Share of claims secured by CRE to corporate credit

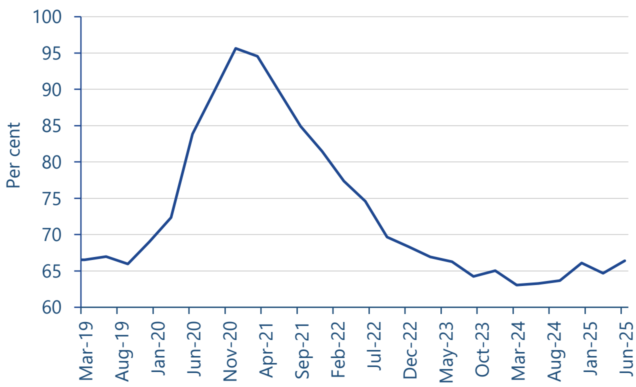



Source: Bank of Mauritius

## *Corporate earnings are robust*

Corporate leverage remained stable, with credit growth aligned to earnings, limiting immediate risks to financial stability. The ratio of corporate credit to operating surplus stood at 66.4 per cent in June 2025 (Chart 2.15). This ratio has remained broadly steady over the past two years or so suggesting that, while firms continue to rely on bank financing, credit growth was aligned with income generation. The

Chart 2.15: Share of corporate credit to operating surplus




Source: Bank of Mauritius

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current level of corporate sector leverage is not assessed to be excessive. The stability of the ratio indicates that corporate borrowing has not significantly outpaced earnings, reducing the risk of widespread repayment stress.

### *Corporate sector remained resilient but vulnerabilities emerged*

Vulnerabilities began to surface in the corporate credit landscape. Sector-specific strains – particularly in *Agriculture, Forestry and Fishing, Real estate activities* and *Financial Services* sectors – translated into an increase in credit risk and a deterioration in the asset quality of the corporate sector. Nonetheless, corporate indebtedness lingered around its lowest levels in many years whilst business earnings remained sound. Prudent lending standards along with prudential requirements specific to the corporate sector contributed to safeguard the resilience of banks to the rise in corporate credit risk.

Going forward, the corporate sector is expected to face a more complex operating environment. Fiscal consolidation and global economic uncertainty may weigh on economic growth and impact corporate earnings. Nevertheless, the banking system is anticipated to remain resilient as evidenced by the stress test results, which affirms its ability to support the credit needs of the corporate sector, even under adverse economic scenarios.

# 3. Banking sector resilience

*The capital and liquidity positions of the banking sector remained robust and well above regulatory thresholds. Credit risk edged higher, particularly in the domestic segment, reflected in rising NPLs and a slight decline in coverage ratios. Profitability softened amid margin pressures and higher provisioning, and concentration risk increased as large exposures expanded relative to capital. Concurrently, banks faced heightened sensitivity to FX and interest rate movements, though prudent risk management helped contain immediate vulnerabilities. Overall, the sound buffers and diversified funding mix in the banking sector provided a strong foundation, confirmed by the range of solvency and liquidity stress tests. The banking sector is projected to have adequate capital and liquidity cushions to absorb the materialisation of plausible risks in the short term. The evolving risk environment nevertheless underscores the need for continued vigilance and proactive monitoring to safeguard financial stability.*

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The banking sector in Mauritius was resilient in the first half of 2025 and adapted to the evolving risk environment. The sound regulatory regime, aligned with global standards, along with prudent risk management in the banking system have contributed to sustaining financial stability. The robust capital and liquidity buffers held by banks enhanced the resilience of the banking sector, as shown by the results of the stress tests. The banking system was projected to have sufficient capacity to absorb any materialisation of plausible risks.

The expansion of banking sector assets was sustained amid shifting macrofinancial landscape marked by evolving funding patterns, asset allocation strategies, and increased interlinkages with NBFIs. Banks maintained their strategy to expand both their domestic and cross-border banking activities. Banking sector assets grew at an annual rate of 5.1 per cent to Rs2.7 trillion at the end of June 2025. These assets represented around 362 per cent of GDP and 90 per cent of the domestic financial system. This dominant footprint underscored the critical role of banks as financial intermediaries in the domestic financial ecosystem and the sector's robustness to preserve systemic stability.

Banks continued to serve as key financial intermediaries for a broad spectrum of NBFIs – including NBDTIs, credit unions, insurance companies, pension funds, investment funds, financial auxiliaries, and other financial intermediaries. While the direct exposure of banks to NBFIs remained limited – below 5 per cent on both the asset and liability sides – recent trends indicate a gradual increase in interlinkages (Chart 3.1). Asset exposure shows a long-term upward trend with minor fluctuations, indicating growing linkages with NBFIs. On the other

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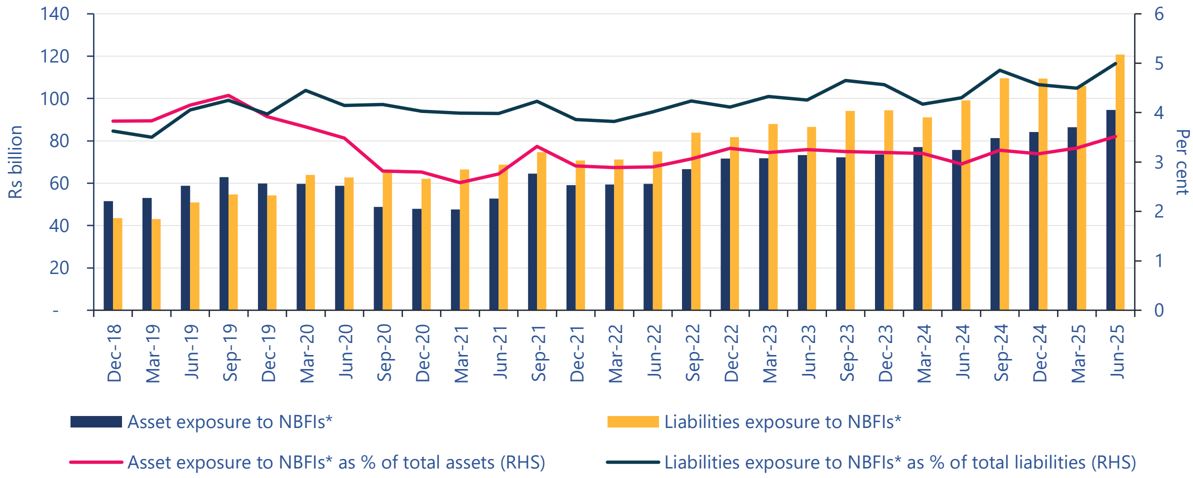
hand, liabilities exposure has grown faster than asset exposure, especially post-2023, signalling increasing deposits from NBFIs.

Chart 3.1: Banking sector exposure to NBFI




*Note: NBFIs exclude GBCs*
*Source: Bank of Mauritius*

The structural composition of the banking industry remained stable, comprising 18 banks in June 2025.[14] Notably, domestic-owned banks – holding nearly 66 per cent of total assets – were the main drivers of banking sector asset growth in June 2025. Four institutions are formally classified as Domestic-Systemically Important Banks (D-SIBs) since May 2024, reflecting their outsized role in the financial ecosystem.[15] The resilience of the D-SIBs was evident in their performance metrics. Capital adequacy ratios (CAR) consistently surpassed regulatory minima, inclusive of the D-SIB capital surcharge ranging from 1.0 to 2.5 per cent. Liquidity buffers remained strong. Strategic expansion into cross-border markets was pursued, reinforcing the regional and international relevance of the banking sector.

Market concentration remained moderate, with a Herfindahl-Hirschman Index of 1,798 in June 2025. Asset distribution revealed that two D-SIBs held a substantial portion of total banking assets, indicating a degree of concentration that coexists with competitive market dynamics.

## Sustained banking sector activities

The balance sheet of the banking sector exhibited financial strength. Banks diversified their asset base and have access to stable deposit funding while also adapting to changing market conditions through shifts in securities holdings and borrowing patterns. Some fluctuations in

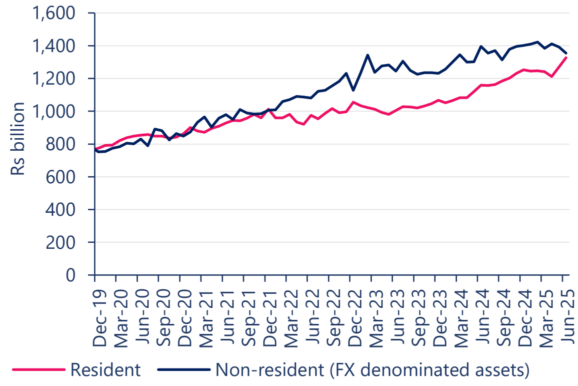
[14] *One bank is under conservatorship as from February 2024 and is excluded.*

[15] *These are The Mauritius Commercial Bank Limited, SBM Bank (Mauritius) Ltd, Absa Bank (Mauritius) Limited, and AfrAsia Bank Limited.*

specific asset classes indicated a change in asset allocation and liquidity management strategies.

Banking sector asset growth was primarily supported by the domestic banking book in the first half of 2025. The total assets rose steadily to attain Rs2.7 trillion at the end of June 2025, denoting an annual growth rate of 5.1 per cent though this marked a deceleration from the 15.4 per cent recorded at the end of 2024. The moderation in asset growth was largely attributable to a 2.7 per cent year-on-year decline in non-resident banking activities in June 2025. The expansion of resident banking activities, including GBC activities, nonetheless continued to underpin overall asset growth, reaching an annual growth rate of 14.5 per cent in June 2025. The balance between resident and non-resident asset segments remained broadly stable over the semester despite these shifts (Chart 3.2).

Chart 3.2: Segmental banking sector asset




*Source: Bank of Mauritius*

*Bank–sovereign nexus*

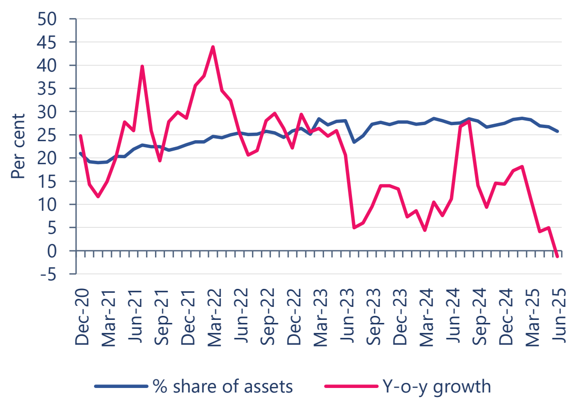
The sovereign-bank nexus remained a key feature of the banking system in Mauritius. Banks' holdings of sovereign securities can pose risk to financial stability, especially during economic downturns and financial market strains. Notable progress in regulatory standards since the Global Financial Crisis of 2008 have, however, strengthened banking system resilience. Sovereign debt is assigned particular attention in prudential regulation, with calibrated treatment of sovereign risk given the importance of public debt in financial markets. Supervisory and resolution authorities must also ensure robust recovery and resolution planning of failed banks to prevent systemic financial crises.

While sovereign exposures provided high-quality liquid assets that support regulatory liquidity compliance, they also created channels for risk transmission. The increase in treasury bills holdings strengthened short-term liquidity buffers but raised rollover risk. Interest rate risk was moderate given the stability of long-term holdings, but valuation sensitivity could rise under tightening conditions. Foreign exposures introduce additional currency and funding risks, though these remain contained under current macrofinancial conditions.

Asset allocation by banks indicated a shift in investment strategies, partly driven by macrofinancial developments. Banks' aggregate holdings of governments – both domestic and foreign – and Bank of Mauritius securities declined at an annual rate of 1.2 per cent to reach Rs693 billion in June 2025. This drop was explained by a downward valuation of investment in foreign government instruments by 3.6 per cent in June 2025. Banks invested predominantly in US government securities, which were mostly held to maturity thereby limiting mark-to-market volatility.

Banks' exposures to sovereigns remain substantial, emphasising the structural linkages between the banking system and the public sector (Chart 3.3). Investment in government securities – inclusive of domestic and foreign governments' securities and treasury bills, and Bank of Mauritius instruments – accounted for around 25 per cent of total assets in June 2025. Total holdings of domestic government securities went up by an annual rate of 13.1 per cent, to attain Rs207 billion in June 2025. In contrast, holdings of foreign governments' securities declined annually by 1.2 per cent in June 2025 to Rs227 billion.

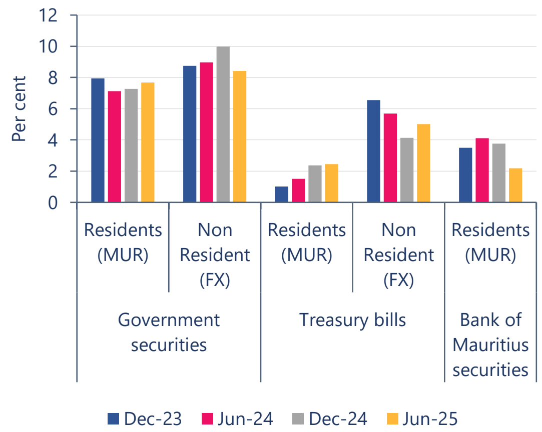
Chart 3.3: Bank investment in sovereign and central bank instruments




*Source: Bank of Mauritius*

The banking sector shifted towards short-term instruments, suggesting a preference for liquidity amid evolving market conditions. Investments in treasury bills increased at an annual rate of 8.8 per cent in June 2025, reversing the previous year's decline. The composition of short-term sovereign exposures were primarily in foreign treasury bills, though it could pose rollover and currency risks during global stress episodes. Domestic sovereign holdings provided a stabilising anchor for long-term exposures. The Government of Mauritius securities accounted for 7.7 per cent of assets, while foreign government securities had a share of 8.4 per cent (Chart 3.4). For treasury bills, the resident portfolio held 2.5 per cent of assets, compared to 5.0 per cent to foreign governments.

Chart 3.4: Share of sovereign instruments in total banking sector assets




*Source: Bank of Mauritius*

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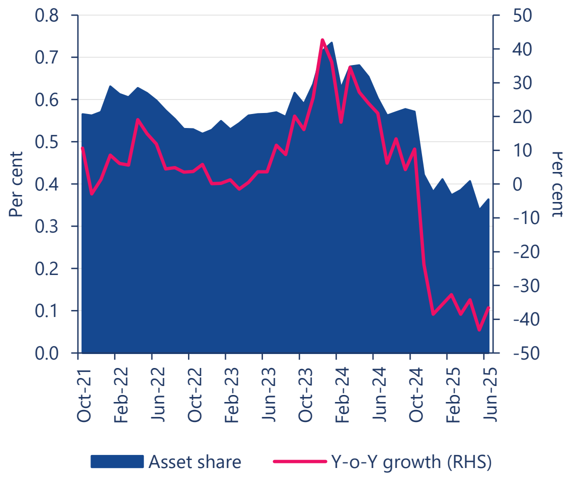
On the liability side, government deposits at banks stood at Rs25 billion, representing 1.2 per cent of total banking sector deposits suggesting limited systemic funding risk from the public sector. Domestic currency deposits declined while foreign currency deposits increased.

### *Limited bank exposure to foreign corporate investments*

Banks' aggregate investment in corporate equity remained very limited relative to total assets, accounting for only 0.4 per cent of assets in June 2025 (Chart 3.5). Total holdings of corporate investments contracted at an annual rate of 36.6 per cent in June 2025, driven by a sharp contraction in non-resident exposures which continued to represent the bulk of holdings with around 74 per cent of total corporate share investments. Given the limited size and the predominance of long-term holdings, risks from equity exposures are assessed as minimal under current market conditions.

Chart 3.5: Corporate equity investment by banks



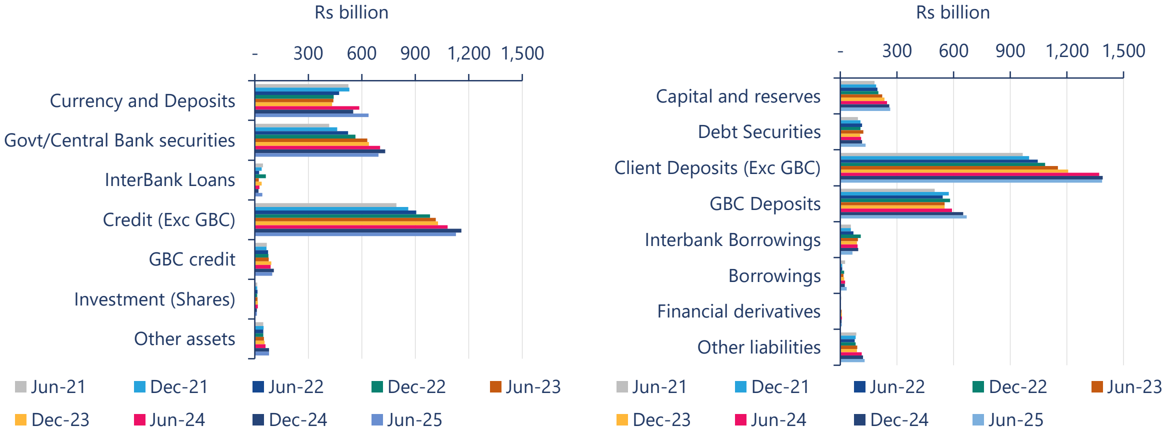

*Source: Bank of Mauritius*

### *Deposit assets of banks*

The banking sector exhibited a shift in liquidity management strategies in the first semester of 2025. Bank deposits held at the central bank went up to Rs223 billion, a significant increase of 31.5 per cent in annual terms in June 2025, driven mainly by higher Rupee-denominated relative to FX deposits (Chart 3.6). This deposit structure supported systemic liquidity resilience and limited FX risks. In contrast, bank deposits held with other banks were broadly stable, with a marginal contraction of less than 1 per cent.

Chart 3.6: Banking sector balance sheet decomposition

a. Assets decomposition b. Capital and liabilities decomposition




*Source: Bank of Mauritius*

## *Bank lending*

Aggregate lending activity of banks was sound in the first semester of 2025, driven by credit expansion to both the resident and non-resident sectors. Loans extended to all sectors, but excluding the GB sector, grew by 4.2 per cent annually while loans to GBCs registered stronger growth of 10.9 per cent in June 2025. Banks shifted strategically into FX loans to non-residents, taking advantage of robust demand for FX-denominated financing from the non-resident segment which went up an annual rate of 16.0 per cent in June 2025. Interbank loans were low in volume and expansion were driven primarily by FX transactions across both resident and non-resident segments.

## *Banks' funding and equity structure*

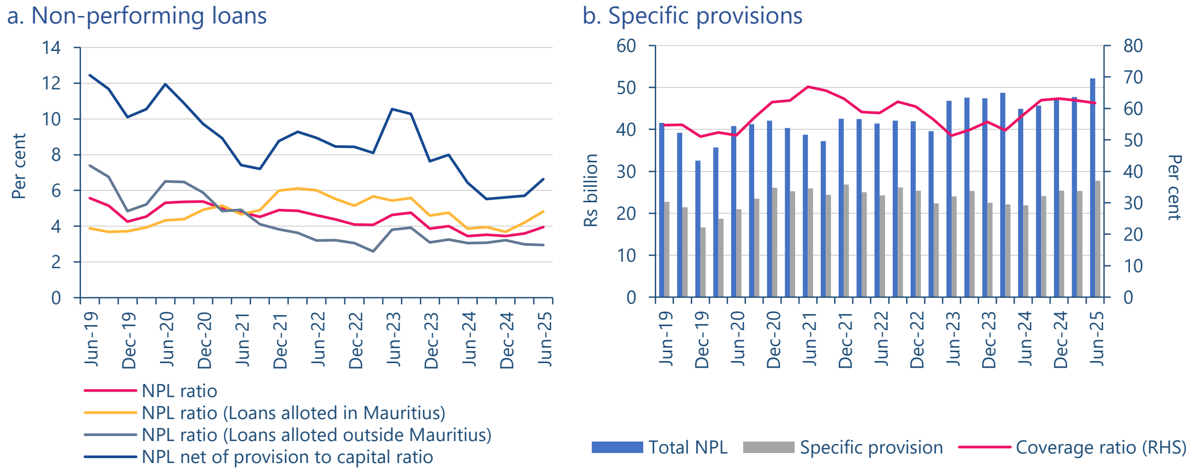
Deposits remained the primary funding source for the banking sector. Aggregate deposits went up at an annual rate of 4.7 per cent to reach Rs2.1 trillion in June 2025, due largely to GBCs FX deposit growth. (Chart 3.6b). Concurrently, deposits from households and domestic corporations (excluding GBCs) also showed strong momentum, rising by 14.1 per cent to Rs582 billion and 8.5 per cent to Rs292 billion, respectively. In contrast, deposits from non-residents contracted by 14.3 per cent, a drop that viewed as transitory.

