Bank of Mauritius

Financial Stability Report
June 2025

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The Bank of Mauritius (hereafter referred to as the "Bank") is issuing its Financial Stability Report covering the second half of 2024, 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.

This Report is available on the Bank's website at https://www.bom.mu/publications-and-statistics/publications/financial-stability-report.

The Bank welcomes feedback from readers. Comments and suggestions should be forwarded to communications@bom.mu.

Financial Stability Report June 2025

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Contents

Executive summary

Global developments

Global economic conditions displayed pronounced divergences, influenced by economic uncertainties, financial market volatility and shifting inflation dynamics during the second half of 2024. While the economy of the United States of America (US) expanded robustly driven by strong consumer spending, economic growth in Asia and Europe fell short of expectations due to weakening consumption and industrial activity. The International Monetary Fund's (IMF) April 2025 World Economic Outlook estimated global growth at 3.2 per cent for 2024 and projected a slowdown to 2.8 per cent in 2025 amid heightened tariff disputes.

Central banks globally loosened monetary policy but at varied pace. Interest rate cuts led to some improvement in financial conditions but raised concerns over growing indebtedness. Inflation declined across most regions, even if some emerging markets experienced persistent inflationary pressures. Fiscal policy remained expansionary in advanced and emerging economies despite mounting debt levels. Low income countries pursued fiscal consolidation given constrained market access.

Global financial stability was underpinned by resilient banking systems with strong capital and liquidity buffers in the second half of 2024. In addition, the loosening of monetary policy eased short-term risks to financial stability. Household sector risks moderated as lower interest rates alleviated debt servicing pressures. In contrast, corporate sector vulnerabilities escalated due to rising bankruptcies in Asia and the euro area. Overall, however, while short-term risk to global financial stability eased, interest rate reduction created conditions that could amplify vulnerabilities in the short to medium term, such as a higher indebtedness and asset price fluctuations.

Investor sentiment was influenced by monetary policy shifts and the US presidential election. Global equities gained grounds, supported by resilient US economic conditions, the US dollar exhibited volatility, initially depreciating before strengthening amid trade and interest rate expectations.

Domestic developments

Mauritius maintained a favourable macrofinancial landscape, characterised by solid economic growth in traditional sectors, declining inflation, and improving labour market conditions. However, fiscal vulnerabilities were relatively elevated as reported in the *State of the Economy* report published by the government in December 2024. The stock market delivered strong performance, particularly in the banking group segment, though foreign investors were still cautious.

The domestic economy grew at an annual real rate of 4.1 per cent and 4.5 per cent in the third and fourth quarters of 2024, respectively. Yet, the export-oriented sector registered a contraction in output, signalling some macrofinancial risk from the external sector. For 2025, economic growth is projected to moderate, contributing to raising macrofinancial risk to some extent. Subdued expansion in key traditional sectors along with fiscal consolidation measures may undermine financial conditions in the household and corporate sectors. Nonetheless, household income is anticipated to remain healthy and contribute to contain risks from the sector.

The tourism sector continued to be a key driver of economic activity. A total of 736,628 tourist arrivals was recorded in the second half of 2024, surpassing pre-pandemic levels and reflecting a 5.4 per cent increase compared to the same period in 2023. This development boosted business sentiment, supporting the financials of tourism-linked industries, which benefited from higher earnings and improved profitability.

Labour market conditions strengthened in the second semester of 2024, driven by strong demand across sectors despite emerging skill mismatches. The unemployment rate fell to 5.8 per cent in December 2024, from 6.2 per cent in June 2024. The Wage Rate Index reached a historical high reflecting rising wages, while the one-off 14-month bonus for those earning up to Rs50,000 boosted financial buffers, particularly for lower-income households. Combined with higher wages and low unemployment, risks from the household sector eased further, supporting debt serviceability and reducing vulnerabilities.

Household sector vulnerabilities receded, supported by lower borrowing costs and rising nominal income. Disinflation preserved purchasing power, keeping credit risk historically low. However, rising residential real estate prices continue to raise concerns, as property prices increased faster than nominal income, signalling potential speculative activity as well as the impact of foreign demand for residential properties. Macroprudential measures, including additional provisioning requirements, are enforced to enhance banking sector resilience.

The corporate sector maintained strong financial health, buoyed by stable demand across key industries. Corporate credit expanded, particularly in trade, manufacturing, agriculture, and construction. Corporate FX credit increased amid global interest rate reductions, while credit risks remained manageable despite a slight uptick in non-performing loans, driven by sector-specific factors rather than systemic vulnerabilities. Risk from the commercial real estate sector was restrained, supported by prudent lending practices. Corporate leverage capacity was sound, reinforced by healthy earnings growth. Stress tests confirmed banking sector resilience to shocks affecting corporate credit portfolios.

Overall, household and corporate sectors resilience were strengthened given better macrofinancial conditions, thereby containing risks to financial stability. Declining inflation and accommodative monetary policy enhanced debt serviceability, while favourable labour market trends bolstered household financial soundness. Looking ahead, financial stability risks are expected to remain contained, despite an anticipated slowdown in economic growth during 2025. The February 2025 policy rate hike may temper household credit demand, while fiscal consolidation efforts will sustain business confidence.