The banking sector continued to strengthen its capacity for financial intermediation by maintaining sound capital and diversifying funding mix. Capital and reserves grew steadily by 6.9 per cent annually in June 2025 (Chart 3.6b). Debt securities issued by banks picked up by 21.7 per cent. Other sources of funding—comprising borrowings, financial derivatives and other liabilities—also recorded significant growth, reflecting banks' efforts to diversify funding sources and enhance balance sheet resilience.

## Credit risk increased[16]

Credit risk in the banking sector went up marginally in the first half of 2025, with the quality of the domestic credit portfolio coming under some pressure. The aggregate NPL ratio rose by 0.5 percentage point during the first semester of 2025 to 3.9 per cent in June 2025 (Chart 3.7a). Despite the pressure on the domestic credit portfolio of banks, the level of the NPL ratio hovered at a lower level than the past 10-year average. The NPL ratio for the resident segment climbed to 4.8 per cent and, exclusive of the GBC sector, the ratio was 3.9 per cent in June 2025. The credit portfolio of non-residents performed better, with an improvement in the NPL ratio to 3.0 per cent in June 2025.

Chart 3.7: Asset quality




*Note: As from end-December 2023, figures in charts 3.3 a and b excludes one bank currently under conservatorship for comparison purposes.*
*Source: Bank of Mauritius*

The increase in credit risk was driven by Stage 3 exposures and NPLs, coupled with a slight decline in the coverage ratio.[17] Credit risk was nevertheless adequately covered by the capital buffers held by banks. The IFRS 9 stages breakdown showed that, while performing loans (Stage 1) continued to rise, there was a notable increase in impaired assets (Stage 3), and a slight reduction in underperforming loans (Stage 2). Concurrently, the coverage ratio dropped to 61.7 per cent in June 2025 (Chart 3.7b). The residual credit risk was, however, soundly covered by the elevated capital levels, as measured by the NPL net of provisions to capital ratio which went up to 6.6 per cent in June 2025.

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

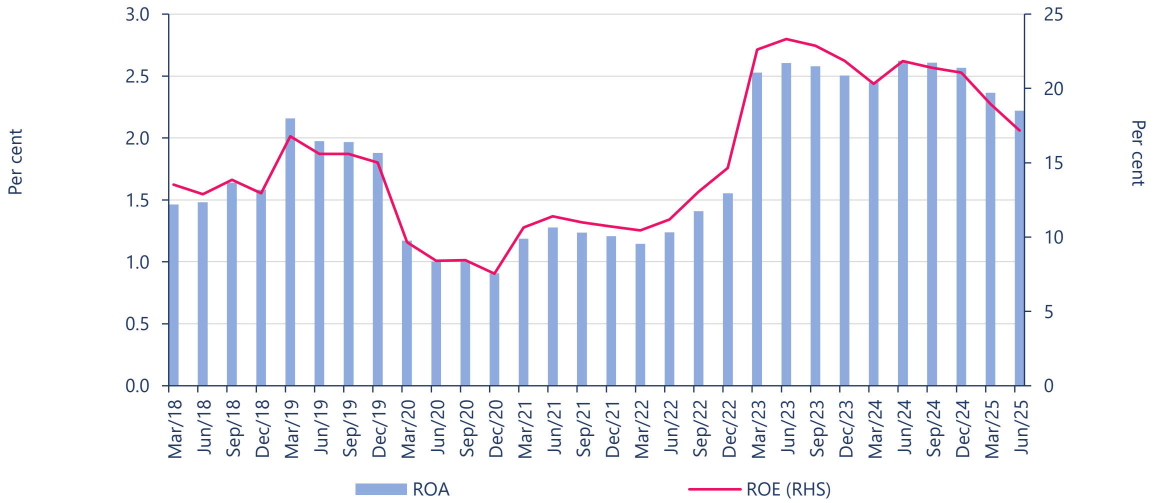
[17] *Loans are moved from Stage 1 to Stage 2 if credit risk has increased significantly relative to the initial position. Loans are moved to Stage 3 if they are in serious default and impairment can be expected. Impairment must be based on expected credit losses over the lifetime of the loan.*

The D-SIBs loan portfolio also indicated a rise in credit risk, reflective of the banking sector performance. The aggregate NPL ratio for the D-SIBs moved up to 4.2 per cent in June 2025. The coverage ratio declined by 7.2 percentage points during the same period to 68.2 per cent in June 2025. The residual credit risk for D-SIBs was, however, well mitigated through their sound capital buffers. The aggregate NPL net of provisions to capital ratio for D-SIBs represented 6.1 per cent of their cumulated regulatory capital in June 2025.

## Profitability softened

Banking sector profitability moderated during the first half of 2025 but support the expansion of capital of banks. Despite this moderation in profits, the average total assets and average total equity of the banking sector went up in June 2025. Pre-tax return on assets (ROA) declined to 2.2 per cent while post-tax return on equity (ROE) dropped to 17.2 per cent in June 2025 (Chart 3.8). The decline in profitability ratios, despite the growth in assets and equity, denoted margin pressures and higher provisioning costs, likely linked to the observed deterioration in asset quality and rising credit risk.[18]

Chart 3.8: Profitability ratios of the banking sector




*Source: Bank of Mauritius*

## Credit concentration risk increased

Large exposures in the banking sector went up notably in the first half of 2025 but banks held adequate capital buffers to mitigate credit concentration risk. The ratio of large exposures to capital increased in proportion to Tier 1 capital to 283.7 per cent in June 2025. This rise in large exposures coupled with a marginal decrease in Tier 1 capital suggested a rise in banking sector

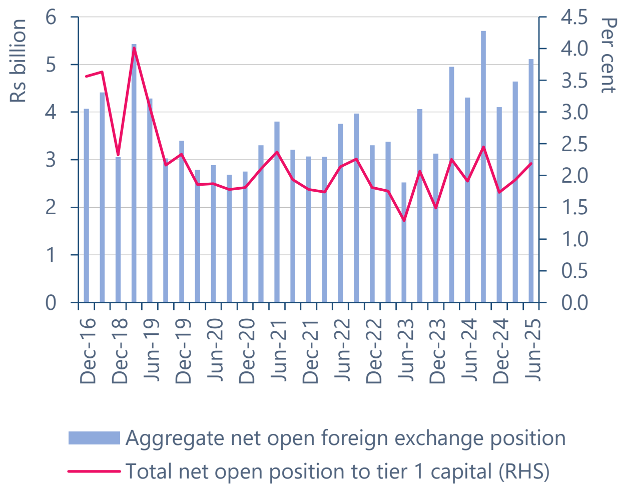
[18] *The profitability ratios have been computed based on the methodology advocated in the IMF Financial Soundness Guide (2019). The ROA is based on the annualised pre-tax profits and averaged total assets. The ROE is calculated as a ratio of annualised post-tax profits and average equity.*

vulnerability to idiosyncratic shocks. The Bank remained vigilant in monitoring and mitigating concentration risk to preserve financial stability, especially in the context of a rise in credit risk and moderating profitability. The stress test results on credit concentration risk affirmed the capacity of the banking sector to absorb plausible materialisation of risks from large exposures.

## Banks increased their FX exposures

The FX risk in the banking sector remained well contained. The net open position in foreign exchange to tier 1 capital rose to 2.2 per cent in June 2025 but was well below the 15 per cent maximum limit (Chart 3.9). The rise in the net open FX position was triggered by an increase in exposure to FX risk compounded by a marginal decline in Tier 1 capital.

Chart 3.9: FX exposure to tier 1 capital




*Source: Bank of Mauritius*

The share of FX-denominated assets and liabilities in their respective totals recorded a marginal decline. FX-denominated loans as a share of total loans dropped to 63.8 per cent in June 2025, as domestic currency loans expanded at a relatively high pace. Similarly, the FX-denominated liabilities as a share of total liabilities edged down to 68.2 per cent by June 2025. The absolute value of FX liabilities contracted by 0.6 per cent in the first semester of 2025, largely driven by a drop in non-resident FX deposits and interbank borrowing.

## Interest rate risk remained moderate

Interest rate risk in the banking sector was moderate in the first half of 2025. The size of the trading book portfolio declined, suggesting a marginal reduction in exposure to market risk. A reduction in short-term mismatches was noted. The broadly stable trading book profile indicated that banks have managed interest rate risk prudently, reinforcing resilience against potential near-term interest rate shocks.

The total assets held in the trading book declined slightly during the first semester of 2025. The value fell by 3.6 per cent over the first semester of 2025, resulting in a lower ratio of 24.5 per cent of trading book assets to Tier 1 capital in June 2025. As a share to the total banking book assets, trading book assets fell marginally to 2.1 per cent.

Net interest-sensitive assets across different time buckets revealed a nuanced shift in the interest rate risk profile. The cumulative total net interest-sensitive assets went up to Rs673 billion in June 2025. Concurrently, the banking sector reduced mismatches in its short-term and medium-term buckets. This shift lowered vulnerability to near-term interest rate shocks and reflected a cautious approach to interest rate risk. The up-to-30-days bucket registered a significant reduction in negative sensitivity in June 2025. The net interest sensitive assets classified between the 31-to-365-day buckets remained positive.

Longer-term buckets for 1 year and beyond showed mixed movements, with some increases in net interest-sensitive assets. This was particularly evident in the 1-to-2-year and 4-to-5-year ranges. Notably, the bucket exceeding 20 years maturity shifted to a negative Rs20.4 billion in June 2025 from a positive Rs5.6 billion in December 2024, suggesting a repositioning of long-term exposures.

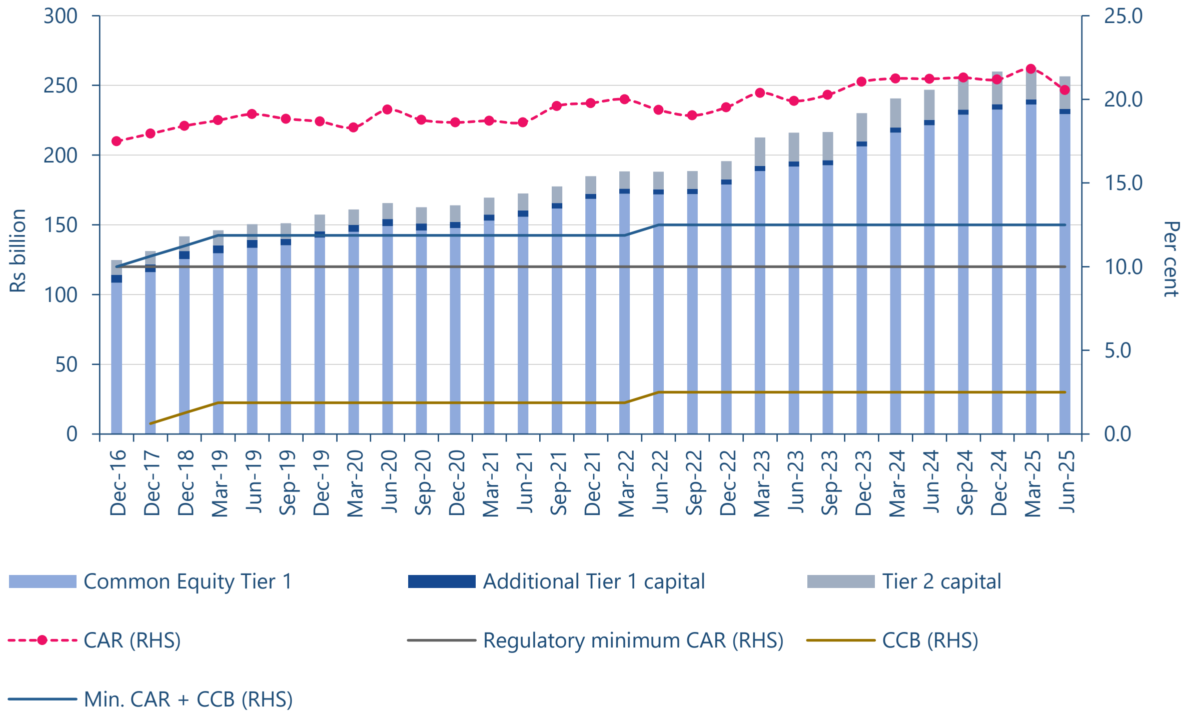
## Capital adequacy stayed sound

Capital adequacy in the banking sector was sound and supported the resilience of the financial system in the first half of 2025. A downward trend in capital ratios was noted, due to rising credit and market risks. The CAR eased to 20.6 per cent in June 2025, but was still well above the minimum of 12.5 per cent for non-D-SIBs (Chart 3.10). Similarly, the Common Equity Tier 1 (CET1) ratio edged down to 18.4 in June 2025. Tier 1 and Tier 2 capital components remained broadly stable. Total capital went up at an annual rate of 3.9 per cent to Rs256 billion and risk-weighted assets (RWAs) rose by 7.2 per cent to Rs1,247 billion in June 2025.

The Capital Conservation Buffer and D-SIB buffer requirements were maintained by the respective banks, with slight increases reflecting adjustments by individual banks. Despite the modest decline in capital ratios, the capital position of banks was well above regulatory minimums, providing a strong buffer against potential shocks and safeguarding solvency.

The annual rise in the RWAs was driven by higher operational risk exposures and credit exposures (both on- and off-balance sheet). The aggregate net open FX position went up as well, contributing to higher capital charges for trading book positions.

Chart 3.10: Capital adequacy ratio of the banking sector




*Source: Bank of Mauritius*

## Resilience of banking sector to solvency shocks

The Bank carries out quarterly stress tests to evaluate the resilience of the banking sector against a spectrum of adverse shocks. The scenarios employed in these assessments, whilst hypothetical, are constructed to be both plausible and relevant. They consist of potential disruptions across several key risk factors – including economic downturns, significant deteriorations in credit quality, substantial interest rate volatility and pronounced exchange rate depreciation. Each scenario is intended to reflect conditions that could have a material impact on both the banking sector as well as individual institutions. The framework provides a forward-looking assessment of the ability of the banking sector to absorb shocks, ensuring that systemic vulnerabilities are identified early and addressed proactively.

The stress test results affirmed the overall strength of the banking sector, demonstrating its capacity to withstand plausible stress events. Risks to global financial stability remained elevated and vulnerabilities may become more pronounced, characterised by uncertainty in the global macroeconomic and macrofinancial environment. The adoption of proactive measures is anticipated to play a crucial role in safeguarding banking sector resilience.

### *Macroeconomic scenarios*

The macroeconomic scenario assumptions are based on current and economic developments and latest forecast. Stress testing has been conducted using adverse GDP shocks at two

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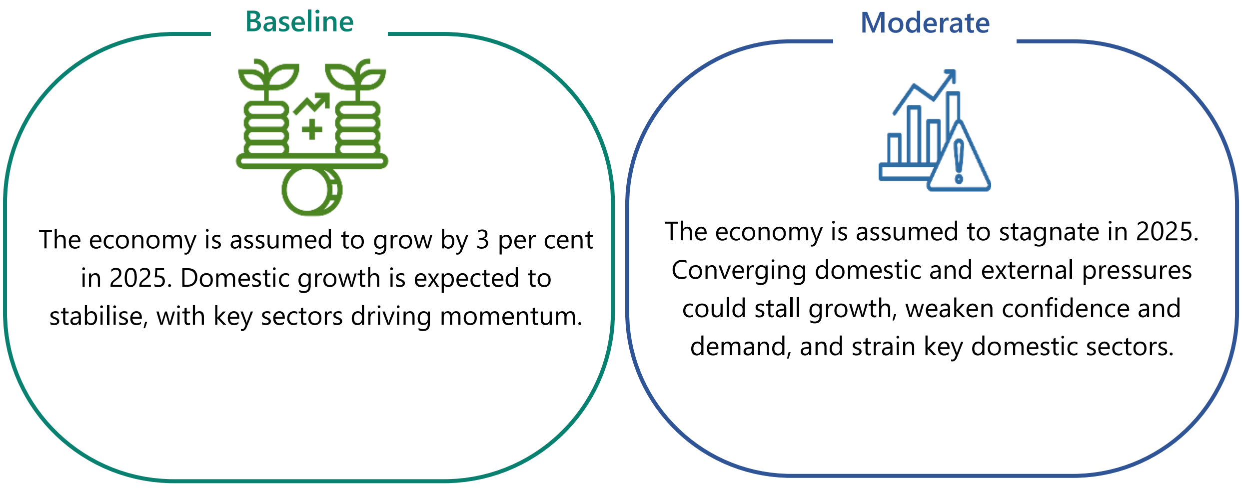
severity tiers – a baseline scenario with growth at 3 per cent for 2025 and a moderate scenario reflecting zero growth for 2025 (Figure 1).

Figure 1: Assumptions under the macroeconomic scenarios




*Source: Bank of Mauritius*

These shocks are further complemented by hypothetical adjustments to interest rates and exchange rates to capture potential shocks in market dynamics. The first set combines an interest rate cut with an exchange rate depreciation while the second set applies an interest rate hike coupled with a smaller currency depreciation (Table 3.1). These scenarios are explicitly hypothetical and do not constitute a policy signal. Their sole purpose is to probe into the capacity of the banking sector to absorb combined shocks.

Table 3.1: Macroeconomic shocks

| | Macroeconomic: set 1 | | Macroeconomic: set 2 | |
|---|---|---|---|---|
| | Baseline | Moderate | Baseline | Moderate |
| **Growth rate** | 3 per cent for 2025 | Zero growth | 3 per cent for 2025 | Zero growth |
| **Interest rate** | -200bps | -200bps | +200bps | +200bps |
| **Exchange rate** | 4 per cent depreciation | 7 per cent depreciation | 3 per cent depreciation | 5 per cent depreciation |

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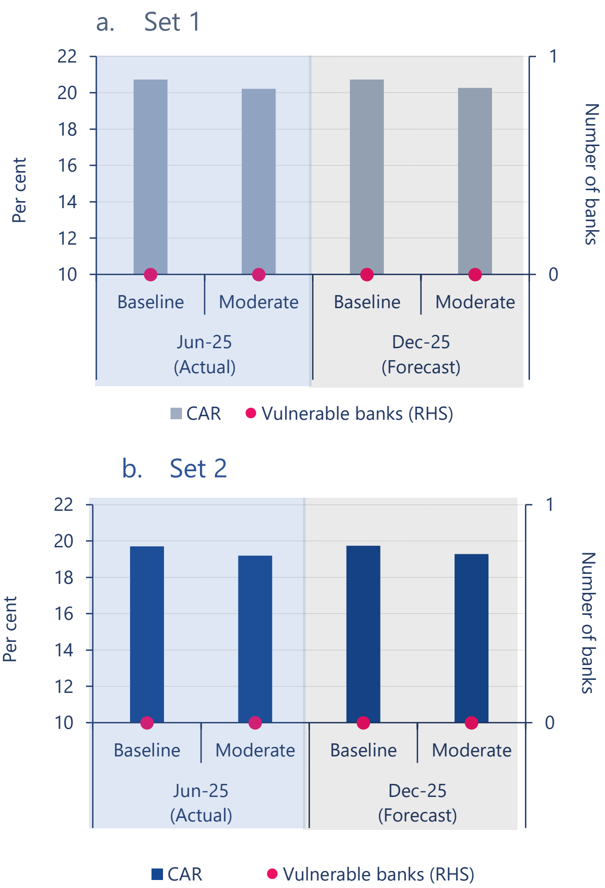
The outcome from the stress test demonstrated that the banking sector possesses substantial capital buffers, enabling it to remain resilient under both sets of macroeconomic scenarios.

The first set – which assumes an economic shock along with a simultaneous depreciation of the domestic currency and a cut in the interest rate, at two severity levels – demonstrated that banks would successfully absorb the adverse impacts based on the actual and projected data (Chart 3.11a).

The second set – which features an economic shock together with a hike in interest rate and a smaller currency depreciation, at two severity levels – showed that the banking sector has the capacity to absorb the shocks (Chart 3.11b).

Chart 3.11: Macroeconomic shock results




*Source: Bank of Mauritius*

The stress test also revealed that the exchange rate depreciation exerted only a negligible influence on the capital buffers held by banks. The net open FX position of banks was well below the regulatory ceiling, thereby substantially mitigating the risk of material losses arising from adverse currency movements.

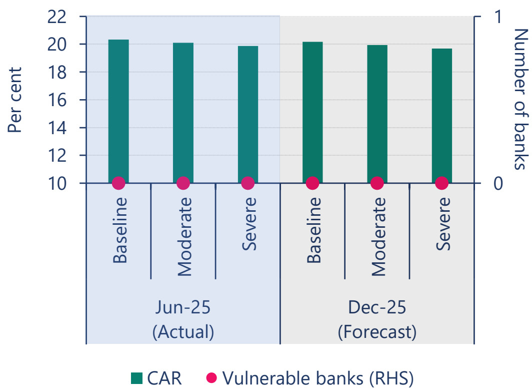
### *Sensitivity stress test*

Several single-factor sensitivity stress tests were conducted to evaluate the banking sector's capacity to respond to specific shocks. The sensitivity analysis applied a top-down approach for assessing sectoral credit risk and credit concentration risk.