The foreign exchange (FX) market was characterised by volatility, both in terms flows and exchange rate, during the second semester of 2024. Demand for FX exceeded supply, requiring significant central bank interventions to curb exchange rate volatility and stabilise FX market conditions. The Bank sold US$365 million to the market, a considerable rise from US$5.0 million sold in the first semester of 2024. The bulk of the interventions were in the third quarter of 2024. The banking system maintained robust buffers against FX risks, with liquidity regulations mitigating potential vulnerabilities.

The Bank initiated a series of measures to address frictions and distortions in the FX market as from December 2024. These targeted measures aimed to foster stable FX conditions in the short to medium term by removing inefficiencies and enhancing FX liquidity. They successfully bolstered the volume of FX flows and, as a result, the Bank considerably reduced its FX interventions as from the beginning of 2025.

Monetary policy was eased with a 50 basis points interest rate cut in September 2024. The savings deposit rate and the prime lending rate prevailing in the banking system were adjusted broadly in the same magnitude. The Bank intensified open market operations in the second half of 2024 to support the effectiveness of monetary policy and its transmission to the financial market.

The Gross Official International Reserves remained adequate, meeting the conventional reserve adequacy criteria. The FX reserves were US$8.5 billion in December 2024, ensuring strong external buffers. Traditional reserve adequacy indicators were robust, with import cover at 13.3 months and the reserves-to-broad money ratio at 41.3 per cent, exceeding the IMF's recommended range. Stricter assessments – including the Greenspan-Guidotti rule and the Assessing Reserve Adequacy metric – highlighted Mauritius' exposure to short-term external debt, primarily linked to its role as an International Financial Centre.

Specifically, non-resident FX deposits of Rs501 billion represented around 95 per cent of short-term external debt as at end-December 2024, which adversely impacted the stringent reserve adequacy measures. The reserves-to-short-term external debt ratio was 76.5 per cent, below the 100 per cent benchmark. The reserve-to-ARA metric ratio was 103.0 per cent in December 2024, close to but above the 100 per cent minimum threshold. The regulatory framework for the banking sector combined with prudent risk management by banks mitigate external vulnerabilities significantly. Banks manage FX risk prudently and held Rs680 billion in net foreign assets. By complying with stringent liquidity regulations, they avoid reliance on central bank reserves and on the domestic FX market, reinforcing overall financial stability.

The banking system continued to support lending to the economy in the second half of 2024. The banking sector demonstrated strong resilience, underpinned by robust capital buffers, prudent liquidity management and sustained profitability. Credit risk was well contained, with the ratio of non-performing loans to total loans declining. Cross-border banking activities expanded, contributing to balance sheet growth and earnings diversification.

Capital and liquidity buffers of banks remained robust, supported by strategic asset allocation and steady deposit growth. The balance sheet of the banking sector expanded at 15.4 per cent annually to reach Rs2.7 trillion in December 2024 or around 381 per cent of GDP, driven by credit flows to both resident and non-resident segments. Deposit growth, particularly in FX, supported funding stability. Banking sector soundness indicators showed continued improvement, with banks maintaining capital adequacy ratio at 21.2 per cent and liquidity coverage ratio at 299 per cent in December 2024, both well above the minimum requirements. Prudent credit concentration risk management ensured diversified exposures.

The results of stress tests affirmed the resilience of the banking system in managing macroeconomic shocks, credit shocks, and liquidity pressures. The tests – built on hypothetical yet plausible scenarios – assessed vulnerabilities across scenarios for economic growth, credit portfolios, interest rate changes, and exchange rate movements. Beyond the immediate impact, the stress test framework also evaluated the capacity of the banking sector to sustain critical functions during two quarters ahead. Vulnerabilities were largely confined to non-systemic banks, particularly in credit concentration, solvency and liquidity tests under severe stress conditions. With strong capital buffers and adaptive risk management, the banking system is expected to remain resilient in 2025, reinforcing financial stability despite evolving risks.

Progressive regulation for and surveillance of the banking sector strengthened financial stability. The focus was on cyber risk mitigation, virtual asset governance, and enhanced systemic risk monitoring through expanded financial soundness and macroprudential indicators. Furthermore, the introduction of climate-related financial disclosures reinforced the commitment of banks to integrating environmental risk management into their operations, aligning with evolving international standards and sustainability objectives.

Risks to financial stability from the non-bank financial institutions sector were contained, though increasing interlinkages with banks necessitate close monitoring. The sector demonstrated strong growth, buttressing its role in financial intermediation. Non-bank deposit-taking institutions, insurance firms, and pension funds expanded their asset bases and maintained prudent risk profiles.

The non-bank deposit-taking institutions segment was resilient, with total assets reaching Rs77 billion or 11 per cent of GDP. Credit risk improved as the non-performing loans ratio fell, while capital buffers remained strong. A gradual shift toward higher-yielding investments indicated a measured increase in risk appetite, balanced by stable liquidity conditions. Insurance and pension activities expanded by 3.9 per cent annually, with continued growth expected in 2025, though demographic and regulatory challenges persist for pension funds. Tourism-driven demand bolstered investment-linked insurance products, while easing global monetary conditions strengthened fund performance.

The Global Business sector weathered global economic uncertainties during 2024. New Global Business companies were licensed while exits stabilised in the Mauritius International Financial Centre. Investment flows through the Mauritius jurisdiction were sound and contributed to restraining funding and liquidity risks in the banking system. The Global Business sector grew by 3.0 per cent in real terms, contributing positively to economic growth and employment across the financial services and related sectors.

The banking system funding vulnerabilities eased as reliance on deposits from the Global Business sector diminished, mitigating liquidity risks. Clarification provided by the Indian authorities on the Double Taxation Avoidance Agreements and the Principal Purpose Test provisions offered clarity on capital gains taxation, confirming that the Principal Purpose Test will only apply to transactions occurring after its implementation.

As global investors are prioritising environmental, social, and governance (ESG) factors, the FSC introduced the *Guidelines for ESG Funds* designed to combat greenwashing and provide investors with relevant information. Looking forward, continued diversification, regulatory strengthening, and international collaboration will sustain growth in the Global Business sector and mitigate financial risks.

The Systemic Risk Indicator, one of the main indicators used by the Bank to monitor systemic risk, signalled a moderate increase in financial stability risk during the second half of 2024, underpinned by fiscal imbalances and steep increases on the stock market. External vulnerabilities were elevated as the interest rate differential remained unfavourable to the Rupee. Sectoral risks were contained by positive developments in the macrofinancial environment. The banking system remains well-cushioned, supported by robust capital buffers, liquidity management, and adaptive risk frameworks. As macrofinancial risks are expected to rise in 2025, ongoing regulatory oversight and strong banking sector resilience will be key in mitigating potential risks.

Overall, risks to financial stability edged up in the second half of 2024 and is expected to remain around moderate level during 2025 based on the baseline scenario, as economic growth slows down and fiscal consolidated measures are implemented. The Bank will continue to monitor both existing and emerging risks to financial stability and stands ready to take pre-emptive measures in a pro-active manner.

1. Macrofinancial environment

Global economic conditions were steady in the second half of 2024, although divergences persisted across countries. Inflation declined in many countries but the disinflationary momentum stalled in some cases. The monetary policy loosening cycle varied depending on progress on disinflation. Risk from the household sector globally receded with falling inflation and interest rate cuts. However, corporate sector vulnerabilities have risen in some countries particularly in Europe and Asia.

Domestic macrofinancial conditions remained buoyant as inflation declined further while the economy continued to grow. The labour market environment improved, with unemployment falling and wages going up. The domestic foreign exchange market was characterised by volatility, both in terms of flows and exchange rate movements, but these did not translate into significant risk to the financial system. Overall, systemic risk in the financial system rose slightly owing to vulnerabilities in the external environment and macrofinancial conditions along with dynamics in the financial markets.

Divergences persist in the global economy

Global economic conditions diverged among countries in the second semester of 2024, against the backdrop of heightened policy uncertainty. Economic growth in Asia and Europe were inferior to initial projections following slowdown in consumption and industrial activities. In contrast, the US economy grew strongly owing to robust rebound in consumption. The disinflationary momentum was steady in most countries, although inflation has proved to be stickier in a few cases. The International Monetary Fund (IMF), in its April 2025 World Economic Outlook, estimated global economic growth at 3.2 per cent in 2024. The tariff war is expected to take a severe toll on the global economy in 2025, with growth projected at 2.8 per cent in 2025 by the IMF.

Many central banks reduced their policy interest rates in the second half of 2024 amid evolving inflation and growth dynamics. However, though the pace of monetary policy loosening varied across countries. Global inflation was on a declining path, although progress on disinflation stalled in some countries. Cost pressures moderated as nominal wage growth cooled and labour supply bottlenecks eased. Services price inflation continued to hover above pre-pandemic levels in many countries, particularly in the United States and the euro area. In some emerging market and developing countries, inflation stayed elevated.

Fiscal policy was accommodative in many countries. But expectations of a policy shift under newly elected governments increased in some countries, as the debt burden remained elevated. Fiscal consolidation was more prevalent among low-income developing countries as compared to emerging and advanced economies. The high interest rate environment has constrained market access for developing countries and compelled them to reduced fiscal deficit. In contrast, fiscal policy in emerging and advanced economies stayed expansionary despite high debt servicing costs amid growing debt levels.

Global financial system remained resilient

The easing of monetary policy and disinflation improved financial conditions and moderated short-term risks to financial stability in the second half of 2024. Concurrently, however, monetary policy easing created conditions that could give rise to vulnerabilities in the short to medium term – such as a rise in indebtedness and asset prices inflation.

Financial conditions were accommodative whilst volatility in asset prices remained low. The global banking system continued to be resilient, supported by ample capital and liquidity buffers. There were no signs of major deterioration in asset quality. Still, the interest rate cuts by monetary authorities are expected to impact negatively net interest margin and bank profitability in the next quarters.

Risk from the household sector receded in the second semester of 2024. Interest rates cuts in many countries eased the debt servicing burden of households and reduced debt serviceability risks. Residential real estate prices have continued to decline globally but remained above pre-pandemic levels. The declining trend in house prices does not represent major risk to global financial stability, given households' leverage are still at sustainable levels whilst debt servicing capacity remained sound.