#### *Sectoral credit shock*

The sectoral credit sensitivity stress test gauges banks' resilience to asset quality deterioration across seven major portfolios – *Agriculture, Manufacturing, Wholesale & Retail Trade, Construction, Accommodation & Food Services, Real Estate,* and *Housing*. Under this framework, the credit exposure of banks are subjected to incremental impairment shocks of 4 per cent (baseline), 8 per cent (moderate) and 12 per cent (severe). The results for June 2025 and December 2025 indicated that all banks would remain resilient under every scenarios, thus confirming their ability to absorb credit shocks (Chart 3.12).

Chart 3.12: Sectoral credit shock results

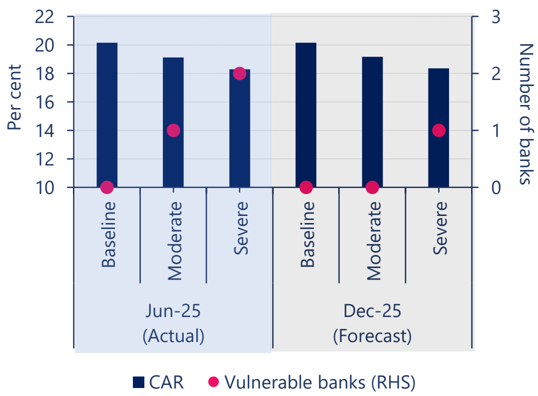



*Source: Bank of Mauritius*

#### *Credit concentration shock*

Credit concentration risk analysis assesses the potential effects of aggregate defaults by largest borrowers across banks. Three scenarios are considered – the baseline scenario assumed default by the top one borrower, the moderate scenario extended to the top five borrowers and the severe scenario assumed defaults among the top 10 borrowers. The results indicated that most banks would remain resilient to the shocks except for two non-D-SIBs in June 2025 and one non-D-SIB in December 2025 (Chart 3.13).

Chart 3.13: Credit concentration shock results




*Source: Bank of Mauritius*

## Robust liquidity buffers

The liquidity position of the banking sector was sound, with ample buffers to withstand short-term and structural liquidity shocks. The elevated liquid asset portfolio, evidenced by the strong LCR and NSFR, underscored the resilience and prudent liquidity risk management of the sector.

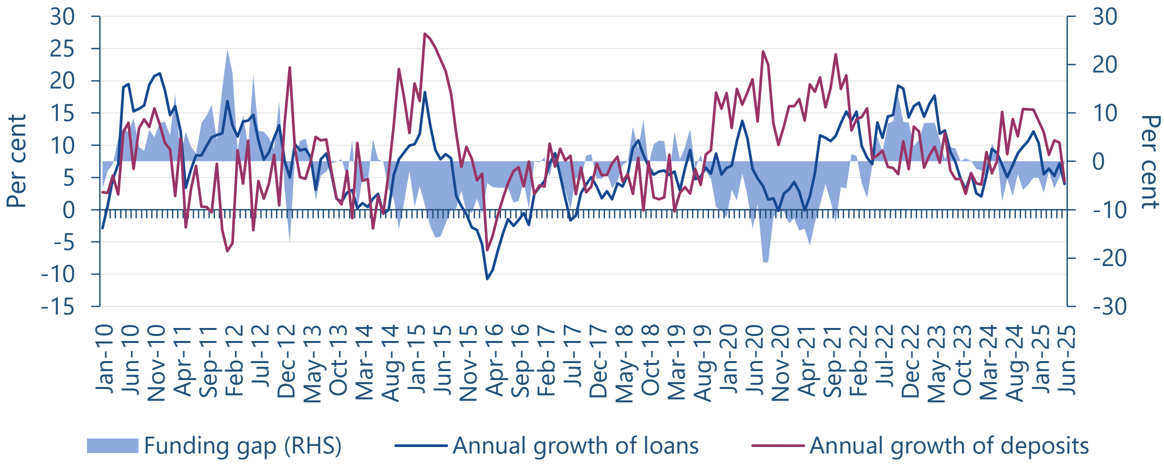
The banking sector further strengthened its liquid asset base. Liquid assets comprised currency, deposits and government and Bank of Mauritius securities, in line with the IMF Financial Soundness Indicator Guide (2019). The aggregate value of these assets increased at an annual rate of 3.4 per cent to Rs1.3 trillion in June 2025. The ratio of liquid assets to total assets consequently improved to 50.1 per cent. The liquid assets portfolio of banks provided ample coverage for short-term obligations maturing within a three-month horizon, thereby substantially reducing exposure to immediate liquidity pressures and reinforcing their capacity to absorb potential funding shocks.

The coverage of the LCR for domestic currency and major foreign currencies was robust. The aggregated HQLA was stable in the first semester of 2025, while concurrently net cash outflow remained elevated annually. The consolidated LCR was 281.8 per cent in June 2025, comfortably above regulatory threshold of 100 per cent. The currency-specific LCRs were also sound, with the Rs-denominated LCR at 421.4 per cent and the aggregated FX-denominated LCR at 183.1 per cent in June 2025.

The NSFR was likewise above the regulatory minimum of 100 per cent, which came into full force in December 2024. The ratio was 145.9 per cent in June 2025, indicating a robust funding profile. All banks reported NSFR levels exceeding the regulatory minimum for both domestic currency and significant foreign currency exposures, indicating a resilient funding structure capable of withstanding prolonged disruptions in funding markets.

The funding gap – defined as the difference between the annual growth of loans and deposits – was in negative territory but narrowed to -0.36 percentage points in June 2025, denoting a recalibration in banks' funding strategies with a gradual convergence between funding inflows and lending activities (Chart 3.14). The reliance on wholesale deposits continued to reflect structural vulnerabilities. In periods of uncertainty, abrupt withdrawals or repricing of wholesale funding could amplify liquidity pressures, particularly for institutions with concentrated funding profiles.

Chart 3.14: Banking system's funding gap




*Source: Bank of Mauritius*

## *Liquidity stress tests*

The quarterly liquidity stress gauged the resilience of the banking sector against sudden deposit withdrawals, simulating adverse outflow scenarios across key depositor groups. This assessment goes beyond standard regulatory liquidity requirements by specifically examining how banks would manage significant withdrawals from households, corporates, GBCs, and non-resident clients (Table 3.2). The results provided valuable insights into the ability of the banking sector to maintain stable operations and meet obligations under stressed conditions.

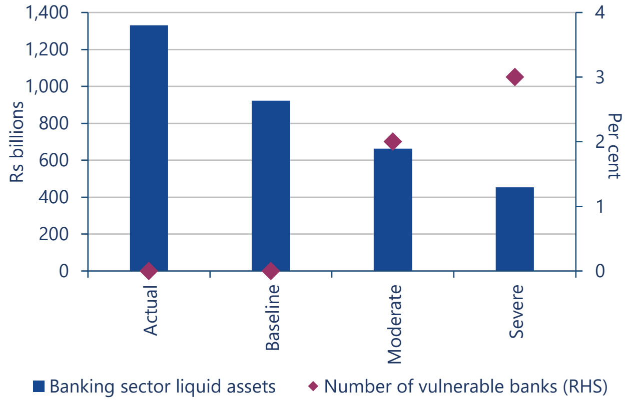
Table 3.2: Liquidity shock parameters

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

*Source: Bank of Mauritius*

Stress test results reaffirmed the overall resilience of the banking sector against liquidity risk, with most institutions maintaining adequate liquidity buffers under adverse scenarios. The June 2025 assessment revealed that all banks met liquidity requirements under the baseline scenario. However, under the moderate stress scenario, two non-DSIBs fell short, and under the severe scenario, three non-systemic institutions exhibited vulnerabilities (Chart 3.15). These findings highlight overall strength, while also pointing to vulnerabilities among a few smaller institutions that warrant continued supervisory attention.

Chart 3.15: Liquidity risk – banking sector liquid assets




## Regulatory developments

The Bank continued to strengthen its regulatory and supervisory framework in 2025 to align with evolving global standards and enhance the resilience of the banking system. These measures aim to safeguard systemic integrity and promote robust risk management practices in a dynamic financial environment.

### *Guideline on Public Disclosure of Information*

An addendum to the *Guideline on Public Disclosure of Information* was introduced in March 2025 to specify disclosure requirements for resident and non-resident exposures. Additionally, branches of foreign banks were informed that the minimum capital adequacy requirement would not apply to business activities with non-residents and entities holding Global Business or Authorised Company licences.

### *Reporting of Fraud*

The Bank revised its requirements for fraud reporting by banks effective March 2025 to strengthen oversight and timely intervention. The key provisions include:

1. reporting of critical fraud incidents with the exception of those involving critical technology or cyber incidents;
2. monthly reporting of fraud;
3. reporting of critical fraud incidents involving critical technology or cyber incidents; and
4. reporting to the police and other authorities.



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## Box 2 – Annual Financial Stability Survey

*The Financial Stability Division has conducted its annual Survey on Financial Stability Perspective (Survey) among banks in October/November 2025. The banking sector remains resilient, with most banks perceiving only a mild increase in financial stability risks for 2025 relative to 2024. The outlook for risk to financial stability is stable, supported by proactive strategies and sustained vigilance.*

*Financial Stability perceptive*

Most banks perceive a mild increase in risks to the financial stability of the Mauritian financial ecosystem in 2025 compared to 2024, with the overall confidence in the stability of the domestic banking sector remaining robust. Confidence in the NBFIs and the FX markets were lower, driven by domestic challenges such as FX volatility and liquidity, and global factors such as interest rate changes and economic uncertainty. These findings suggested that the core banking sector was viewed as stable, while vulnerabilities persisted in the broader financial system, particularly in areas significantly exposed to global market dynamics and foreign exchange pressures.

*Financial Market Infrastructure*

Banks indicated that the operational resilience of key Financial Market Infrastructures (FMIs) in Mauritius is generally viewed as adequate or good. Confidence in contingency arrangements for continuity during severe disruptions is mostly moderate. However, a significant concern for the FMI in Mauritius was the risk posed by payment service providers (PSPs) outside the traditional banking system. Many respondents believed these entities introduce higher operational and cyber risks to FMIs, citing less stringent regulatory oversight, weaker cybersecurity standards, and increased third-party and technology outsourcing risks. Strengthening regulation and improving cyber resilience – especially for non-bank PSPs – are critical to safeguarding the stability and integrity of Mauritius' FMI.

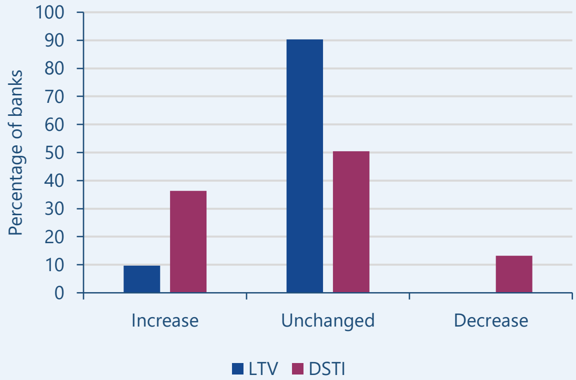
*Risk to the macrofinancial system*

*1) Key drivers of risks in the financial system*

Risks to the domestic macrofinancial environment are influenced by global shocks, domestic vulnerabilities and sector-specific pressures that are expected to materialise mainly over the medium term. Banks view FX disruptions as the most significant global risk, with household and corporate debt burdens rated as medium risk. For the GB sector, adverse Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)-related developments and potential shifts of client flows to competing jurisdictions rank high, while tightening substance rules and treaty renegotiations are assessed as medium to medium-low.

*2) Household sector risks*

Chart I: Changes to internal limits




*Source: Bank of Mauritius*

Underwriting standards for household lending stayed largely unchanged over the past year, with only isolated adjustments to internal limits. Many banks kept their Loan to Value (LTV) limits and Debt Service to Income (DSTI) unchanged and collateralisation levels are sound. over half of the respondents maintaining thresholds at the same level (Chart I). Collateralisation levels are sound with many banks reporting their average LTV ratios in their housing credit portfolio to be below 90 per cent. However, affordability concerns are growing as property prices continue to rise faster than incomes. Financial stress remains limited, though some cases were noted among non-salaried borrowers.

*3) Corporate sector risks*

Corporate sector risks are influenced by refinancing needs and reliance on shorter-term debt, though the overall maturity profile remains broadly stable. Risks from the Corporate Real Estate (CRE) market were muted whilst few banks reported a shift from their corporate clients to capital market financing. Some banks observed a shift among large corporates toward raising funds through capital markets, seeking cheaper financing and bullet repayments. Rental income streams in CRE remain stable, but expectations for property prices are cautious – anticipating commercial prices to stay broadly unchanged. These factors, combined with refinancing activity, suggest that systemic risk is contained.

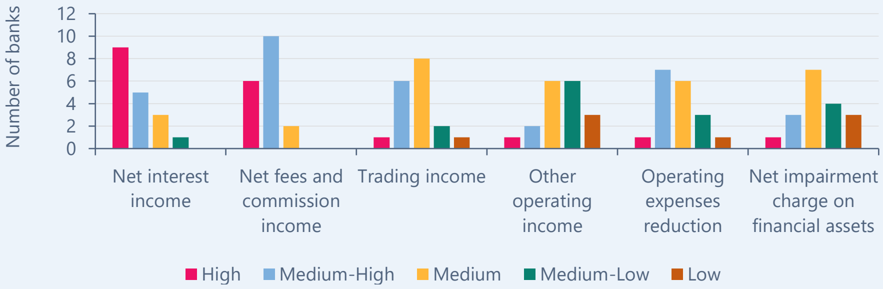
*Resilience, stress testing and outlook*

Banks confirmed their aptitude to demonstrate strong resilience, with all institutions conducting stress tests that cover major financial risks including credit, market, cross-border exposures, and liquidity – either in singular scenarios and/or a combination thereof. All banks report that they are resilient to the shocks modelled in their stress tests. Core financial metrics are expected to stay stable or improve slightly under baseline scenarios through 2026. However, several downside risks – including FX market stress, global interest rate volatility, geopolitical risks, and potential natural disasters – could challenge this outlook. Upside risks were linked to stronger tourism recovery, investment rebound, and higher external demand. These findings highlight the sector's preparedness but also underscore the importance of proactive risk management in an increasingly complex and uncertain environment.

### *Profitability and strategy*

Overall, the strategic emphasis of banks is on strengthening core lending activities and optimising the risk-return profile of assets, while maintaining a cautious approach to cost management. Most banks indicated prioritising profitability primarily through net interest income (Chart II). To boost net interest income, banks would mainly continue to increase lending volumes to the domestic sector and focus on higher-risk assets, while measures such as funding cost reduction or increasing interest rate spreads would not be widely pursued. On the cost side, operating expense reduction is a moderate focus, with most banks preferring to cease low or loss-making business lines rather than staff or overhead reductions or increased digitalisation.

Chart II: Profitability strategy

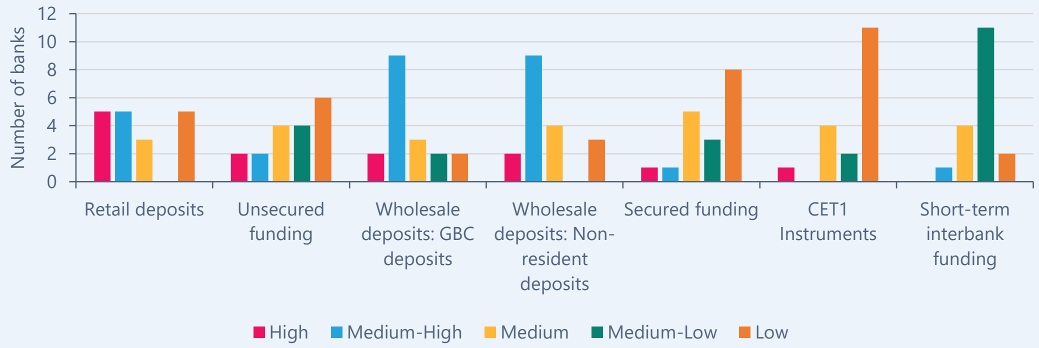



*Source: Bank of Mauritius*

### *Liquidity and Funding*

Banks reported a stable liquidity position, with none registering unexpected significant losses in liquidity margin over the past 12 months. Funding strategies for the next 12 months show a strong preference for wholesale deposits (both GBC and non-resident), with retail deposits and short-term interbank funding also playing important roles for some banks (Chart III). The sector demonstrated prudent liquidity management with banks are focusing on competitive pricing, client service excellence, leveraging group networks, and offering tailored solutions to attract and retain non-resident and GBC clients.

Chart III: Liquidity strategy

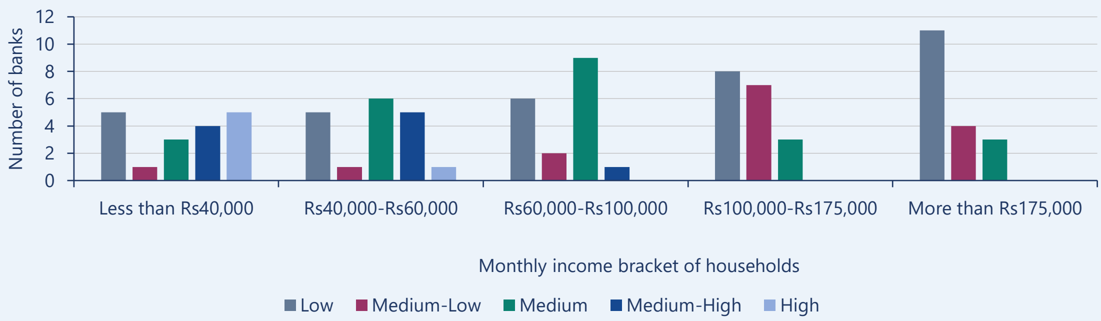



*Source: Bank of Mauritius*

## *Asset Quality and Solvency*

The asset quality of the banking sector remained stable, with no significant increase in foreclosed residential properties over the past 12 months. Delinquency rates across retail portfolios are generally low, particularly for higher income brackets. Most banks reported minimal financial strain among households with higher incomes, while lower income groups show medium-high to high levels of strain (Chart IV). Many banks do not foresee significant impediments to recover for NPLs, but a few banks indicated notable challenges in recovery process, such as protracted sale by levy. Most banks confirm the availability of adequate instruments or channels to reinforce capital buffers, over the next 12 months, if required.

Chart IV: Household financial strain based on income bracket over last 12 months




*Source: Bank of Mauritius*

## *Cross-border exposures*

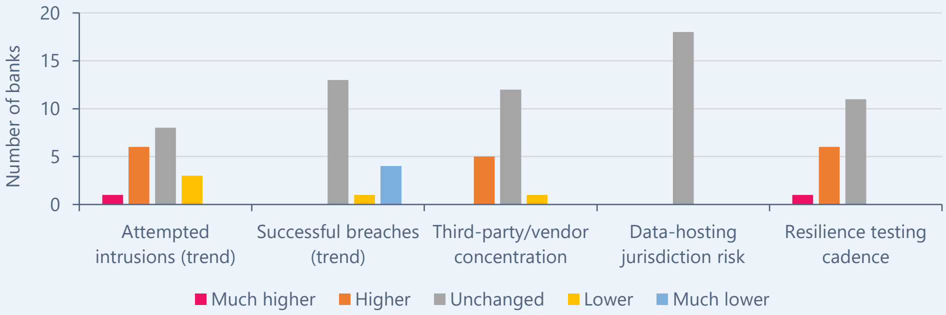
Most banks generally foresee stable to moderate growth in key balance sheet items such as loans to non-resident clients, investments in foreign government securities, and deposits from global business clients. Few banks expect declines in certain cross-border activity areas. Overall, the sector's cross-border exposure is set to grow, but the pace and scale will depend on evolving market conditions. The key challenge for banks' cross-border activities is the growing geopolitical instability, FX market volatility and stricter compliance and

AML/CFT requirements – which exposes banks to heightened credit risks and operational complexities. Banks proposed to address these issues through a range of measures such diversification, ongoing monitoring of geopolitical developments, expanding access to diversified FX counterparties and strengthening compliance frameworks.

### *Operational risk*

Operational resilience in the banking sector remained robust in 2025, with most banks reporting unchanged or higher levels of attempted intrusions but very few successful breaches (Chart V). Looking ahead to 2026, nearly half of banks expect operational risk to increase, driven primarily by cyber risk and data security concerns, IT failures, outsourcing, and AML/CFT challenges. Internal and external fraud, conduct and legal risk, and geopolitical factors also contribute to the risk outlook. To respond to these challenges, banks plan more IT investment, operational changes, outsourcing, cost controls, and in some cases, restructuring their branch networks and operations.

Chart V: Operational resilience




*Source: Bank of Mauritius*

### *Digitalisation*

Digitalisation is a top strategic priority for Mauritian banks in 2025/2026, with most institutions focusing on intelligent automation, customer interface digitisation, internal process automation, and the adoption of artificial intelligence. Key initiatives include upgrading core banking systems, enhancing mobile and internet banking features, implementing digital onboarding, and launching comprehensive digital banking and payment platforms. Banks are also investing in data analytics, cybersecurity frameworks, cloud migration, and open banking ecosystems to improve efficiency, customer experience and resilience. However, banks face several challenges in their digital transformation journeys including high implementation costs, scarcity of specialised IT and cybersecurity talent, legacy system constraints, regulatory hurdles, and resistance to change among staff and customers. Cybersecurity is a major concern, with all banks reporting robust policies to support remote work, including multi-factor authentication, virtual private networks, endpoint monitoring, and ongoing staff training.

*Climate-related risk*

Banks' exposure to carbon-intensive sectors varies widely ranging from none to 50 per cent. Most banks generally consider their credit exposure to climate-sensitive regions, such as coastal zones and areas prone to cyclones or droughts, to be limited and not material to their overall stability. For the materialisation of a physical risk event, most banks expect only a marginal increase in the probability of default (PD) across both moderate and high severity scenarios. As for transition climate risks, few banks expect only limited impact on the PD of their credit portfolios. Banks plan to gradually reduce their exposure to carbon-intensive sectors and increase investment in green sectors over the next 20 years. While current strategies and targets vary, the overall trend reflects a commitment to support climate transition and enhance long-term stability.

*Communication and data*

Most of the responses suggested that the Bank's external communications are well regarded for their clarity and predictability. However, there is room for improvement in the design and clarity of supervisory data templates and in reducing the reporting burden on banks. Most banks rated good and adequate clarity in the Bank's public communications (such as Financial Stability Reports and press releases), and the remaining generally expressing a fair rating. Predictability of macroprudential policy was also rated positively, with many banks finding it good or adequate. However, there is less satisfaction with the clarity of supervisory data templates and the data burden.

*Contingency plans and measures*

While a few banks have yet to fully test their contingency plans, the majority demonstrate a proactive approach to crisis preparedness, regularly reviewing and updating their frameworks to adapt to evolving risks. Most banks have established comprehensive contingency plans to weather potential macroeconomic shocks, with a strong emphasis on liquidity and capital adequacy. Common measures include liquidity contingency frameworks, capital buffers, business continuity plans, and integrated recovery plans. These plans are regularly tested – often through annual simulations, scenario analysis, and stress testing – to ensure operational readiness.

In terms of policy actions to further reduce systemic risk, banks suggested enhanced oversight of NBFIs, more rigorous enforcement of AML/CFT regulations, formal FX market-making frameworks, and sector-wide cyber resilience drills. There is also a call for the establishment of emergency liquidity backstop facilities and the implementation of counter-cyclical capital buffers.

## Box 3 – Mauritius Deposit Insurance Corporation Ltd: Strengthening Systemic Resilience

The Mauritius Deposit Insurance Scheme, established under the Mauritius Deposit Insurance Scheme Act (Act), is a critical pillar of the financial safety net in Mauritius. The deposit insurance scheme is managed by the Mauritius Deposit Insurance Corporation Ltd (MDIC), a wholly-owned subsidiary of the Bank, which became operational effective June 2024. The objectives of the MDIC are to protect insured depositors and contribute to financial stability. As per the Act, the MDIC insures individual resident depositors. The operationalisation of the MDIC fulfils one of the Bank's core mandates, which is to *"ensure the stability and soundness of the financial system of Mauritius."*

*Deposit insurance and financial stability*

Deposit insurance is a key component of the financial stability ecosystem. Its primary function is to safeguard depositors against the loss of their insured deposits in the event of failure of a deposit-taking institution – i.e., a bank or a non-bank deposit taking institution – thereby reducing the risk of panic-driven withdrawal of funds. In the absence of such protection, allegations of financial distress can lead to bank runs that may cause a liquidity crisis and trigger systemic instability.

Deposit insurance provides assurance that deposits are secure. It strengthens public confidence in the banking system, ensuring continuity in credit intermediation and payment systems – both of which are vital for sustaining economic activity and financial stability. Furthermore, deposit insurance complements other macroprudential tools – such as capital adequacy requirements, liquidity buffers, and resolution initiatives – forming an integrated safety net to mitigate contagion risk and orderly wind-down of failed deposit-taking institutions. The design of the MDIC reflects this important role by offering compensation to insured depositors and supporting resolution strategies, thereby reducing the need for fiscal intervention.

*The deposit insurance framework in Mauritius aligns with international best practices*

Globally, deposit insurance schemes have become a standard feature of financial stability frameworks. Many countries strengthened their deposit insurance arrangements since the global financial crisis of 2008 by increasing coverage limits, enhancing governance and integrating these schemes into broader resolution frameworks. As of December 2025, the International Association of Deposit Insurers (IADI) counts 107 deposit insurers as members from 115 jurisdictions and 10 associates.

International standards – including the IADI Core Principles for effective deposit insurance systems, guidance from the IMF and recommendations from the Basel Committee on Banking Supervision – emphasise independence, transparency, adequate funding and strong linkages with crisis management tools. The deposit insurance framework in Mauritius has been designed in alignment with these global best practices.

The MDIC operates with a coverage limit of Rs300,000 per depositor per institution, calibrated to protect the vast majority of retail depositors while maintaining market discipline. The MDIC is governed by an independent board and supported by risk oversight committees, ensuring robust governance and operational autonomy. Its funding model, based on industry contributions rather than taxpayer support, mirrors international norms and promotes sustainability.

*The MDIC in the overall financial stability framework*

The MDIC is an integral component of the financial stability architecture in Mauritius, complementing both microprudential and macroprudential frameworks. Microprudential focuses on the soundness of individual institutions and macroprudential oversight addresses systemic risks, whilst the MDIC provides a critical backstop in the event of failure of a member institution. Its Paybox Plus mandate enables active participation in resolution strategies, ensuring that depositor protection is delivered promptly and systemic disruption is avoided. This creates a cohesive safety net that reinforces confidence in the financial system.

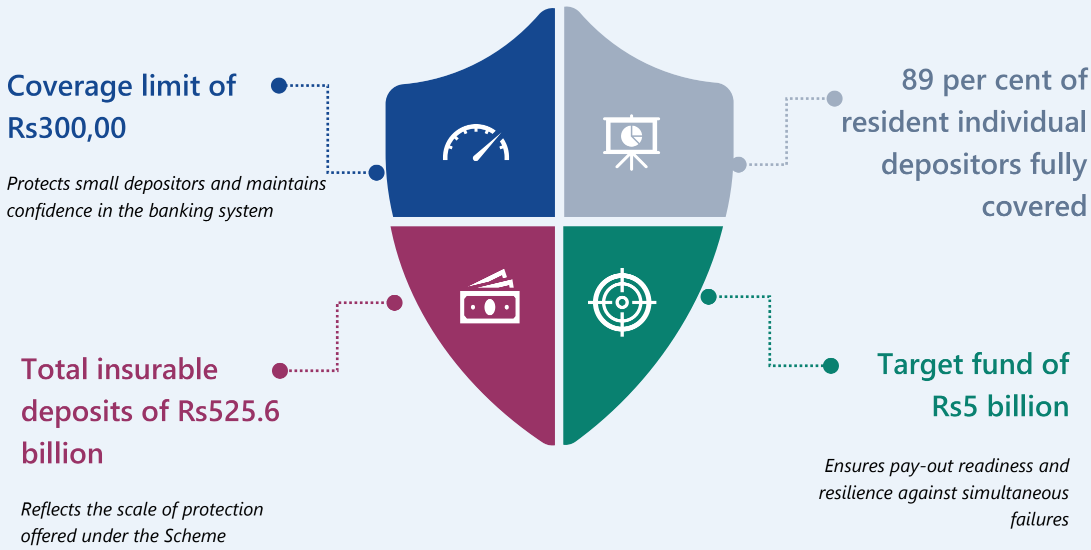
The MDIC engages with the Bank through formal coordination mechanisms. In times of stress, this synergy allows for swift intervention, reducing the risk of disorderly failures that could undermine public trust and destabilise financial intermediation. The ability of the MDIC to provide liquidity at very short notice to insured depositors strengthens the resilience of country`s financial system and complements the prudential regulatory framework.

*Key facts and figures*

The MDIC provides coverage of up to Rs300,000 per depositor per member institution. This level ensures approximately 89 per cent of resident individual depositors are fully protected in the event of a bank failure. As of June 2024, total insurable deposits across member institutions amounted to Rs525.6 billion, highlighting the scale of protection offered under the scheme (Figure 1). To support this mandate, the MDIC has set a target fund of Rs5 billion, calibrated to cover simultaneous failure scenarios and ensure pay-out readiness. The coverage of the target fund is consistent with international deposit insurance norms and aligns with global best practices. Deposit insurance schemes do not aim to hold funds equal to all insured deposits because failures are rare and typically involve one or a few institutions at a time – not the entire system.

The initial contribution of Rs500 million was successfully collected in December 2024, followed by the first annual premium of Rs1.1 billion in July 2025, demonstrating strong industry commitment to the scheme's objectives. As of June 2025, the membership comprises 20 deposit taking institutions, made up of 14 banks and 6 non-bank deposit taking institutions ensuring comprehensive coverage across the financial system.

Figure 1: Key facts and figures



*Ongoing initiatives by the MDIC*

The MDIC is reinforcing its role as a pillar of financial stability. A key priority is the development of a comprehensive public awareness campaign to ensure that depositors and the public at large fully understand the objectives and benefits of the deposit insurance scheme. This effort will promote trust in the financial system as well as support financial access and inclusion.

Additionally, the MDIC is enhancing its crisis preparedness through improved coordination mechanisms. The MDIC also plans to assess the introduction of risk-based premiums to strengthen market discipline. It intends to implement an integrated core system to ensure operational efficiency. These measures will consolidate the resilience of the financial system and ensure that the MDIC safeguards financial stability.

# 4. Non-bank financial services sector[19]

*The non-bank financial sector continued to expand in the first semester of 2025, with risks broadly contained. NBDTIs were well capitalised, held better liquidity cushions and faced lower credit risk. Their interlinkages with banks stayed modest. The insurance industry was stable, supported by improved underwriting and comfortable capital buffers. Life insurers favoured higher-yield assets and foreign exposures, but held lower liquid-assets ratio. Profitability improved in the general insurers segment. Pension schemes recorded robust asset growth, driven by domestic and foreign equities though denoting heightened sensitivity to market and currency swings. Non-bank lenders expanded their credit portfolio, particularly to the household sector. Coordination between the Bank and the Financial Services Commission (FSC) fosters close surveillance of systemic risks from the non-bank financial services sector and timely responses.*

The NBFI sector in Mauritius continued to expand without posing significant risks to financial stability. In the first half of 2025, NBFIs supplemented credit flows to the economy and provided specialised financial solutions, particularly to underserved segments. Operators in the sector – with the main players including NBDTIs, insurance firms, and pension funds – recorded steady business growth.[20]

The financial and insurance services sector remained the largest contributor to economic growth in the first half of 2025. It was supported by strong performance in banking, insurance, and leasing sub-segments. Despite global headwinds, the sector demonstrated resilience and sustained demand for its products and services, with real growth at 4.5 per cent and 4.9 per cent in the first and second quarters of 2025.

The NBDTI sector has showed balanced risk management, with systemic risk well contained. Strong capitalisation, improving liquidity, and a lower NPL ratio underpinned the resilience of the NBDTI sector, though profitability softened slightly. The sector demonstrated increased reliance on non-deposit funding in the form of loan capital, as deposit growth from clients was comparatively flat. These altogether supported asset growth and diversification. NBDTIs increased their aggregate regulatory capital to support the rise in risk-weighted assets 2025.

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

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

The first few months of 2025 were marked by heightened economic uncertainty stemming from geopolitical tensions and tariff threats by the US, which weighed on the investment portfolios of insurers and pension schemes exposed to equity markets. In contrast, underwriting performance of insurers improved significantly, reflecting probably the easing of inflationary pressures on households and corporates since 2022.

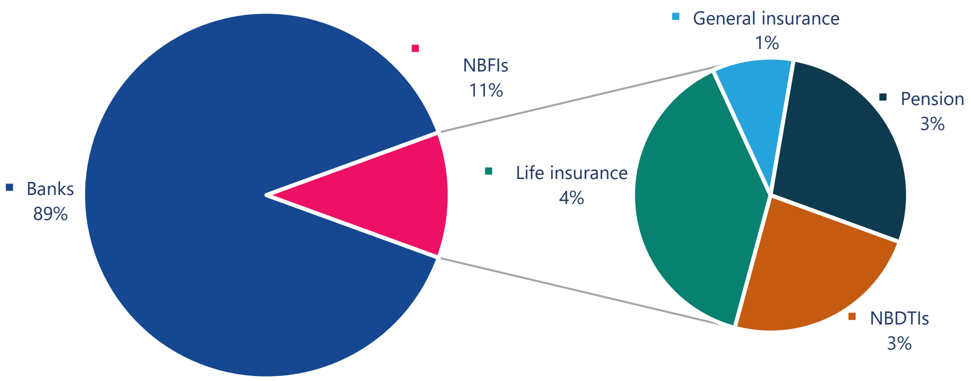
Non-bank financial services were well diversified. The sector comprised 6 NBDTIs, 72 private pension schemes and 22 insurers – composed of 7 in life insurance and 15 in general insurance – as the biggest players in June 2025. The insurance and pension segment contributed an estimated 1.9 per cent to gross value added in 2025, with real economic growth of 4.4 per cent and 4.1 per cent in the first two quarters of 2025. Employment in the NBFI sector was around 2,994 representing an annual increase of 4.1 per cent in June 2025. Several other entities operates in the NBFI sector – such as mutual funds, brokerage companies, financial leasing companies, factoring companies, and credit finance companies. However, the coverage of these NBFIs in the analysis is limited to their lending activities due to lack of granular and timely data. The aggregated assets of these NBFIs were relatively minimal compared to GDP, accounting for less than 15 per cent as of June 2025. Despite their smaller footprint, these entities are not non-negligible as they complement the financial system by offering niche services to pockets of the market which would otherwise be underserved.

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

### *The structure of the financial sector stayed diversified*

The NBFI sector enables the financial system to reach out to economic operators – including households, corporate entities and SMEs – which would otherwise be under-serviced by banks. The share of the NBFIs sector in the financial system has been broadly stable, accounting for about 11 per cent of its total assets in June 2025 (Chart 4.1). This proportion highlights its supportive role in financial intermediation. The life segment continued to dominate the insurance and pension industry, accounting for 51.0 per cent of total assets, followed by pension schemes at 36.5 per cent and general insurance at 12.6 per cent.

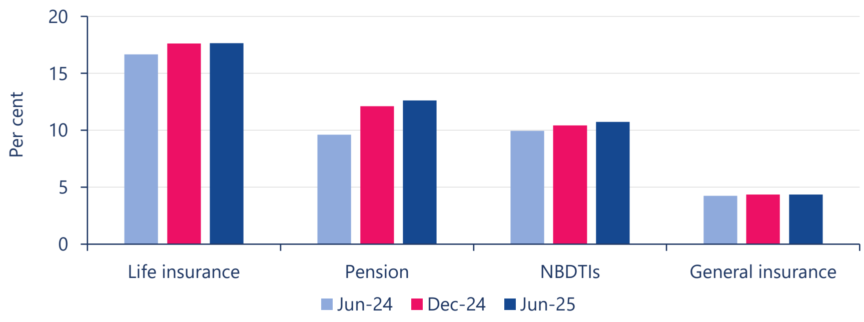
Chart 4.1: Composition of the financial sector (% of assets mid-2025)




*Source: Bank of Mauritius*

Even though the financial sector is predominantly bank oriented, the assets base of the NBFI segment – including NBDTIs, insurance providers, and pension schemes – collectively represented around 45 per cent of GDP in June 2025. The asset-to-GDP ratio underscores the role of the NBFI sector in diversifying and deepening the financial system as well as complementing financial intermediation beyond conventional banking (Chart 4.2). Within the NBFI segment, pension schemes recorded the strongest increase in asset-to-GDP ratio, rising to around 13 per cent in June 2025, while NBDTIs edged up to 11 per cent. Life insurance maintained its share at 18 per cent, and general insurance remained stable at 4 per cent.

Chart 4.2: NBFIs' asset to GDP ratio

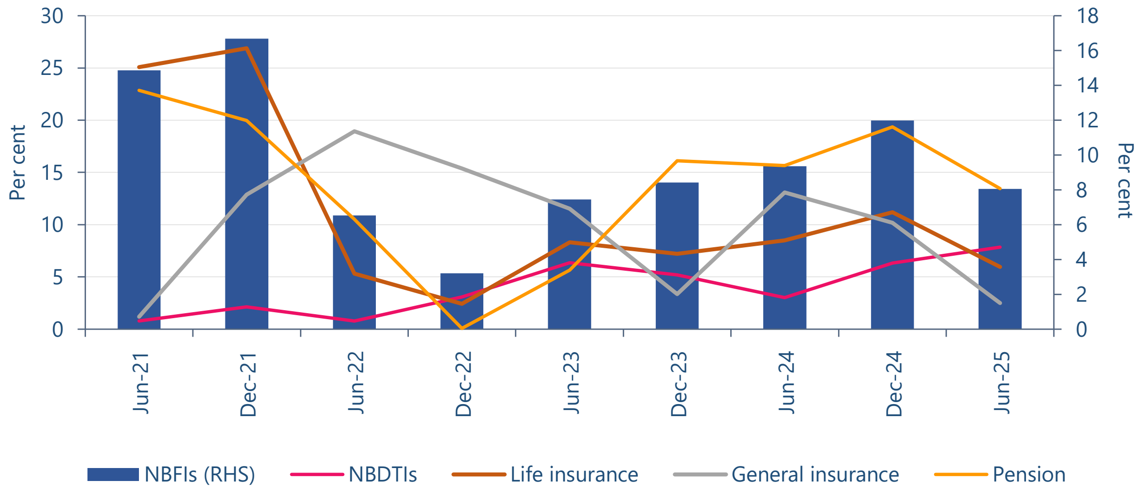



*Source: Bank of Mauritius*

The NBFI and banking sectors are closely interconnected within the financial ecosystem, creating potential channels for risk transmission. Banks primarily provide loans to NBFIs, while NBFIs invest in debt securities issued by banks and, in some cases, hold equity or investment fund shares of banks. Additional linkages included financial derivatives and trade credit extended by banks, which NBFIs use to hedge market and currency risks. On the banking asset side, direct exposure to NBFIs stood at around 3.5 per cent in June 2025. Similarly, NBFIs accounted for approximately 4.5 per cent of banks' total liabilities and capital reserves, mainly through deposits. While these exposures appear modest, they emphasised the importance of monitoring interconnectedness given its potential to amplify risk transmission under stress scenarios.

The asset base of the financial sector continued to expand across all segments in the first half of 2025 (Chart 4.3). Among the NBFIs, NBDTIs recorded steady annual growth of 7.9 per cent, while life insurance assets edged up annually by 6.0 per cent in June 2025. General insurance assets were broadly unchanged in June 2025 relative to a year earlier, reflecting stable underwriting conditions. Pension schemes registered the strongest growth within the NBFI segment, increasing at an annual rate of 13.5 per cent at the end of first semester of 2025, supported by higher contributions and investment returns. These trends underscore the continued monitoring of market exposures given global uncertainties.

Chart 4.3: NBFIs' annual asset growth

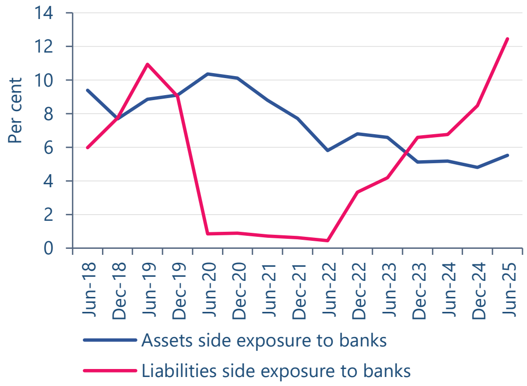



*Source: Bank of Mauritius*

## Resilient growth of NBDTIs

The NBDTIs continued to support financial intermediation as they reinforce their operational links with the banking sector. Alongside other NBFIs, NBDTIs provide specialised financial services – including leasing facilities – to cater to niche market segments and broaden access to finance.[21] The market footprint of NBDTIs remained modest despite their important role, accounting for around 3 per cent of total financial sector assets and 11 per cent of GDP in June 2025. These institutions are increasingly interconnected with banks, highlighting the potential for the transmission of systemic risk across the financial system. This interconnectedness primarily arises through two channels: (i) assets placed with banks, such as deposits and investment instruments, and (ii) liabilities to banks, including credit and other funding arrangements. Total exposure of NBDTIs to banks was measured through assets allotted with banks to total NBDTI assets and liabilities to banks to total liabilities of NBDTIs, which were respectively at 6 per cent and 12 per cent in June 2025 (Chart 4.4).