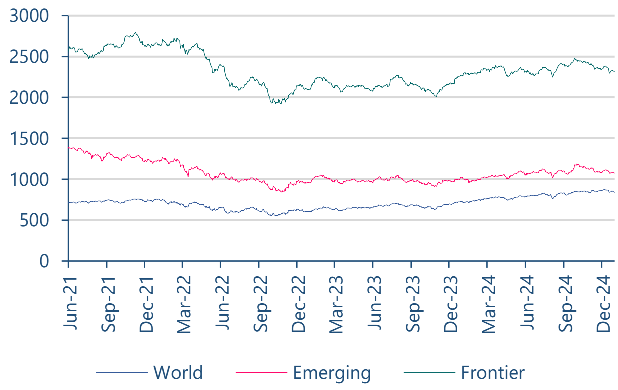
Corporate sector vulnerabilities have risen globally in the second half of 2024. An increasing trend in bankruptcies – especially among smaller firms – was noted in the euro area and Asia. Businesses in these regions registered a drop in earnings relative to interest expenses, weakening their financial soundness and debt servicing capacity. Risk from the Commercial Real Estate (CRE) market – especially the office segment – remain acute as demand dwindled further. Banks with a large credit concentration in office CRE were at risk of recording considerable credit losses in case of a correction in prices and rental income.

US election weighed on investor sentiment

Global market sentiment was largely swayed by monetary policy easing and the US presidential election in the second half of 2024. Market optimism was bolstered by expectations that the US Federal Reserve would adopt a more cautious approach to further interest rate cuts, expansionary fiscal policy, and the implementation of a more protectionist trade policy.

Global equities registered gains in the second semester of 2024. The US equity markets were supported by continued solid US economic data, including falling unemployment and higher consumer confidence. The Morgan Stanley Capital International (MSCI) World Index and the MSCI Frontier Index rose by 4.9 per cent and 1.4 per cent, respectively, from end-June 2024 to end-December 2024. In contrast, the MSCI Emerging Market Index declined by 1.0 per cent during the same period (Chart 1.1).

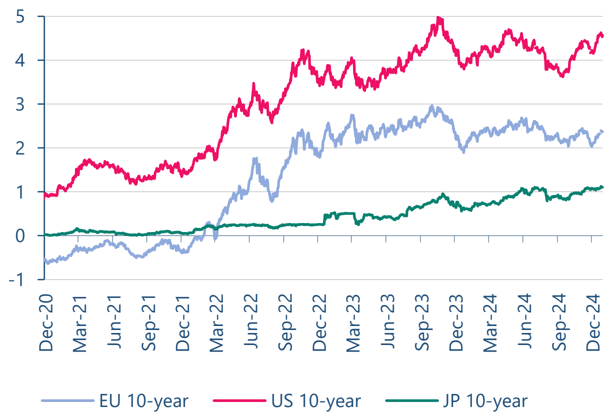
Chart 1.1: MSCI Indices



Source: Bloomberg

Yields on major government bonds surged as the resilience of the US economy and uncertainty around post-election policy changes lowered market expectations for the magnitude of future interest rate cuts. The 10-year US Treasury yield and JP 10-year yield increased by 17 and 4 basis points, to 4.60 per cent and 1.10 per cent from end-June 2024 to end-December 2024. On the other hand, during the same period, the EU 10-year yield fell by 13 basis points, to reach 2.40 per cent (Chart 1.2).

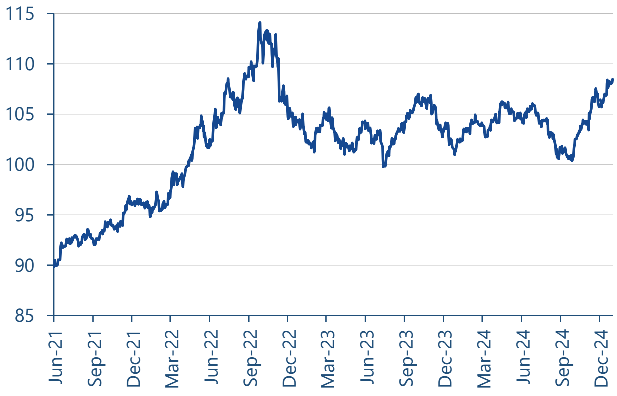
Chart 1.2: Selected government bond yields



Source: Bloomberg

The dynamics of the US dollar against major currencies was mixed in the second half of 2024. The US Dollar Index (DXY) fell by 4.8 per cent during the third quarter of 2024. However, expectations of new tariffs and delayed interest rate cuts firmed up following the outcome of the US elections in November 2024, which led to a broad-based strengthening of the US dollar. As a result, the DXY was on an upward trajectory in the last quarter of 2024 and rose by 7.7 per cent in the fourth quarter of 2024. Over the course of the second semester of 2024, the DXY increased by 2.5 per cent to reach 108.5 as at end-December 2024 (Chart 1.3).

Chart 1.3: US dollar index



Source: Bloomberg

Buoyant domestic macrofinancial conditions despite challenges

The macroeconomic landscape in Mauritius was buoyant in the second semester of 2024. Upbeat quarterly economic growth, receding inflation and falling unemployment supported economic activity and positive economic sentiment. The release of the *State of the Economy* report by the new government in December 2024 highlighted several weaknesses and vulnerabilities – such as in the economic structure, factor productivity, fiscal sustainability, balance of payments, and climate change. The impending economic reforms are expected to set the economy on a sustainable long-term growth path.

The expansion of the economy in the second half of 2024 was supported by the strong performance of the traditional sectors of the economy – namely, *Construction, Agriculture and Tourism* sectors – which boosted confidence in the business environment. The economy grew at an annual real rate of 4.1 per cent and 4.5 per cent in the third and fourth quarters of 2024, respectively. But output in the export-oriented sector contracted in both quarters, signifying the build-up of risk from the external front.