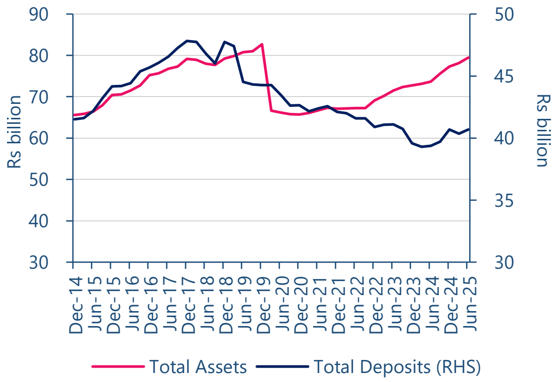
Chart 4.4: Exposure to banks (as % of total assets and liabilities of NBFIs)




*Source: Bank of Mauritius*

The balance sheet growth of NBDTIs was reinforced by the expansion of the credit portfolio and stronger liquidity buffers. Total assets for the sector attained Rs79 billion in June 2025, after growing at an annual rate of 7.9 per cent (Chart 4.5). The expansion of the credit portfolio, mostly in the form of loans and finance leases, was the main catalyst for balance sheet growth. A large share of the increase, around 90 per cent, was allotted to the household sector, with the remainder going to non-financial corporations.

Chart 4.5: Total assets and deposits of NBDTIs




*Source: Bank of Mauritius*

Credit risk in the NBDTI sector improved in the first six months of 2025. The aggregate NPL ratio declined to 4.0 per cent in June 2025 and was supported by stronger provisioning levels. Residual credit risk was well covered by regulatory capital, as evidenced by the ratio of NPL

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

net of provisions to capital, which improved to 5.2 per cent in June 2025, indicating relatively lower capital would be required to absorb potential credit losses.

Liquidity risk was well managed through higher allocation of funding into liquid assets. Deposits held with banks rose at an annual rate of 14.9 per cent in June 2025. NBDTIs consolidated their liquid buffers, with an annual increase of 45.9 per cent in investment in government securities in June 2025. Consequently, the ratio of liquid assets to total assets rose to 12.0 per cent.

The funding structure of the NBDTI sector shifted to non-deposit sources in the form of loan capital, given subdued annual growth of 3.5 per cent in deposits in June 2025. Loan capital expanded significantly by 66.3 per cent in June 2025. Deposits from clients continued to represent slightly more than half of aggregate liabilities and capital reserves.

The NBDTIs held robust capital buffers, an important cushion to absorb risks. The sector enjoyed strong profitability levels, with annualised ROA at 3.2 per cent and annualised ROE at 8.5 per cent in the quarter ended June 2025.[22] The CAR was 50.9 per cent in June 2025, a significant loss absorption buffers compared to the regulatory threshold of 10 per cent.

## Resilient performance of the insurance sector

The insurance sector, a key segment in the financial system, offers essential risk transfer and long-term savings solutions. The industry was characterised by strong solvency position. Insurance penetration in Mauritius declined slightly to 4.3 per cent in June 2025, while insurance density remained broadly unchanged.

Global dynamics are reshaping the risk landscape with persistent macroeconomic uncertainty, geopolitical fragmentation, and rising climate-related losses that intensified pressures on insurers worldwide. Global insured catastrophe losses reached record highs around mid-2025, prompting a shift from traditional risk transfer toward resilience-building strategies. Concurrently, technological disruption is accelerating operational transformation, while regulatory scrutiny on climate risk and Environmental, Social, and Governance compliance is deepening. Against this backdrop, insurers in Mauritius face the dual challenge of safeguarding financial soundness and adapting to global trends that demand innovation, sustainability, and proactive risk management.

[22] *The ROA and ROE ratios are computed quarterly but scaled at an annual rate.*

The asset structure and growth trends suggested that life insurers were well-positioned to absorb shocks and continue supporting financial system stability, although the life insurance sector faces ongoing challenges from market volatility and evolving global risks. The rise in premiums enhanced insurers' capacity to build reserves and absorb shocks, while stable claims reduced short-term liquidity pressures. However, the modest increase in policy numbers and reliance on investment income for growth suggested that structural demand remained subdued.

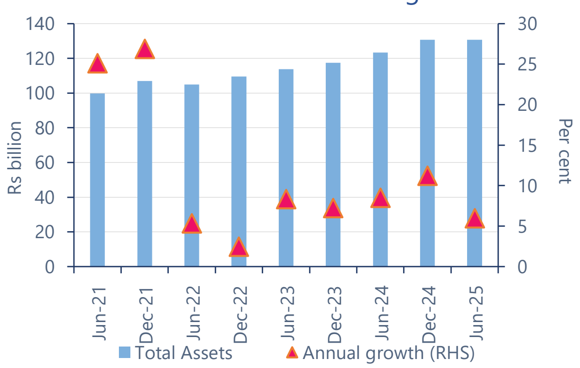
The general insurance sector was well-capitalised and operationally sound, despite regulatory changes, market volatility, and product-specific risks. In particular, the motor segment required sustained attention to risk management and financial reporting practices. The effects of the fiscal measures and excise duty changes, following the National Budget 2025-2026 in June 2025, on the price of motor vehicles may continue to impact policy volumes and pricing in the short term.

### *Life insurance performance strengthened amid shifting risk dynamics*

The life insurance sector was resilient in the first semester of 2025, supported by prudent asset allocation and effective risk management. However, the shift toward higher-yielding instruments, increased FX exposure, lower liquidity buffers, and securitisation activities introduced new dimensions of market, credit, liquidity and operational risk. These developments underscore the need for robust risk mitigation strategies, including diversification, liquidity buffers, and strengthened legal frameworks.

Life insurers maintained a diversified portfolio with increased holdings in equities, investment fund shares, and debt securities. The aggregated assets of the sector were valued at Rs131 billion in June 2025, following an annual growth of 6.0 per cent (Chart 4.6).

Chart 4.6: Total assets and annual growth




*Source: Financial Services Commission*

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Financial soundness of households and corporates
Banking sector resilience
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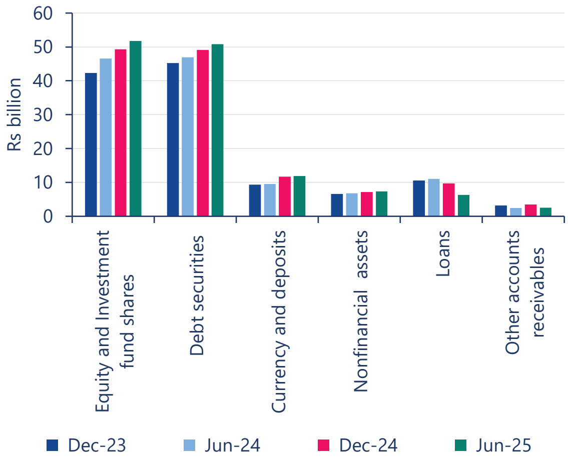
Global business sector and cross-border activities

Life insurers' investment strategy during the first half of 2025 reflected a stronger appetite for higher-yielding instruments, with increased allocations to equities and investment funds. While this shift supported higher returns, it also amplified exposure to market price volatility and FX fluctuations, particularly given the sector's reliance on foreign assets. These risks could translate into valuation swings and potential losses during periods of market stress or currency depreciation. Equity and investment fund shares accounted for the largest share of asset growth, representing around 40 per cent of total assets in June 2025 (Chart 4.7). These holdings registered an annual growth of 11.1 percent in June 2025, moderating from 16.5 percent in December 2024.

Chart 4.7: Life insurances' assets distribution




*Source: Financial Services Commission*

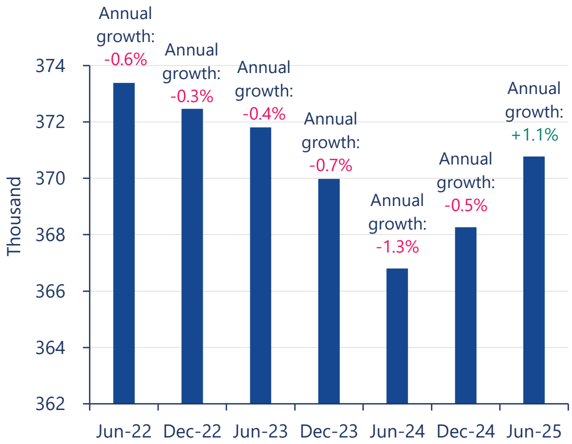
Debt securities remained a core component of the asset portfolio of life insurers, representing about 39 per cent of total assets. This sub-portfolio continued to grow at a broadly stable annual rate of 8.3 per cent in June 2025. Of these debt securities, corporate bonds represented a share of 24.6 per cent in June 2025. The liquidity buffers were supported by a rise in currency and deposits, which grew by 24.9 per cent annually in June 2025.

The loan portfolio contracted sharply in the first semester of 2025, as insurers sought higher returns from their investment strategy into equity and securities and the securitisation process by one life insurer. The loan portfolio declined at an annual rate of 42.4 per cent in June 2025, primarily due to the securitisation of part of the portfolio into secured floating-rate bonds. This shift signalled a cautious approach to credit and operational risk. Concurrently, it enabled insurers to unlock cash flows. However, the absence of comprehensive legal safeguards governing asset securitisation in Mauritius stressed the need for close monitoring to mitigate potential legal and operational risks.

While converting loans into tradable financial instruments can enhance liquidity, it also increases market risk thus requiring robust risk management framework by life insurers. When loans are converted into tradable instruments, credit risk could rise because insurers lose direct control over borrowers and become exposed to market-driven price volatility, counterparty default risk, and systemic shocks. The complexity of securitisation structures and reliance on third parties for servicing and enforcement further amplify the risks.

The volume of life insurance policy recovered in the first semester of 2025, though overall growth was relatedly modest. The number of life insurance policies increased at an annual rate of 1.1 per cent to 370,774 in June 2025, reversing the contraction of 0.5 per cent registered at the end of 2024 (Chart 4.8). This improvement likely reflected better consumer confidence and targeted product offerings. The increase in life policies was marginal relative to asset growth, indicating that expansion continued to be driven more by investment performance.

Chart 4.8: Total policy covers in place




*Source: Financial Services Commission*

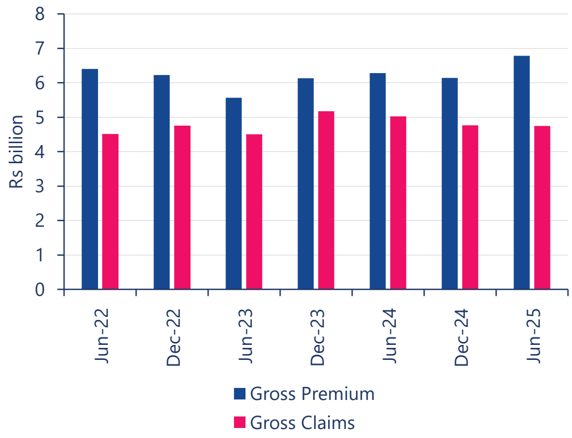
Life insurers recorded stronger premium inflows while claims remained broadly stable, supporting profitability and liquidity. Gross premiums rose at an annual rate of 8.0 per cent in the first semester of 2025, signalling better revenue generation and higher uptake of long-term products (Chart 4.9). Concurrently, gross claims declined annually by 5.6 per cent for the six months ended June 2025.

Movements in gross premiums and claims led to an improvement in profitability. The composition of premiums in the first semester of 2025 showed life assurance as the largest contributor, followed by pension products and linked long-term insurance, indicating continued diversification across product lines (Chart 4.10).[23] [24]

[23] *Life insurance is the term commonly used to refer to long-term insurance business. This segment of the insurance industry covers Insurance products as defined in the First Schedule of the Insurance Act 2005, and, among others, life assurance business. As per this section of the law, it is defined as the business of undertaking liability under contracts upon human life or contracts to pay annuities on human life but excludes permanent health insurance business and personal accident insurance business.*

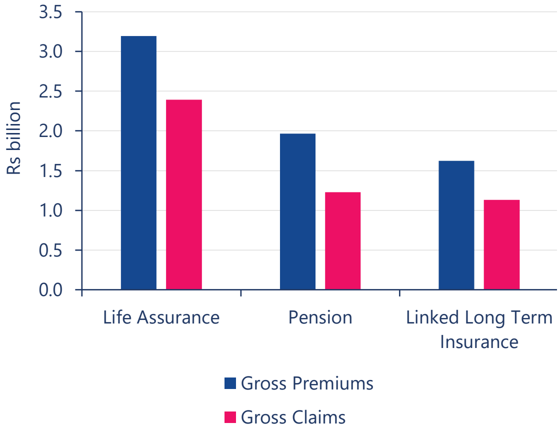
[24] *Linked long-term insurance refers to life insurance policies where benefits are directly tied to the performance of underlying investments, such as stocks, bonds, or mutual funds. Unlike traditional life insurance, where payouts are fixed, linked policies fluctuate based on market conditions, offering potential for higher returns but also carrying investment risks. These policies are often structured as unit-linked insurance plans (ULIPs), combining insurance coverage with investment opportunities, allowing policyholders to participate in financial markets while maintaining life protection.*

Chart 4.9: Gross premium and gross claims




*Source: Financial Services Commission*

Chart 4.10: Gross premium and gross claims by class of policies during June-December 2024



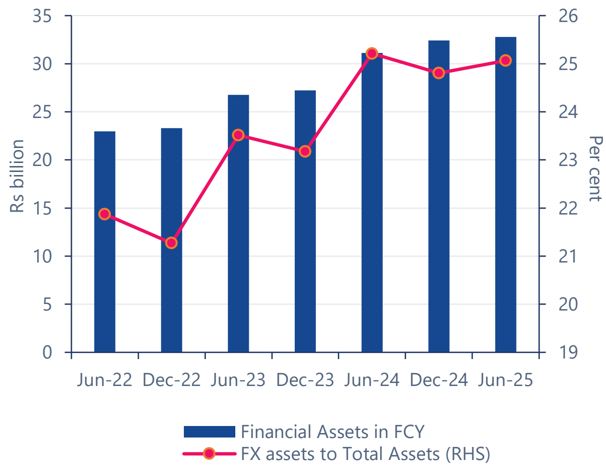

*Source: Financial Services Commission*

Life insurers recorded a marked improvement in underwriting activities, in contrast to the sluggish investment performance. The net income of life insurers from underwriting activities went up at an annual rate of 89.1 per cent in the first semester of 2025. Profitability indicators strengthened supporting robust operational efficiency and resilience, with an annualised ROE of 34.9 per cent and ROA of 4.3 per cent in June 2025.

FX exposure was moderate, though life insurers registered translation losses amid a weaker US dollar and given minimal use of hedging mechanisms. FX-denominated assets went up marginally to 25.1 per cent of total assets in June 2025, signalling heightened sensitivity to currency fluctuations (Chart 4.11). This FX exposure is consistent with the investment strategy of life insurers. They relied on foreign assets with a share of 62.2 per cent of total assets, followed by GBCs at 21.9 per cent and Other Depository Corporations at 8.3 per cent.

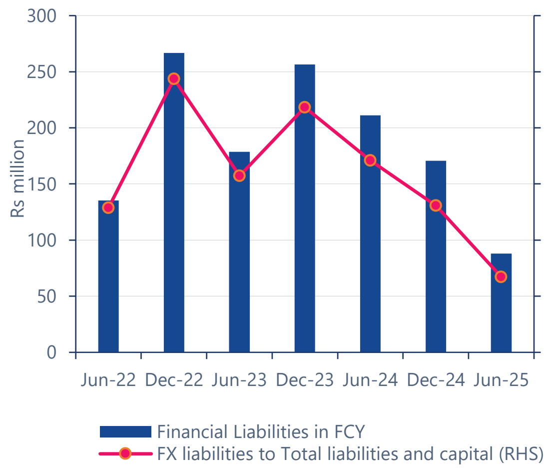
On the liability side, FX-denominated financial obligations were comparatively low. These obligations accounted for 0.07 per cent of total liabilities and equity in June 2025, indicating a reduction in direct currency mismatch risk relative to last semester (Chart 4.12). While the low liability exposure mitigates structural FX risk, the reliance on foreign assets underscores the need for enhanced hedging strategies to contain valuation volatility from FX risk.

Chart 4.11: FX financial assets



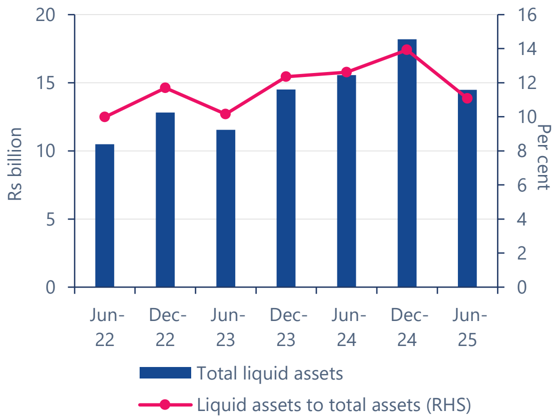

*Source: Financial Services Commission*

Chart 4.12: FX financial liabilities




*Source: Financial Services Commission*

Chart 4.13: Liquid assets to total assets




*Source: Financial Services Commission*

The liquidity ratio remained at healthy levels to meet obligations, though a drop was noted in the first semester of 2025. Total liquid assets declined to Rs14 billion in June 2025 and, consequently, the ratio of liquid assets to total assets fell to 11.1 per cent in June 2025 (Chart 4.13). This drop was driven by a shift from short-term foreign debt securities to equity investments on the domestic stock market, which reduced immediate liquidity buffers and consequently heightened liquidity risk. The liquidity profile of life insurers was nevertheless sufficient to cover claim obligations. Notably, around 70 per cent of liquid assets comprised transferable deposits, denoting prudent liquidity risk management.

Life insurers strengthened their capital position and maintained a comfortable capital buffer despite ongoing challenges in implementing new solvency standards. Capital and reserves rose to Rs16 billion in June 2025, reflecting continued accumulation of capital resources. The Shareholders' Equity to Invested Assets ratio, used as a proxy for capital strength in the absence of an internationally recognised benchmarked risk-based solvency assessments, averaged 12.6 per cent. It improved by 0.65 percentage points since the previous semester.

This progression signalled resilience and prudent capital management. Life insurers were adapting to the Insurance (Long-Term Insurance Business Solvency) Rules 2024 and the more complex IFRS 17 framework, which has proven challenging for the industry. While the updated solvency assessments remained pending for most companies, the current capital cushion provided a degree of stability and supports confidence in the ability of the sector to absorb shocks.

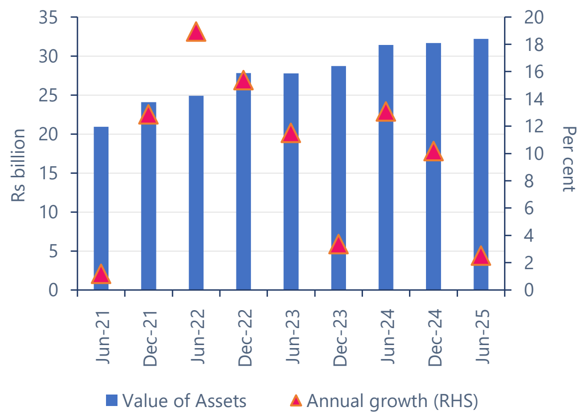
### *Stable growth and improved profitability of general insurance sector*

The performance of the general insurance in the first half of 2025 was supported by asset growth, stable underwriting results, and sound capital buffers. While the product mix stayed diversified, the concentration in motor and health policies underscored the importance of continuous risk monitoring. The ability of insurers to adapt to market and regulatory developments is key to maintaining financial stability in the medium term. Regulatory changes aim to strengthen risk management by general insurers as market volatility lingers.

The balance sheet of the general insurance sector expanded steadily. Total assets increased at an annual rate of 2.5 per cent to Rs32 billion at the end of June 2025 (Chart 4.14).[25] Technical reserves remained broadly unchanged in June 2025 compared the previous semester, indicative of a convergence to a more stable pricing of insurance contracts and value of claims.