The continued declined in inflation contributed towards improving macrofinancial conditions. Inflation fell to 3.6 per cent in December 2024, compared to 7.0 a year earlier. The progress in disinflation eased purchasing power strains of households and upheld business sentiment. Upside risk to inflation were mitigated, as imported inflation as well as the monetary policy stance contained inflationary pressures, leading to lower inflation expectations.

Labour market conditions continued to progress positively in the second half of 2024. The unemployment rate fell to 5.8 per cent in December 2024, from 6.2 per cent in June 2024. This

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

drop arose from high demand for labour in various sectors, adding pressure to skill mismatches and wages. The Wage Rate Index (WRI) – that tracks the evolution of average wages in Mauritius – went up further to reach a historical high in December 2024. The one-off exceptional 14-month bonus – partly payable in December 2024 to individuals with a salary of up to Rs50,000 – has boosted the financial buffers of households, especially those at the lower rung of the income ladder. High increased in wages coupled with low unemployment rate have contributed to support the financials of households and uphold their capacity to suitably service their debt obligations.

The strong performance of the tourism sector bolstered economic activity and business sentiment. Tourist arrivals in the second semester of 2024 exceeded the number recorded in the second semester of 2019, that is prior to the pandemic. The number of tourist visiting Mauritius reached 736,628, an increase of 5.4 per cent compared to the corresponding period of 2023. Businesses operating in tourism-related activities benefited from a rise in earnings, positively impacting their financial soundness (Chart 1.4).

Chart 1.4: Monthly tourist arrivals and earnings

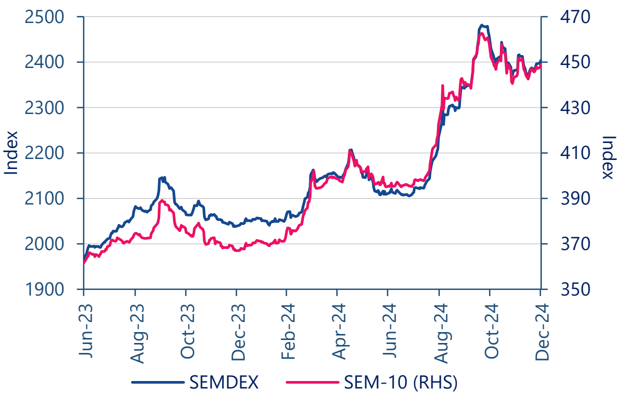
Source: Statistics Mauritius and Bank of Mauritius

Macrofinancial risks are anticipated to increase marginally in 2025 as economic growth is projected to slow down. Growth in key traditional sectors is expected to be subdued which can weaken the balance sheets of some businesses. Nonetheless, the financials of the household sector are anticipated to stay sound and support their debt servicing resilience.

Stock market gained grounds

The performance of listed companies on the stock market improved markedly in the second half of 2024 and positively impacted investor sentiment. Stock market indices – SEMDEX and SEM-10 – rose substantially during the third quarter to reach its highest level since 2018 and 2020, respectively, in October 2024, owing to the strong performance of banking groups. The indices moved downwards thereafter but still hovered in higher territories as compared to the first semester of 2024. The SEMDEX gained 294 points to reach 2,403 points, whilst the SEM-10 rose by 54 points to attained 449 points as at end-December 2024 (Chart 1.5).

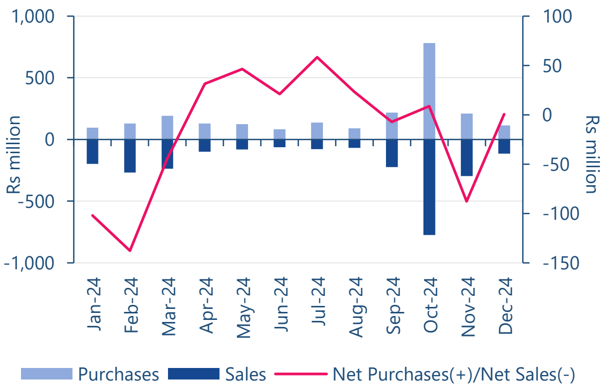
Chart 1.5: Trend of stock market indices



Source: Stock Exchange of Mauritius

Trading by foreign investors intensified in October 2024. On aggregate, purchases and sales by foreign investors remained broadly balanced, with slight net disinvestment of Rs3.5 million in the second semester of 2024, compared to net sales of Rs185.0 million during the preceding semester (Chart 1.6).

Chart 1.6: Investment by non-residents on the SEM and DEM



Source: Stock Exchange of Mauritius

Foreign exchange market conditions characterised by volatility

Foreign exchange (FX) market conditions were characterised by persistent volatility in FX flows and exchange rate movements. FX inflows were healthy from key economic sectors, though below those of the first semester. Concurrently, demand for FX went up exceeding the supply of FX. High FX demand prompted significant interventions by the Bank in the third quarter of 2024 to curb exchange rate volatility and stabilise market conditions. The exchange rate of the Rupee appreciated in the third quarter but depreciated in the fourth quarter against the US dollar, chiefly due to US dollar volatility on international markets coupled with existing distortions noted on the domestic FX market. These dynamics together with an unfavourable interest rate differential following the cut of 50 basis points in September 2024, resulted in a rise in risk to financial stability in the second semester.