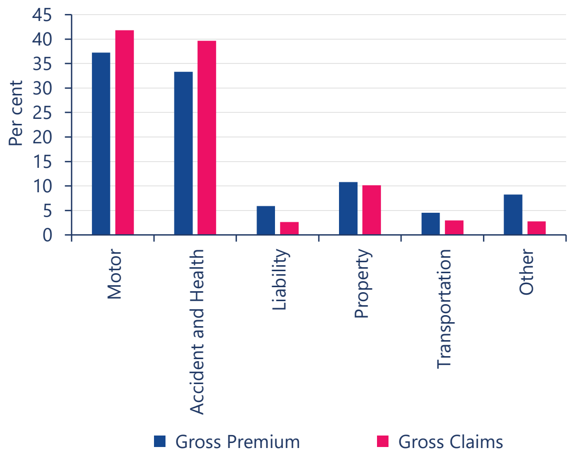
Motor, and Accident and Health policies remained the dominant classes in the general insurance sector, accounting for most premiums and claims. Fiscal measures announced in June 2025 have driven significant volatility and growth in the motor segment. Motor policies accounted for 37.3 per cent of gross premiums and 41.8 per cent of gross claims in the first half of 2025 (Chart 4.15). Accident and health policies contributed 33.3 per cent of gross premiums and 39.7 per cent of gross claims over the same period. These two segments represented a dominant share in gross premiums and gross claims, reflecting their central role in the risk profile and revenue generation for the sector.

Chart 4.14: Total assets and annual growth




*Source: Financial Services Commission*

Chart 4.15: Policy class contribution in the first semester of 2025



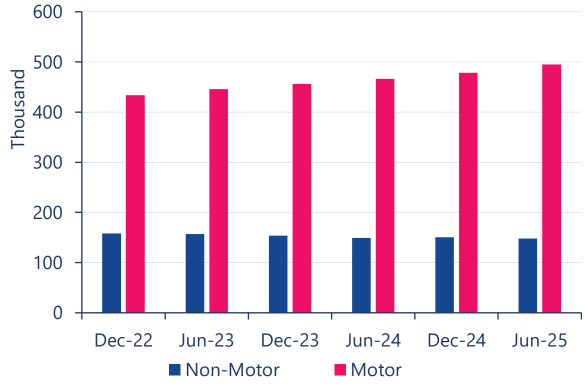

*Source: Financial Services Commission*

[25] *One non-life insurer has reported figures as per IFRS 17.*

The diversified product mix mitigated concentration risk, though the sector remained heavily exposed to motor and health-related claims.

The product mix remained stable, with concentration in motor and health policies. The total number of general insurance policies rose at an annual rate of 4.5 per cent to reach 643,176 in June 2025, driven mainly by an expansion in the motor segment (Chart 4.16). In contrast, non-motor policies contracted by 0.8 per cent in annual terms to around 148,000.

Chart 4.16: Policies in force

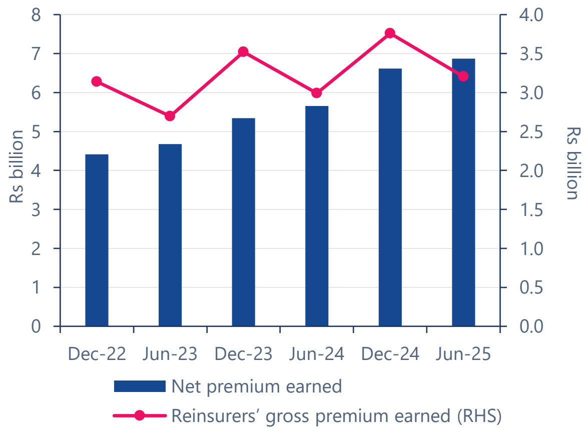



*Source: Financial Services Commission*

Significant volatility was observed in both new issuance and cancellation of motor policies, largely due to the introduction of additional excise duty on imported motor vehicles effective 1 July 2025. The effects of these fiscal measures are expected to persist into the second half of 2025, as the market value of all motor vehicles has been adjusted upward, leading to higher prices for motor policies.

General insurers achieved higher net income in the first half of 2025, supported by strategic adjustments in risk retention and reinsurance arrangements. Net income from general insurance activities increased at an annual rate of 21.4 per cent in first semester, largely driven by a less conservative risk retention approach. Particularly, this growth was primarily driven by optimised reinsurance arrangements, which improved underwriting margins.

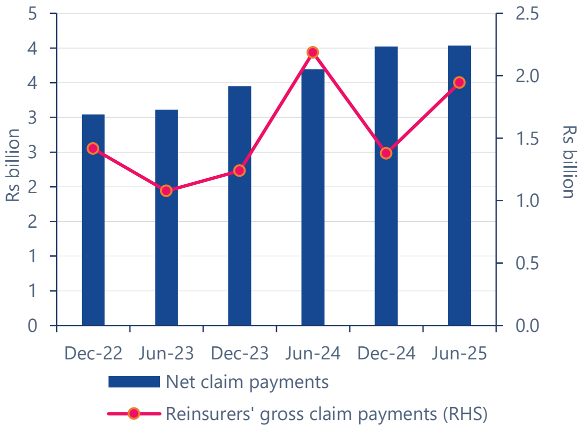
Chart 4.17: Premium earned




*Source: Financial Services Commission*

A shift in reinsurance strategy by general insurers helped offset the marginal deterioration in gross underwriting performance, thereby stabilising overall profitability. Gross premiums earned from reinsurance declined during the first half of 2025 (Chart 4.17). Consequently, its share of gross premium fell to 31.8 per cent, suggesting that insurers retained more risk on their balance sheet.

Chart 4.18: Claim payments

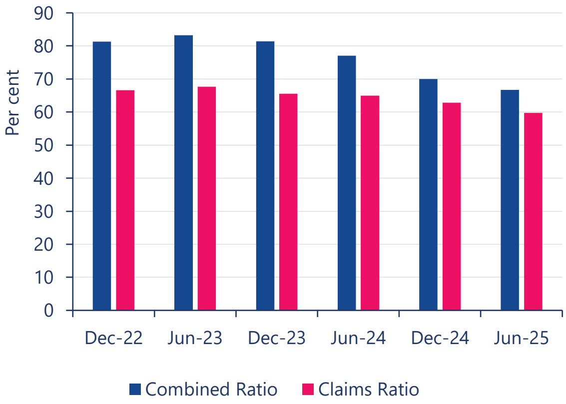



*Source: Financial Services Commission*

Concurrently, gross claims from reinsurance activities increased to Rs1.9 billion over the same period (Chart 4.18). The share of gross claim payments attributed to reinsurance partners went up to 32.5 per cent in June 2025. These developments highlighted the ability of the sector to adapt to risk and adjust risk management to maintain stability.

General insurers enhanced operational efficiency and profitability in the first half of 2025. The combined and claims ratios as well as growth in investment and operating income improved, amid more effective cost management. The combined ratio was 66.7 per cent, and the claims ratio was 59.7 per cent in June 2025. These ratios followed a notable downward trend from the previous semester (Chart 4.19). The average annualised ROE rose to 13.0 per cent in June 2025.

Chart 4.19: Combined and claims ratios




*Source: Financial Services Commission*

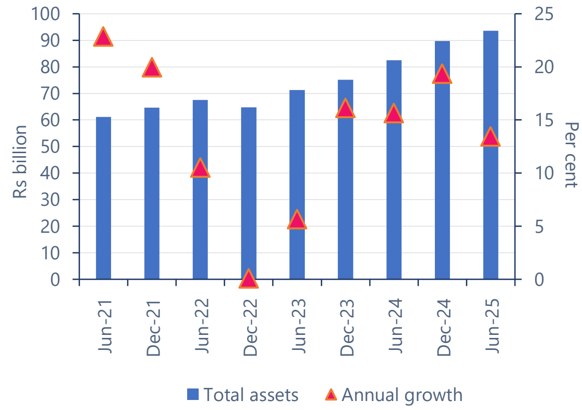
General insurers registered a significant increase in non-underwriting income. Investment income notably rose at an annual rate of 114.1 per cent and other operating income improved by 16.4 per cent in the first semester of 2025. These sources accounted for 26.4 per cent of total income. The combination of better underwriting performance, strong investment returns, and effective cost control enhanced the resilience of the general insurance sector to absorb shocks, even as market conditions and regulatory requirements continue to evolve.

General insurers maintained a stable capital position in June 2025, with a slight improvement in solvency metrics. Capital and reserves stood at Rs10.3 billion in June 2025, reflecting a robust capital cushion. The ratio of Shareholders' Equity to Invested Assets progressed on average by 0.65 percentage point in the first semester of 2025, indicative of a modest improvement in capital adequacy. Among the fifteen general insurers reporting their Asset Valuation Returns for the year ended 2024, six maintained solvency positions above the minimum required level. The other general insurers were experiencing challenges in adapting their financial statements to comply with the new IFRS 17 standards, similar to the life insurance segment. While the transition is ongoing, the capital position remained sound, providing resilience against potential shocks.

## Pension schemes sustained growth

Pension schemes continued to expand in the first half of 2025, supported by asset growth and a partial recovery in investment performance, though sensitivity to equity market volatility was a key consideration. Total assets of pension schemes went up at an annual rate of 13.5 per cent to Rs94 billion in June 2025 (Chart 4.20).

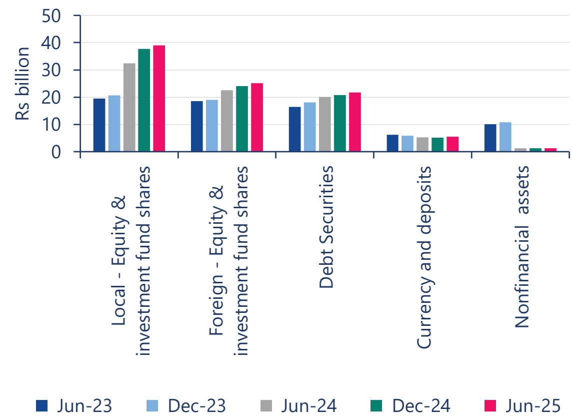
Chart 4.20: Total assets and annual growth




*Source: Financial Services Commission*

The expansion of both domestic and foreign equity and investment fund shares, accounting for around 69 per cent of total assets, supported assets growth. Investments in domestic equities and investment funds rose at an annual rate of 20.6 per cent in June 2025 (Chart 4.21). Foreign equities and investment funds also went up, albeit at a slower annual rate of 11.2 per cent.

Chart 4.21: Asset allocation



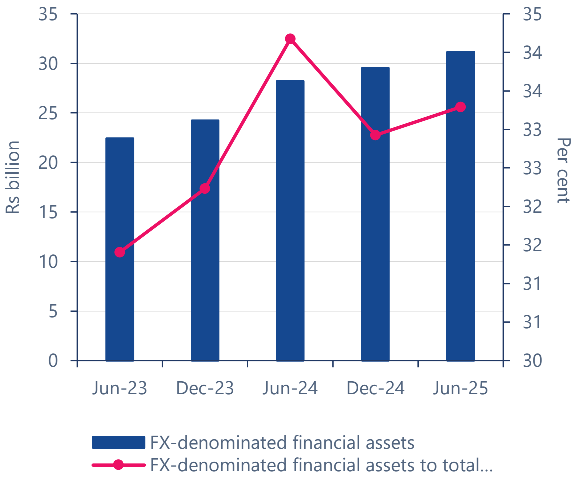

*Source: Financial Services Commission*

Investment in debt securities provided additional support to the balance sheet of pension schemes. The debt securities portfolio increased at an annual rate of 8.5 per cent in June 2025. The exposure of pension schemes to nonfinancial assets, currency and deposits, and other asset classes remained relatively minor, with limited impact on overall growth dynamics.

Despite positive asset growth, pension schemes remained particularly sensitive to equity market volatility, especially as 39.1 per cent were foreign equity holdings. This concentration exposed the sector to both market and currency risks, particularly following a contraction in foreign equity values during the first quarter of 2025, which was subsequently reversed as geopolitical tensions eased.

Pension schemes maintained a stable share of FX-denominated assets in the first semester of 2025, with consequent exposure to FX risks due to currency fluctuations. FX-denominated financial assets went up at an annual rate of 10.4 per cent and accounted for 33.3 per cent of total assets in June 2025 (Chart 4.22). This sustained investment in foreign markets is likely due to lack of investment opportunities in Mauritius that meets the long-term strategy of pension funds and the search for higher return on investments.

Chart 4.22: FX assets

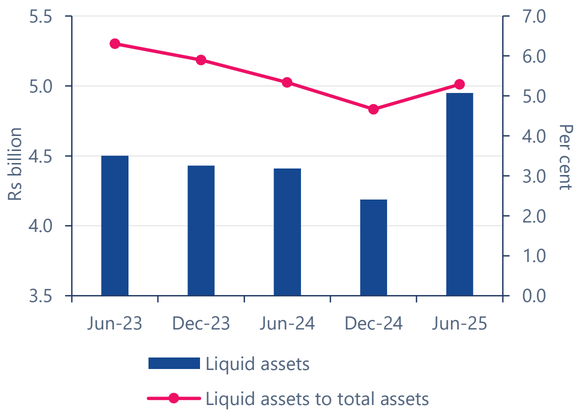



*Source: Financial Services Commission*

On the liabilities side, nearly all instruments were denominated in national currency, as benefit payouts were primarily made to residents. Consequently, pension schemes were exposed to translation losses when the Rupee appreciates against foreign currencies, as was the case with the weakening dollar in the first half of 2025. FX exposures supported portfolio diversification and return generation, but prudent currency risk management is a must to safeguard the stability of the pension fund industry.

Pension schemes maintained a broadly stable liquidity position, with a slight improvement in mid-2025. Liquid assets grew at an annual rate of 12.3 per cent in June 2025, reversing the contraction noted in the preceding semester (Chart 4.23). Consequently, the ratio of liquid assets to total asset was evaluated at 5.3 per cent in June 2025. The composition of liquid assets continued to be dominated by transferable deposits with a share of 71.4 per cent, complemented by debt instruments and other receivables, each accounting for roughly 14 per cent. Overall, the improvement in liquid assets reduced short-term liquidity risk.

Chart 4.23: Liquid assets



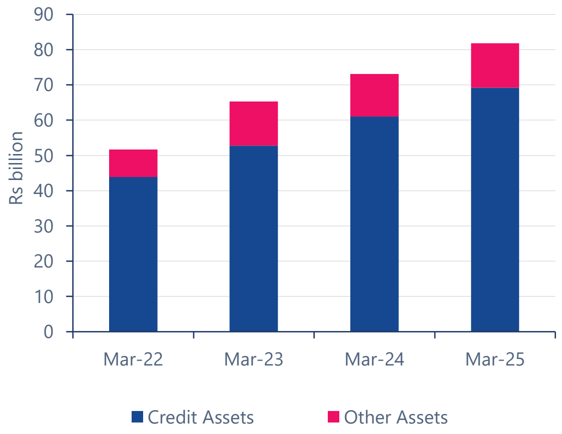

*Source: Financial Services Commission*

## Non-bank lenders remained stable amid evolving risk landscape

The risk profile of non-bank lenders (NBLs) was broadly stable during the six months ended March 2025, supported by better asset quality and sustained growth in lending activity.[26] The NBLs sector consolidated its role in the financial system. Asset growth was primarily driven by an expanding loan portfolio, while NPLs declined amid sound credit risk management. The sector comprised 34 entities employing around 1,400 individuals as of March 2025, supporting the significance of the NBL sector in providing credit outside the traditional banking system. Its performance indicated limited systemic risk, though continued monitoring is warranted given evolving economic and macrofinancial conditions.

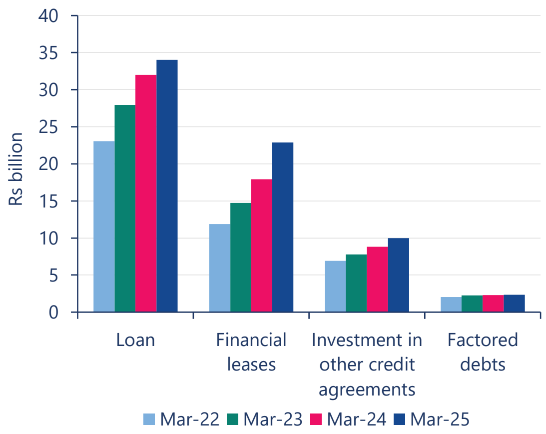
The asset base of NBLs expanded at an annual rate of 13.5 per cent in March 2025, driven primarily by a growth of 12.0 per cent in the credit portfolio (Chart 4.24). Loans constituted the largest share of assets at 41.6 per cent, followed by leasing at 28.0 per cent and credit finance at 12.2 per cent at the end of the first quarter of 2025 (Chart 4.25).

Chart 4.24: Total NBLs assets




*Source: Financial Services Commission*

Chart 4.25: NBLs credit assets breakdown

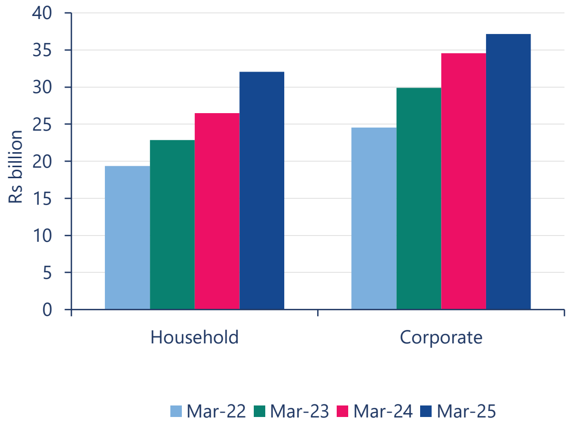



*Source: Financial Services Commission*

[26] *The NBL sector is assessed on a bi-annual basis, precisely in March and September of each reporting year, as part of the FSC's supervisory survey. Non-bank lenders under this section refer to entities engaged in leasing, credit finance, factoring and treasury management activities.*

The increase in the loan book was principally led by demand from the household segment, reflecting evolving financing patterns of the household sector (Chart 4.26). Retail credit grew at an annual rate of 21.1 per cent in March 2025, outpacing the 7.6 per cent annual increase in credit to the corporate sector. This divergence does not necessarily indicate weaker corporate demand but rather shifting dynamics fuelled by rising consumer financing needs, notably leasing activity. Consequently, the share of household credit in the total portfolio reached 46.3 per cent in March 2025.

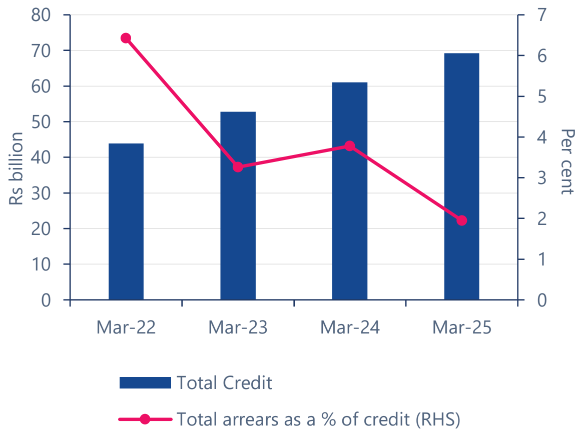
Chart 4.26: Credit to households and corporates




*Source: Financial Services Commission*

Asset quality of NBLs strengthened in March 2025.[27] The ratio of total arrears to credit fell to 2.0 per cent in March 2025, despite strong credit growth (Chart 4.27). This simultaneous expansion in lending and reduction in arrears reflected better credit screening and risk management. Credit in the form of leasing and hire purchase extended by NBLs typically benefit from collateral or guarantees, which act as a safeguard against credit risk and contribute to relatively lower arrears ratio.

Chart 4.27: Loans in arrears



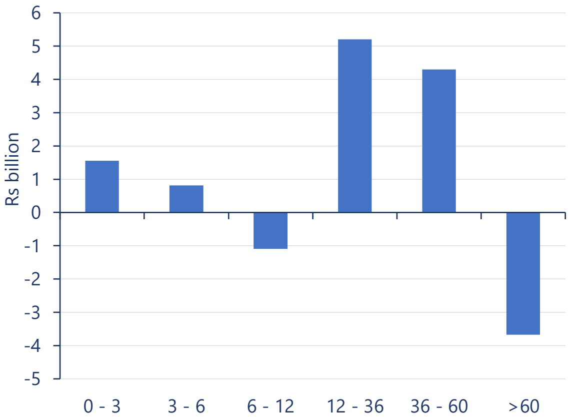

*Source: Financial Services Commission*

*Note: NBDTIs have been excluded.*

[27] *The analysis as from this segment excludes figures for entities also licensed at NBDTIs.*

Liquidity buffers remained sound, supported by positive mismatches in medium-term maturities. NBLs registered cash surpluses in the 1- to 5-year maturity buckets (Chart 4.28). These surpluses provide a stable funding position and help mitigate potential liquidity pressures. Short-term positions (up to 6 months) also recorded net assets, reinforcing near-term liquidity resilience. Overall, the maturity profile indicates that NBLs maintain adequate liquidity buffers, although structural mismatches at the long end warrant monitoring to safeguard against refinancing risks.

Chart 4.28: Variance between assets and liabilities




*Source: Financial Services Commission*

*Note: NBDTIs have been excluded.*

NBLs maintained a broadly stable financing structure, though increased debt levels and growing reliance on related-party funding warrant close supervision. Equity accounted for 16.8 per cent of total financing, while debt represented 83.2 per cent. Funding through loans remained the dominant form of debt financing at 72.9 per cent of total debt. Bank loans represented 37.6 per cent of total debt. Loans from related parties rose annually by 1.9 per cent to 12.5 per cent of total debt. The uptick in related-party funding may reflect strategic intra-group arrangements, though such transactions can give rise to potential conflicts.

Capital adequacy was broadly stable overall, though a slight contraction was observed among small-to-medium-sized entities (Table 4.1). Variations in capital-to-assets ratios reflect differing risk profiles and business models, with the leasing segment recording the largest decline of 1.8 percentage points over March 2024-March 2025. Continued monitoring of capital adequacy and funding composition remains essential to safeguard resilience and mitigate emerging vulnerabilities.

Table 4.1: Capital to Assets Ratio by category of Non-Bank Lenders[28]

| | **Mar-24** | **Mar-25** |
|---|---|---|
| | *Per cent* | |
| Small-sized companies<br>*(Assets up to Rs200 million)* | 75.0 | 61.1 |
| Medium-sized companies<br>*(Assets between Rs200 million and Rs2 billion)* | 19.2 | 18.0 |
| Large-sized companies<br>*(Assets more than Rs2 billion)* | 14.2 | 14.3 |

*Source: Financial Services Commission*

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

# 5. Global business sector and cross-border activities

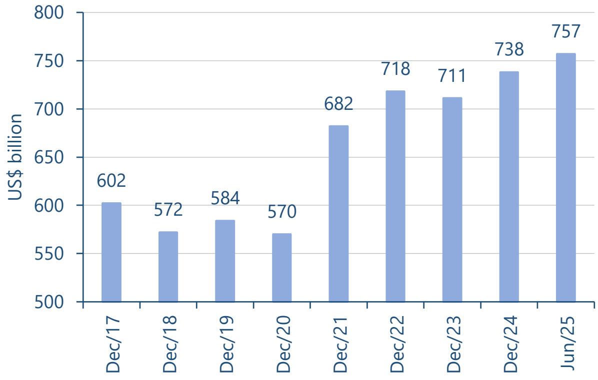
*The business environment in the Global Business sector was broadly stable in the first half of 2025, supported by steady market conditions and positive investor sentiment. Licensing activity remained strong, with Africa continuing to dominate as the primary target market for new GBC registrations. In contrast, regional dynamics in investment flows were mixed. Foreign portfolio investments to both Africa and India moderated amid tighter global financial conditions, while foreign direct investments strengthened towards India but softened for Africa. Interconnectedness with the banking system deepened as GBC deposits grew significantly but banks maintained a sizeable buffer of liquid instruments to mitigate potential liquidity risk. Credit risk from the GB sector remained elevated but the provisioning coverage for these assets was at comfortable level. Cross-border banking activities expanded further, with banks maintaining their position as net providers of funds abroad. Overall, risks to financial stability from the Global Business sector and cross-border linkages were well contained.*

Conditions in the Global Business (GB) sector were broadly sound in the first semester of 2025. New entrants in the GB sector supported the expansion of the Mauritius IFC. Investment flow dynamics through the jurisdiction to India and Africa diverged. Bank deposits held by GBCs in the domestic banking system rose considerably whilst credit risk from GBCs stayed roughly unchanged. Banks held a robust inventory of liquid assets to protect against potential outflow of deposits from the GB sector. These developments have contributed to contain risks to financial stability from the sector.

The GB sector grew steadily in 2025, with notable contribution to economic growth. The sector is estimated to grow at a superior pace of 3.9 in real terms and contribute 8.3 per cent of GDP in 2025, consolidating its position as key sector of the economy. It also plays an important role in the labour market, generating around 6,000 jobs as direct employment and supporting indirect employment in other sectors—such as legal, fiduciary, auditing and other financial services including banks.

The total asset base of the GB sector expanded further, despite the ongoing global uncertainties. The total assets of GBCs rose at an annual rate of 2.6 per cent to US$757.0 billion in June 2025, supported by sustained uptick in the licensing of new entities that reflected the resilience of the GB sector and the continued appeal of the jurisdiction as a stable IFC (Chart 5.1). The ability of the GB sector to attract new business in a volatile global environment underscores its strategic importance and adaptability.

Chart 5.1: Total assets of GBC




*Source: Financial Services Commission*

The stable operating environment in the GB sector helped to contain financial stability risks. Funding conditions in the banking sector were sound as deposits from GBCs continued to rise with no signs of slowdown in the first half of 2025. Liquidity risk stemming from the volatility of GBC deposits were contained by the sizeable inventory of liquid instruments held by banks. The quality of the credit portfolio was broadly stable, though the NPL ratio of the GB sector stayed elevated complemented by the comfortable level of provisions set aside by banks for the impaired exposures.

## Sustaining growth in a challenging global landscape

Activity in the GB sector was resilient as risks to the global economy remained tilted to the downside. Heightened uncertainty and tighter global liquidity contributed to a moderation in portfolio investments across key markets, underscoring the sensitivity of the sector to external shocks. Nonetheless, direct investment flows maintained positive momentum, providing a stabilising anchor for cross-border capital flows through the Mauritius IFC.

Licensing activity was robust, with new GBC registrations – particularly those focused on Africa – offsetting exits, reflecting continued attractiveness of the jurisdiction. These developments highlight Mauritius' strategic position as a regional investment hub in an environment of evolving international standards and volatile global markets.

### *The Qualified Domestic Minimum Top-Up Tax*

A key fiscal development in the GB sector was the introduction of the Qualified Domestic Minimum Top-Up Tax (QDMTT) effective 1 July 2025. This measure aligns Mauritius with the OECD/G20 Pillar Two rules by applying a 15 per cent minimum tax on resident entities that are part of large multinational groups with consolidated revenues exceeding EUR750 million.

Approximately 5.5 to 7.5 per cent of GBCs are expected to be subject to this new fiscal regime. They are primarily investment holding companies operating as Special Purpose Entities (SPEs) for FDI into India and other Asian markets. Although they represent a relatively small proportion of the total number of GBCs, their asset base accounts for an estimated 20 to 25 per cent of the aggregate GB sector assets. The full implications of the QDMTT are yet to be determined and will require continuous monitoring of key performance indicators to assess its impact on the GB sector.

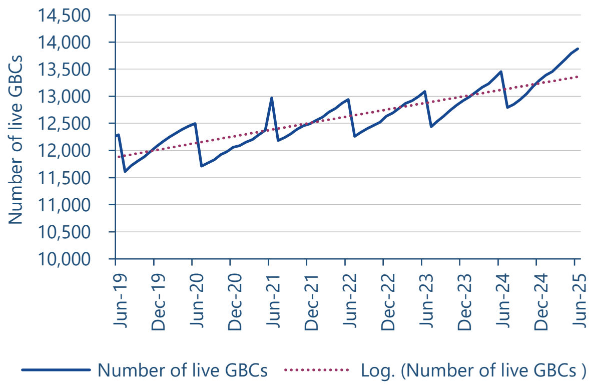
### *Strategy to uphold the competitiveness of the Mauritius IFC*

The National Budget 2025-2026 and the Strategy 2025-2030, the latter spearheaded by the Ministry of Financial Services and Economic Planning, have introduced several measures to enhance the competitiveness of the Mauritius IFC. Key measures include the digitalisation of regulatory processes to streamline licensing, reporting, and compliance, thereby improving the ease of doing business. The strategy also focuses on diversifying the sector through the development of new financial products, talent enhancement initiatives, and the promotion of innovation – particularly through fintech. In addition, a renewed Africa strategy aims to reduce reliance on traditional markets and position the Mauritius IFC to be major contributor to the growing economic potential of the continent.

### *Sustained upward movement in Live GBCs*

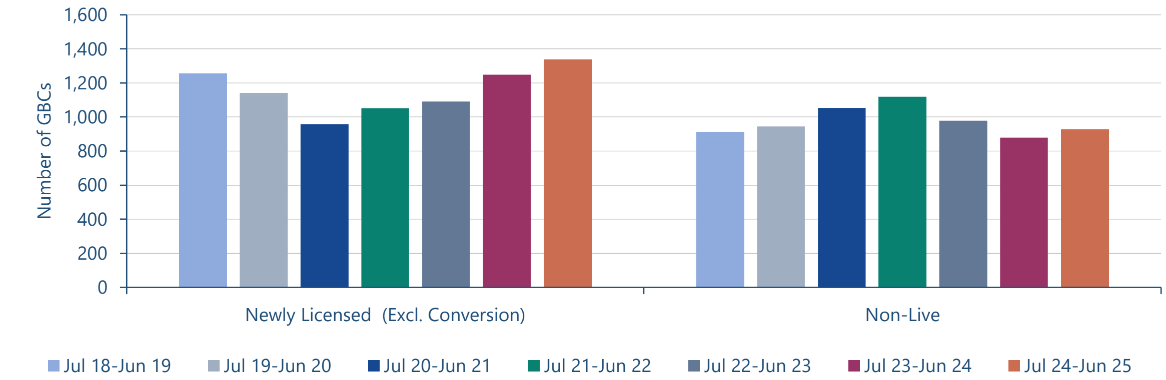
Conditions in the GB sector were sound in the first half of 2025, supported by stable market conditions and positive investor sentiment. Licensing dynamics were healthy as the number of new GBCs continued to grow. The total number of live GBCs rose to 13,876 in June 2025, representing an annual growth of 3.1 per cent (Chart 5.2).

Chart 5.2: Evolution of Live GBCs



The licensing of new GBCs maintained its upward momentum during the first half of 2025. A total of 1,339 new GBCs were licensed, denoting an annual growth rate of 7.2 per cent in June 2025. However, the number of GBC exits increased to 927, marking an annual rise of 5.6 per cent. This trend highlights both the continued attractiveness of the jurisdiction for new GBCs and the dynamic nature of the sector (Chart 5.3).

Chart 5.3: Evolution of newly-licensed and non-live GBCs

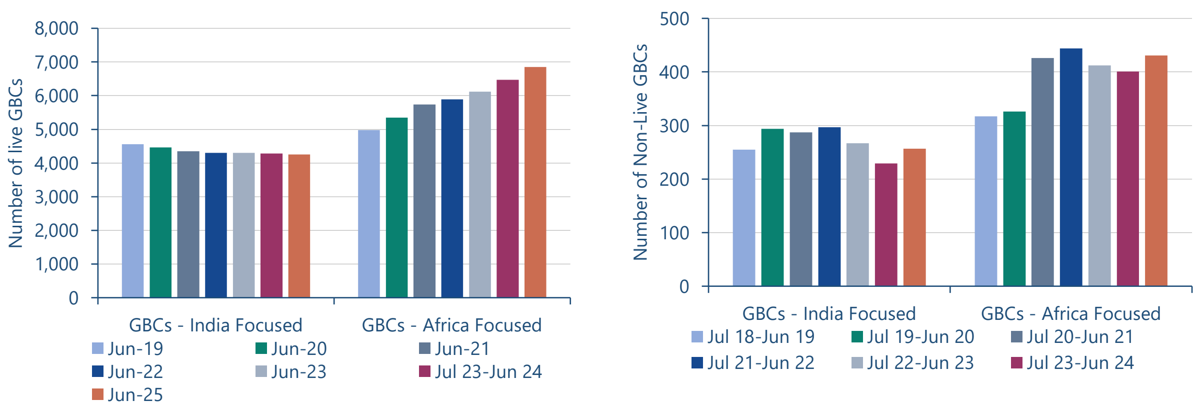



*Source: Financial Services Commission*

Most active GBCs were focused on the African market. The number of live GBCs targeting Africa rose further, underscoring the sustained appeal and growth potential of the region. (Chart 5.4). Africa-focused GBCs accounted for 49.4 per cent of active GBCs, compared to 30.6 per cent for India-focused GBCs. This reflects Africa's sustained position as the primary target market for GBCs. The number of new GBCs targeting Africa grew by 5.9 per cent, while those targeting India contracted by 0.7 per cent on an annual basis in June 2025.

The overall number of GBCs exiting the jurisdiction rose at an annual rate of 5.6 per cent for the period ended June 2025. Exits from Africa-focused GBCs rose by 7.5 per cent, while India-focused GBCs experienced a higher exit rate of 12.2 per cent for the period ended June 2025.

Chart 5.4: Live and non-live GBCs targeting India vs Africa



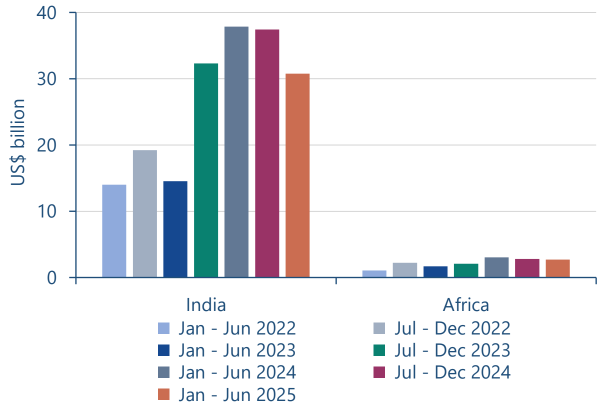

*Source: Financial Services Commission*

### *Healthy investment flows*

Investment flows through GBCs were broadly healthy in the first half of 2025. Portfolio investments into India moderated compared to recent periods while direct investments strengthened, reflecting sustained confidence in long-term growth prospects. Comparatively, portfolio and direct investment flows to Africa registered a decline. A significant share of these flows transited through the banking system. The prevailing conditions did not point to abrupt shifts although the size and volatility of these flows have important implications for banks' FX funding and liquidity management.

Foreign portfolio investment (FPIs) flows through GBCs exhibited similar regional patterns in the first half of 2025. FPIs to India moderated, falling at an annual rate of 18.8 per cent to US$30.8 billion in the first semester of 2025 (Chart 5.5).

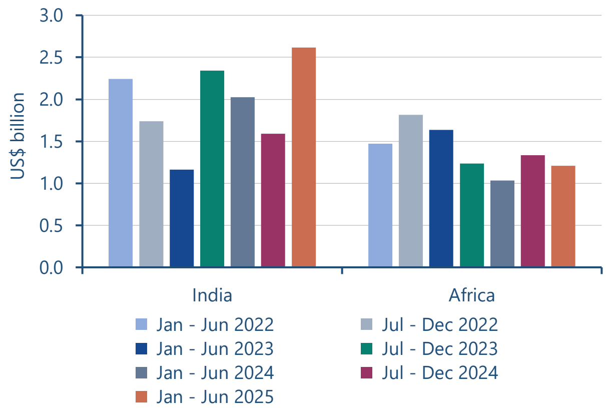
Chart 5.5: Gross flows of FPI




*Source: Financial Services Commission*

Moreover, FPIs to the African continent edged lower to US$2.7 billion in the first semester of 2025, representing an annual contraction of 11.7 per cent. (Chart 5.5). The moderation in both regions underscores the sensitivity of portfolio flows to global financial conditions.

Chart 5.6: Gross flows of FDI




*Source: Financial Services Commission*

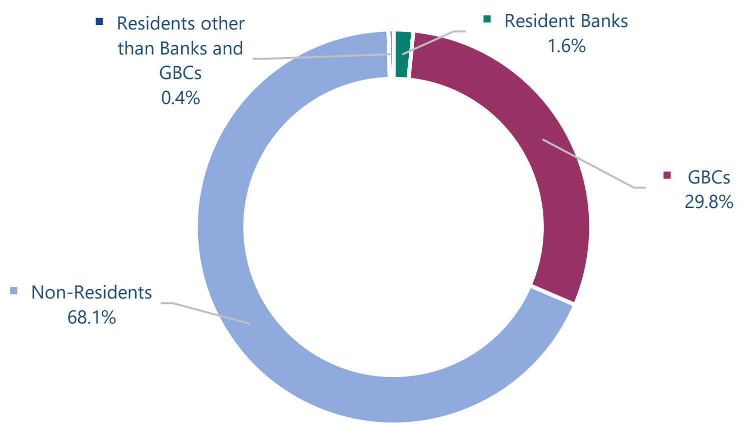
Direct investment flows maintained positive momentum overall, though regional dynamics differed. FDI flows into India strengthened markedly, rising at an annual rate of 29.2 per cent to US$2.6 billion in the first half of 2025. Comparatively, FDI flows to Africa declined by 7.7 per cent to US$1.2 billion in the first semester of 2025 (Chart 5.6). Overall, FDI flows appear less sensitive to cyclical factors than portfolio investments, providing a stabilising influence on cross-border capital movements through the Mauritius IFC.

## Interconnectedness between the GB and banking sectors

The linkage between GBCs and the banking system remained strong with a sizeable portion of the balance sheet of the banks exposed to the GB sector. Banks, nonetheless, managed their exposure to GBCs within prudent risk parameters, consistent with regulatory requirements and their internal frameworks. Banks maintained adequate liquidity buffers to address potential outflows of GBC deposits whilst a comfortable layer of provisions have been set aside by banks to cover potential credit losses from impairment in the credit portfolio of the GB sector. The application of prudential norms on liquidity and credit risks reinforced banks' resilience to potential shocks in the GB sector.

The interaction of GBCs with the domestic economy is mostly through deposits held and credit facilities availed from banks operating in Mauritius. GBCs held US$14.5 billion deposits with banks whilst credit facilities extended to GBCs amounted to US$2.0 billion at the end of June 2025. Their engagement with banks represented only 1.6 per cent of GBCs' monetary and financial assets – which stood around US$744 billion at the end of June 2025. The majority of GBCs' financial assets were held with non-resident entities, which represented around 68 per cent, followed by cross-shareholding among GBCs at 29.8 per cent (Chart 5.7).

Chart 5.7: Exposures of GBCs by institutional sectors as at end-June 2025




*Source: Financial Services Commission*

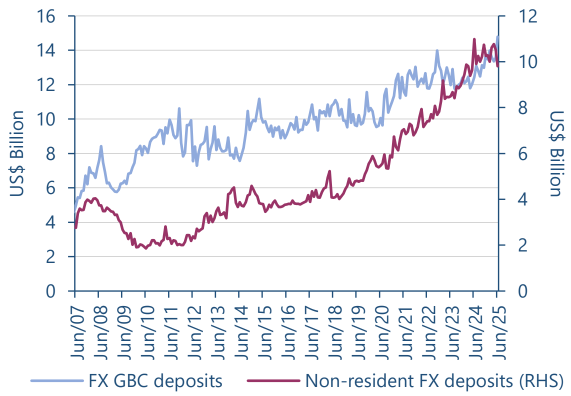
*GBCs remained a vital contributor to FX inflows.*

The GB sector represents an important source of business for banks – contributing notably to banks' funding and fee-based income. Deposits from GBCs rose in the first half of 2025, underscoring their growing importance as a source of funding and business for banks. Banks' ability to mobilise FX deposits from GBCs reflects the health of wholesale funding markets and carries important implications for financial stability, particularly in terms of liquidity and external vulnerability.

A significant portion of FX deposits in the banking system comes from GBCs, complementing the strategy of the banking sector to mobilise FX deposits and expand its balance sheet. GBC deposits surged during the first half of 2025, rising at an annual rate of 16.9 per cent in June 2025 to reach a new peak at US$14.5 billion. Over the past year, GBC deposits have exhibited a general upward trajectory, notwithstanding a slight drop recorded in April 2025.

The share of FX GBC deposits to total FX deposits rose marginally to 49.7 per cent in June 2025. The developments observed over the past 12 months stand in contrast to the preceding trend, which was characterised by a shrinking share of FX GBC deposits in the FX deposit base of the banking system. On the other hand, the share of non-residents FX deposits dropped to 33.0 per cent in June 2025, after contracting at an annual rate of 10.7 per cent in June 2025 (Chart 5.8).