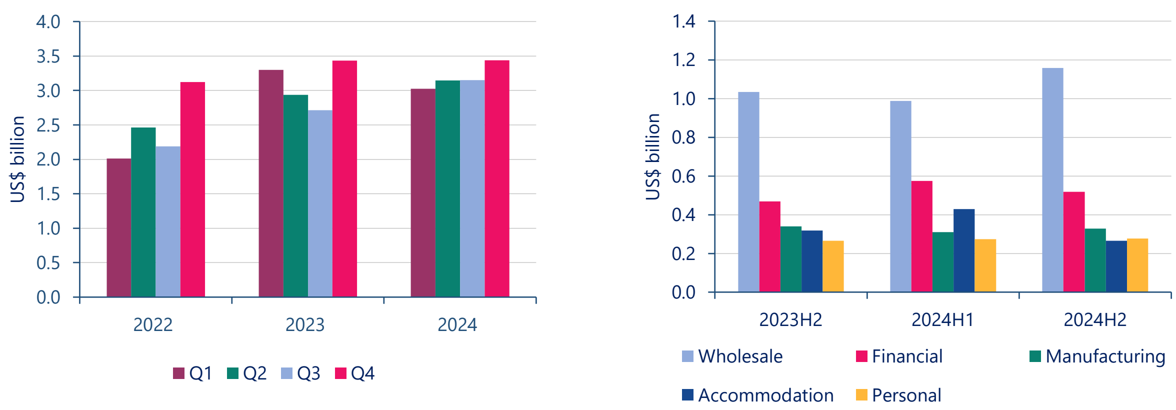
The FX turnover of banks and FX dealers expanded by 6.8 per cent relative to the preceding semester to reach US$6.6 billion in the second half of 2024. In contrast, the supply of FX by economic operators contracted 1.6 per cent relative to the first semester, with the aggregate FX purchases by banks and FX dealers falling to US$3.1 billion. The main sectors generating FX inflows were the *Financial and insurance activities*, *Accommodation and food service activities* and *Professional activities* sectors.

Demand for FX went up, driven mainly by seasonal end-of-year imports. The sale of FX by banks and FX dealers increased by 15.6 per cent, relative to the first half of 2024, to reach US$3.5 billion in the second half of 2024. FX demand was primarily from importers which purchased an amount of US$1.1 billion in the second semester (Chart 1.7). FX purchases by households rose by 4.2 per cent to attain US$101 million.

Chart 1.7: Foreign exchange turnover

a. Aggregate

b. Sector-wise

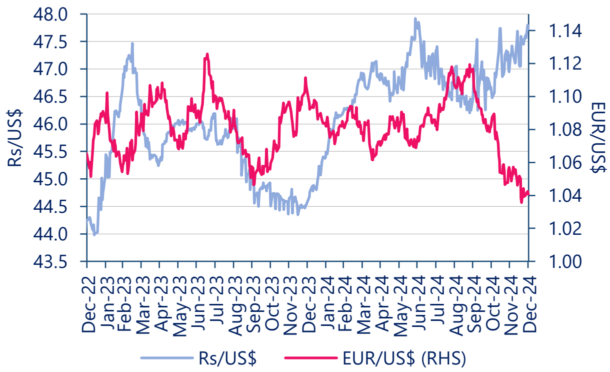


Source: Bank of Mauritius

The Bank intensified its FX interventions in the second half of 2024 to contain excessive volatility in the exchange rate and stabilise conditions on the FX market. The Bank sold US$365 million through FX interventions, a representing a considerable rise from US$5.0 million sold in the first semester. The bulk of the interventions were in the third quarter of 2024, amounting to US$290 million.

The Bank initiated a series of measures as from December 2024 to address key distortions and frictions on the FX market. These market tensions were hindering FX flows to the banking system and efficient price discovery, thereby amplifying risks to a stable FX market. These bottlenecks emerged mainly from the activities of unregulated foreign FX brokers and domestic entities not licensed by the central bank that were conducting FX transactions with economic operators. The Bank also engaged with the banking sector to foster efficient pricing of forward transactions in accordance with market fundamentals. As a result, forward premia have reverted to levels aligned with fundamentals as from the end of 2024. These measures altogether bolstered the volume of FX flows and, as a result, the Bank considerably reduced its FX interventions as from the beginning of 2025.

Chart 1.8: Evolution of RS/US$ selling dealt rate and EUR/US$



Developments in the external macrofinancial and geopolitical landscape continued to weigh on the FX market. The exchange rate of the Rupee appreciated against the US dollar in in the third quarter as the latter lost ground against major currencies such as the euro. As the US dollar recovered in the fourth quarter, the Rupee exchange rate depreciated. Overall, the Rupee exchange rate ended 2024 with a marginal depreciation 0.1 per cent relative to end-June 2024 (Chart 1.8).1 A more pronounced appreciation of the Rupee could, moreover, be noted against the Euro, as the Rupee appreciated by 3.4 per cent in the second half of 2024. On an annual basis, the exchange rate of the Rupee depreciated by 7.2 per cent against the US dollar.

Volatility in the US dollar exchange rate against the Euro in the second half of 2024 was largely influenced by monetary policy decisions by the US Federal Reserve and the European Central Bank (ECB). The US Federal Reserve made three interest rate cuts for a cumulative total of 100 basis points. Concurrently, the ECB made three consecutive 25 basis point cuts. As a result, the US$ depreciated by 4.3 per cent in the third quarter and appreciated by 7.3 per cent in the fourth quarter against the Euro. Overall, the US dollar appreciated by 2.7 per cent against the Euro in the second half of 2024.

Growing cross-border activities of banks operating in Mauritius, both on the funding and lending sides, can be a source of risk in case of large currency and maturity mismatches in assets and liabilities. Wide fluctuations in the exchange rate can amplify risks to the stability of the financial system. Prudential liquidity regulations contribute to absorb FX vulnerabilities in the banking system.

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[1] *IMF has reclassified the* de jure *and* de facto *exchange rate regime of Mauritius as floating effective August 2024.*

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) prudential standards, that banks in Mauritius have to comply with, serve as a safeguard against these risks.[2] Banks have to maintain matching currency and maturity profiles for assets and liabilities in all material currencies to which they have exposures. The LCR is applicable in material foreign currencies and requires banks to hold sufficient High Quality Liquid Assets (HQLA) to cover potential FX outflows over 30-day stressed period. The NSFR requirements in FX limit banks' ability to create large FX mismatches in their balance sheets and reduce their reliance on volatile FX funding. The NSFR compels banks to maintain matching currency and maturity profiles of both assets and liabilities over a one-year period, which alleviates FX risk arising from exchange rate fluctuations.

The Bank also tracks potential FX vulnerabilities by closely monitoring exposures of banks in FX. The net open position showed low exposure to FX risk, with the aggregate net open position of the banking sector to Tier 1 capital at 1.5 per cent in December 2024, well below the regulatory limit of 15 per cent.[3]

Monetary policy stance loosened

The Monetary Policy Committee (MPC) cut the policy rate by 50 basis points to 4.00 per cent at its meeting on 20 September 2024. The MPC viewed that prevailing conditions and prospects provided space for a lower policy rate without compromising on other macroeconomic objectives. Banks adjusted their savings deposit and prime lending rates broadly in the same magnitude.

The Bank carried out open market operations to manage the Rupee excess liquidity to support the transmission of the monetary policy stance to the financial system and, ultimately, the economy. Following the cut in the policy rate, the 7-Day Bank of Mauritius Bills were issued at the fixed rate of 4.00 per cent per annum while rate on the Overnight Deposit Facility was reduced to 2.50 per cent. Banks used the Overnight Deposit Facility to park excess funds. A daily average of Rs29 billion was deposited by banks during the second semester of 2024, compared to Rs27 billion in the preceding semester. As a result, the Rupee excess liquidity was at an average of Rs2.4 billion during the second half of 2024.

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[2] *The NSFR requirements – in both MUR and material FX – were implemented in a phased manner. Banks are required to maintain NSFR of 70 per cent from 30 June 2024, which increased to 100 per cent effective 31 December 2024.*

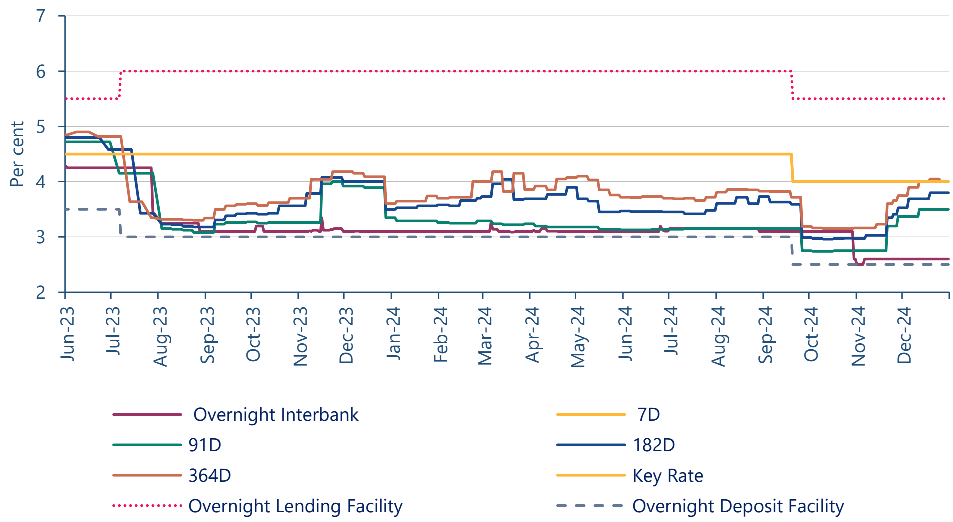
[3] *Banks' overall net open FX position of banks should not exceed 15 per cent of their Tier 1 capital. The Net Open Position in foreign currency measures the mismatch (i.e., the open position or gap) of foreign currency asset and liability positions of banks in order to assess the potential vulnerability to exchange rate movements. This mismatch is generally assessed against banks' capital. In technical terms, the computation of the Net Open Position in foreign currency is the sum of the net position for each foreign currency converted into a single unit of account.*

Longer-term open market operations were conducted as part of the Bank's monetary policy toolkit to absorb structural excess liquidity from the banking system. The Bank issued Bank of Mauritius Bills in the tenors up to one year for an aggregate amount of Rs37.5 billion in the 91-Day, 182-Day and 364-Day tenors in the second semester of 2024. An additional amount of Rs17.0 billion was mopped up from the banking system through foreign exchange operations.

The outstanding value of Bank of Mauritius financial instruments dropped in the second semester of 2024. The value of these instruments fell to Rs132.5 billion on 31 December 2024, from Rs150.3 billion in June 2024. The government issued securities for an aggregate amount of Rs96.7 billion in various tenors during that period while maturing securities amounted to Rs57.9 billion, thus representing a net issuance of Rs38.8 billion.