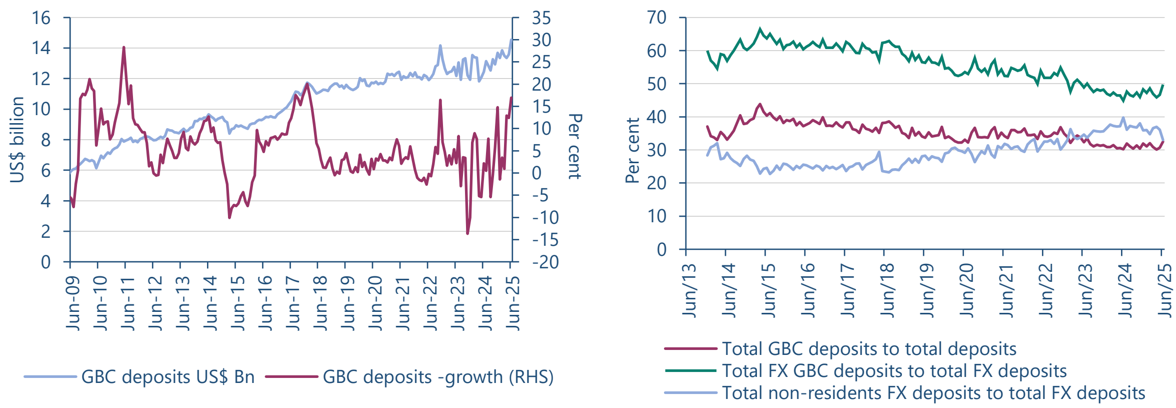
Chart 5.8: Stock of FX Deposits from GBCs and non-residents




*Source: Bank of Mauritius*

Non-resident FX deposits generally expanded relatively faster than FX GBC deposits since 2019. Some exceptions could, however, be noted. FX deposit growth differential stayed favourable to non-residents throughout 2024 but it went in negative territories in the first semester of 2025 (Chart 5.9). The differential in favour of non-residents averaged -8.1 percentage points in the first semester of 2025, as compared to +8.6 percentage points in the last semester of 2024.

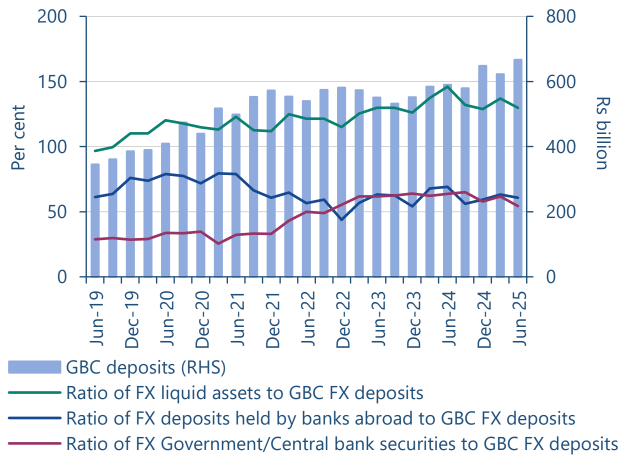
Chart 5.9: Evolution of GBC deposits and its share in the deposit base of banks




*Source: Bank of Mauritius*

The robust framework for liquidity risk management helps insulate the banking sector from adverse conditions in wholesale funding markets. The LCR serves to ensure that banks maintain sufficient buffer of HQLA to withstand potential deposit outflows. The LCR for FX was 183.1 per cent in June 2025, comfortably above the minimum regulatory requirement of 100 per cent. The ratio of FX liquid assets relative to GBC FX deposits stood at 129.8 per cent in June 2025 (Chart 5.10).

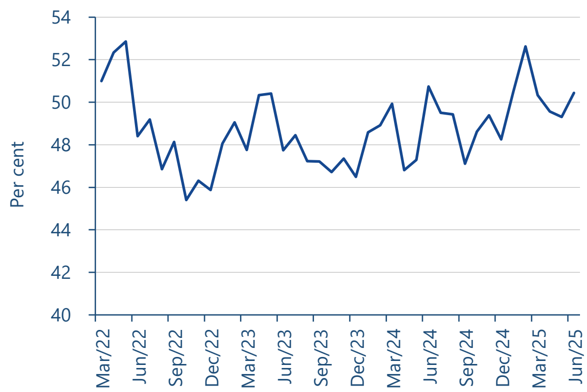
Chart 5.10: Deployment of GBC deposits




*Source: Bank of Mauritius*

In addition, the share of these FX liquid assets accounted for nearly 50 per cent of total FX assets in the banking system. This high level of liquid assets confirms banks' conservative approach to maintain a sound balance sheet structure and resilience to liquidity shocks (Chart 5.11).

Chart 5.11: FX liquid assets to total FX assets

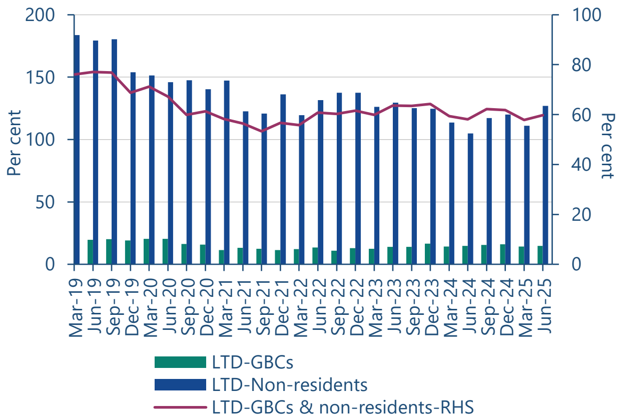



*Source: Bank of Mauritius*

Contents
Macrofinancial environment
Financial soundness of households and corporates
Banking sector resilience
Non-bank financial services sector
Global business sector and cross-border activities

The LTD ratio of GBCs was very low at 14.7 per cent in June 2025. Most GBC deposits were invested in liquid assets – i.e., in the form of deposits with banks abroad or government securities. The volatile and unstable nature of GBC deposits compel banks to adopt this strategy. However, the LTD ratio of non-residents hovered around 127.0 per cent in June 2025 (Chart 5.12). Non-resident deposits were not enough to fund their lending activities with the non-resident segment, so banks relied on other forms of FX funding – such as GBC deposits, resident FX deposits (excl. GBCs) or borrowings to pursue their lending activities in this segment.

Chart 5.12: LTD ratio for GBCs and non-residents



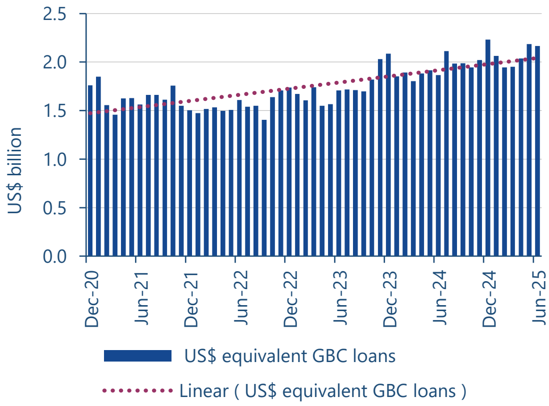

*Source: Bank of Mauritius*

## *Credit risk in the GB sector remained elevated yet manageable*

The credit exposure of banks to GBCs was relatively inferior as compared to their funding exposure to the sector. Credit facilities extended by banks to GBCs rose at an annual rate of 13.9 per cent to reach US$2.0 billion in June 2025. However, its share in the credit portfolio of the banking system was less than 10 per cent (Chart 5.13).

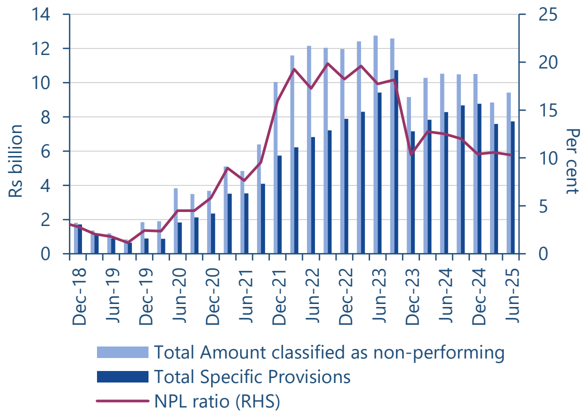
Credit risk stayed elevated in the GB sector in the first semester of 2025 but was well cushioned by the high level of provisions set aside. The NPL ratio of the GB sector in the portfolio of banks stood at 10.3 per cent in June 2025, roughly the same level as in December 2024 (Chart 5.14). The provisioning level for the sector stood at 82.1 per cent in June 2025, providing significant coverage against potential credit losses from the GB sector credit portfolio

Chart 5.13: Evolution of GBC loans in US$




*Source: Bank of Mauritius*

Chart 5.14: Asset Quality of GBC Loans




*Source: Bank of Mauritius*

### *Stress tests on GBC deposits*

The FSC used a risk-mapping framework to evaluate both the probability of GBCs exiting the jurisdiction and the potential impact such exit could have on the banking sector. This framework supports a proactive approach to financial stability oversight by identifying transmission channels and stress points that could emerge under adverse scenarios.

The share of GBCs that were more vulnerable to exit the Mauritian jurisdiction fell to 8.6 per cent in June 2025, from 10.1 per cent in December 2024. Nonetheless, the share of GBC deposits high probability of leaving the banking system rose to 23.2 per cent in June 2025, from 16.5 per cent in December 2024 (Table 5.1).

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

| Risk Score – GBCs leaving the Mauritian jurisdiction | Sub-Total Risk scores | As at June 2025 | | | | |
|---|---|---|---|---|---|---|
| High Risk | 8.6 | 0.0 | 2.8 | 3.3 | 1.1 | 1.4 |
| Medium-High Risk | 14.8 | 0.0 | 4.2 | 5.1 | 0.6 | 4.9 |
| Medium-Low Risk | 14.6 | 0.1 | 5.5 | 4.8 | 0.4 | 3.8 |
| Low Risk | 61.8 | 0.4 | 24.7 | 18.2 | 5.4 | 13.1 |
| | Sub-Total Impact Score | 0.5 | 37.2 | 31.4 | 7.5 | 23.2 |
| | | Low Impact | Medium-Low Impact | Medium Impact | Medium-High Impact | High Impact |
| | | Impact Score – Deposit withdrawals | | | | |

*Source: Financial Services Commission*

## Robust oversight of cross-border banking activities

Prudent risk management of cross-border activities enabled the banking system to remain sound while taking advantage of global financial prospects. Deployment of funds to foreign counterparties along with funds raised from foreign counterparties continued to expand (Figure 1). The banking sector remained a net provider of funds abroad, suggesting that funds raised from the GB sector and the non-resident segment were redeployed abroad. Total funds allotted to non-residents stood at US$27.7 billion, against an inflow of funds from foreign counterparties of US$15.6 billion in June 2025 (Chart 5.15a and Chart 5.16a). As part of its financial stability toolkits, the Bank also carried out a cross-border stress test to evaluate the banking sector's resilience to adverse plausible shocks from foreign counterparties.

Figure 1: Cross-border banking activities

Cross-border banking activities

**Deployment of funds abroad**

Annual growth rate:
1.6% Jun-25
7.1% Dec-24

| | Annual growth in Dec-24 | Annual growth in June-25 | Share of total fund deployed abroad in Jun-25 |
|---|---|---|---|
| Credit facilities | 9.9% | 0.5% | 39.6% |
| Deposit with banks | 9.9% | 3.5% | 32.4% |
| Investment in shares | -3.4% | 0.8% | 27.8% |
| Others | 1153.0% | 103.9% | 0.2% |

**Funds raised from abroad**

Annual growth rate:
9.1% Jun-25
2.9% Dec-24

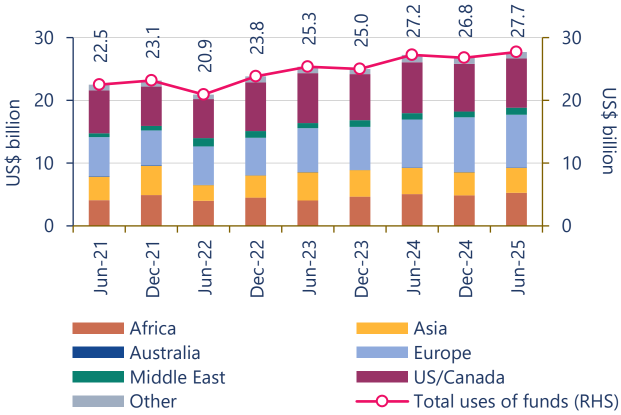
| | Proportion to total fund deployed abroad in Jun-25 | Annual growth in June-25 | Annual growth in Dec-24 |
|---|---|---|---|
| Deposit | 65.3% | -2.1% | 5.7% |
| Borrowing from banks | 24.7% | 53.2% | -6.0% |
| Borrowing from financial institutions | 1.5% | 6.2% | -22.1% |
| Others | 8.5% | 15.1% | 7.8% |

*Source: Bank of Mauritius*

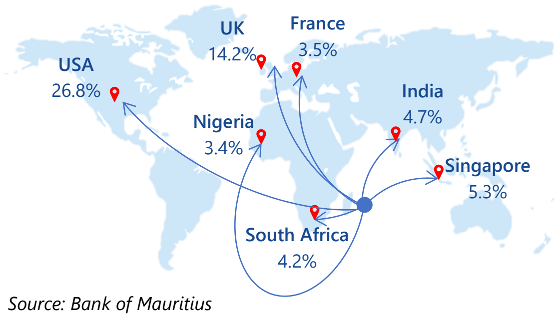
The redeployment of funds by the banking sector outside Mauritius – accounting for 47 per cent of its total funds – highlighted its active participation in global markets and the diversification of its asset base. Funds allotted abroad grew at an annual rate of 1.6 per cent, down from the growth rate of 7.1 per cent recorded in December 2024. Prevailing global macrofinancial uncertainties remain at the forefront of this decline in funds allotted to foreign counterparties. Credit facilities – which constituted the largest share of cross-border deployment of funds – grew at a lower annual rate of 0.5 per cent in June 2025. Banks demonstrated considerable initiative in depositing funds with banks abroad, resulting in an annual growth rate of 3.5 per cent. Investment in foreign securities demonstrated modest growth at 0.8 per cent. This illustrates the way in which banks strategically manage yield opportunities while upholding the necessity of maintaining stability amid changing market conditions.

Chart 5.15: Cross-border uses of funds

a. Continent-wise




b. Funds allotted to top 3 countries as a proportion of total cross-border uses of funds




*Source: Bank of Mauritius*

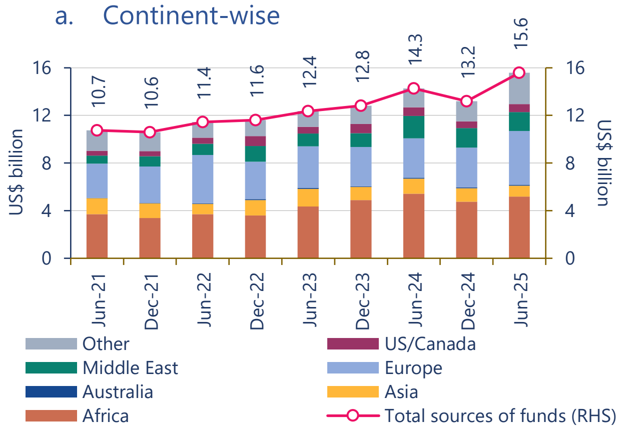
Banks predominantly deployed funds to Europe, the US/Canada and Africa each representing 30.4 per cent, 28.4 per cent and 19.0 per cent, respectively, of the total cross-border deployment of funds in June 2025 (Chart 5.15a). Europe mostly drove the yearly expansion of credit facilities allocated abroad. Simultaneously, the annual growth of investments in shares – driven by the US/Canada – and deposits with foreign banks mainly in Africa, indicated evolving diversification strategies. The US, UK and Singapore emerged as the top three destinations for cross-border banking flows, accounting for 26.8 per cent, 14.2 per cent, and 5.3 per cent, respectively, of total outward funds in June 2025 (Chart 5.15b).

Cross-border funding activities of banks emphasised its essential function in both managing risks and enhancing diversification of funding sources. Funding from foreign counterparties increased at an annual rate of 9.1 percent in June 2025, reflecting banks' capacity to tap into multiple funding avenues from abroad. Deposits from banks – the main component of cross-border sources of funds – exhibited an annual contraction of 2.1 per cent in June 2025. Borrowings from banks and borrowings from financial institutions rebounded at an annual rate of 53.2 per cent and 6.2 per cent, respectively, in June 2025. Although non-resident deposit growth moderated, the recovery in borrowings from banks and financial institutions played a constructive role in stabilising the funding structure of the banking sector.

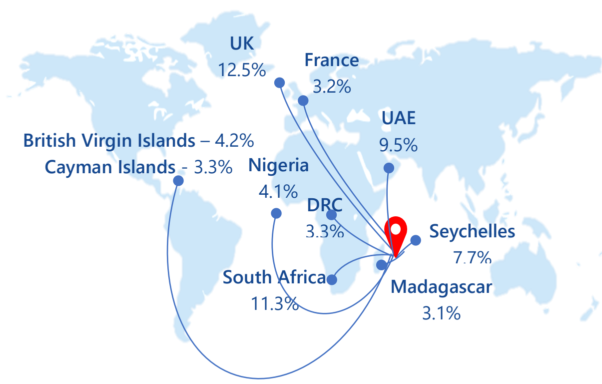
Most of the cross-border funds transiting in the banking sector originated from Africa, Europe and the Middle East, which collectively accounted for approximately 72 per cent of total cross-border sources of funds (Chart 5.16a). Deposits from Africa was the major driver of the annual contraction in deposits from abroad. Europe and Middle East were the main contributors to the yearly expansion in borrowings from banks abroad. Notably, Europe was the sole provider of funds through borrowings from financial institutions in June 2025. The top 3 country-wise sources of funds remained unchanged, with the UK, South Africa and the UAE representing 12.5 per cent, 11.3 per cent, and 9.5 per cent, respectively, of total cross-border fund sources in June 2025 (Chart 5.16b). This stable composition highlighted both the opportunities and the inherent risks associated with maintaining diversified offshore funding channels.

Chart 5.16: Cross-border sources of funds

a. Continent-wise




b. Funds received from top 3 countries as a proportion to total cross-border sources of funds




*Source: Bank of Mauritius*

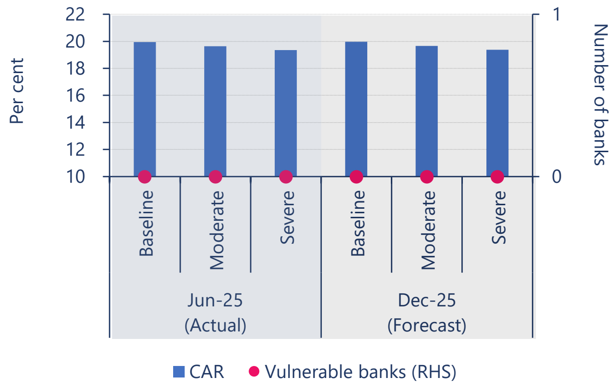
The banking sector is exposed to external shocks and cross-border vulnerabilities through global financial networks. Such interconnectedness can transmit risks to the banking sector. To mitigate these risks, the Bank has established a robust regulatory framework aligned with international standards to ensure prudent management of cross-border risks. Additionally, banks maintained solid capital and liquidity buffers, supporting overall financial stability. The NPL ratio for credit allotted outside Mauritius improved. FX liquidity buffers remained robust, and were well above the regulatory minimum of 100 per cent. The NSFR also indicated that all banks maintained robust FX liquidity buffers.

### *Cross-border stress testing*

The Bank carried out a comprehensive evaluation of the cross-border credit portfolio of the banking system, focusing on potential vulnerabilities to external counterparties. Plausible shocks that could elevate the risk of defaults by foreign counterparties were assessed. The stress test exercise utilised scenario analysis based on the observed levels of NPLs within jurisdictions where cross-border credit exposures are concentrated, representing roughly 80 per cent of total credit facilities. For each jurisdiction, the baseline shock was calibrated to the average historical impairment ratio, while moderate and severe shocks were modelled by increasing this ratio by 1.5 times and 2 times, respectively, with the impact applied to the performing cross-border credit portfolio. The stress test also included projections for December 2025 to evaluate the ability of the banking sector to weather default risk by foreign counterparties by end-2025.

The stress test results revealed that the banking sector would continue to exhibit substantial resilience in the face of adverse conditions in June 2025 and December 2025 (Chart 5.17). The robust capital position of banks enhanced their ability to absorb significant external shocks, thereby mitigating the risk of systemic instability.

Chart 5.17: Cross-border credit risk stress test




*Source: Bank of Mauritius*

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# List of acronyms

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

# Glossary

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

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

***Credit extended to households for other purposes*** *include purchase of other consumer durable goods, purchase of land, purchase of motor vehicles, education purposes, medical purposes, investment purposes, and other unspecified purposes.*

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

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

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

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

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

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

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

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

***SEMDEX*** *is an index of prices of all listed shares on the Stock Exchange of Mauritius wherein each stock is weighted according to its share in the total market capitalisation.*

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

***Tier 1 capital*** *is a term used to qualify eligible capital of a bank and is constituted of the components having the highest loss absorbing capacity.*