The overnight interbank rate, the operational target for monetary policy, evolved within but close to the lower bound of the interest rate corridor set around the policy rate. It moved within a range of 2.50 per to 3.15 per cent. The weighted average yields in the 91-Day, 182-Day and 364-Day tenors rose to 3.50 per cent, 3.80 per cent and 4.00 per cent, respectively as at end-December 2024 from 3.14 per cent, 3.45 per cent and 3.70 per cent as at end-June 2024 (Chart 1.9). The rise in yields occurred even after 50 basis points cut in the policy rate in September 2024, as the Bank intensified its open market operations to mopped up liquidity.

Chart 1.9: Evolution of market interest rates



Source: Bank of Mauritius

International reserves remained adequate

International reserves are a critical component of economic resilience and support both macroeconomic and financial stability, particularly as the global economy continues to face increasing volatility and uncertainty. With an adequate level of reserves, a country is in a better position to manage external shocks as the reserves provide a buffer *inter alia* against sudden capital outflows and exchange rate fluctuations.

The FX reserves of Mauritius were at a commendable level. The Gross Official International Reserves reached US$8.5 billion on 31 December 2024, up from USD$8.2 billion on 30 June 2024. The two main traditional measures of reserve adequacy are fulfilled. The import cover was 13.3 months, while the reserves-to-broad money ratio stood at 41.3 per cent which is above the IMF's recommended range of 5-20 per cent.

More stringent assessments were carried out by using the reserves-to-short-term debt ratio (Greenspan-Guidotti rule) and the IMF Assessing Reserve Adequacy (ARA) methodology.[4,5] These measures of external vulnerability are applied to emerging market economies, though without addressing all the specificities of a country, notably their economic and financial structure.

With Mauritius as an International Financial Centre, banks engage extensively in cross-border banking activities and hold considerable short-term deposits from non-residents. The value of these deposits reached Rs501 billion in December 2024 and made up 95 per cent of short-term external debt. As a result, the reserves-to-short-term external debt ratio was 76.5 per cent in December 2024, below the minimum of 100 per cent. The GOIR-to-ARA metric ratio was 103.0 per cent, above the 100 per cent minimum. Banks manage FX risk prudently, in line with the regulatory framework, and have the capacity to meet any withdrawal of FX deposits. In addition, banks held net foreign assets of Rs680 billion in December 2024. The external buffers held by the banking system and the central bank maintain external vulnerability at low level.

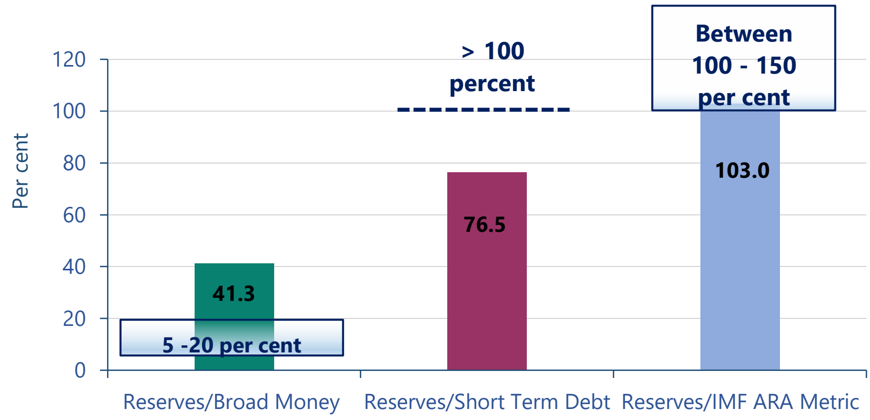
Banks comply with the prudential framework that limits risk of liquidity strains in case of deposit withdrawals, thus reducing the risk that the banking sector will rely on the FX reserves held by the central bank in case of any FX liquidity needs. The Bank periodically upgrades the

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

[5] *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/2024/05/28/Mauritius-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-549629).*

liquidity risk management framework for the banking sector to ensure banks are well equipped to withstand FX liquidity risks.[6] The FX market was unaffected by past episodes of FX drawdowns by non-residents and GBCs from banks. Certain international banks also have access FX liquidity from parent banks. Therefore, banks have the inherent capacity to manage FX deposit withdrawals by non-residents or the GB sector and reliance on the central bank's FX reserves is not expected to arise.

Chart 1.10: Select reserve adequacy metrics



Source: Bank of Mauritius

Systemic risk edged up marginally

The Systemic Risk Indicator (SRI) showed a marginal rise in risk to financial stability during the second semester of 2024.[7] The sources of risk were mostly a deterioration in the fiscal deficit and prolonged increases in stock market indices. External vulnerabilities persisted. Sectoral risk from both the household and corporate sectors were contained. Risk in the banking sector was low and its shock absorption buffers were robust.

Persistently large fiscal deficit and high government debt continued to drive macrofinancial vulnerabilities, despite the decline in inflation and a smaller positive output gap. Stock market indices rose considerably in the second half of 2024, well above its long-term average trend, and such a rise could be driven by higher risk appetite and lead to overleveraging by investors. The disconnect between stock price dynamics and economic performance raised the risk of a stock market correction which would negatively impact asset prices.

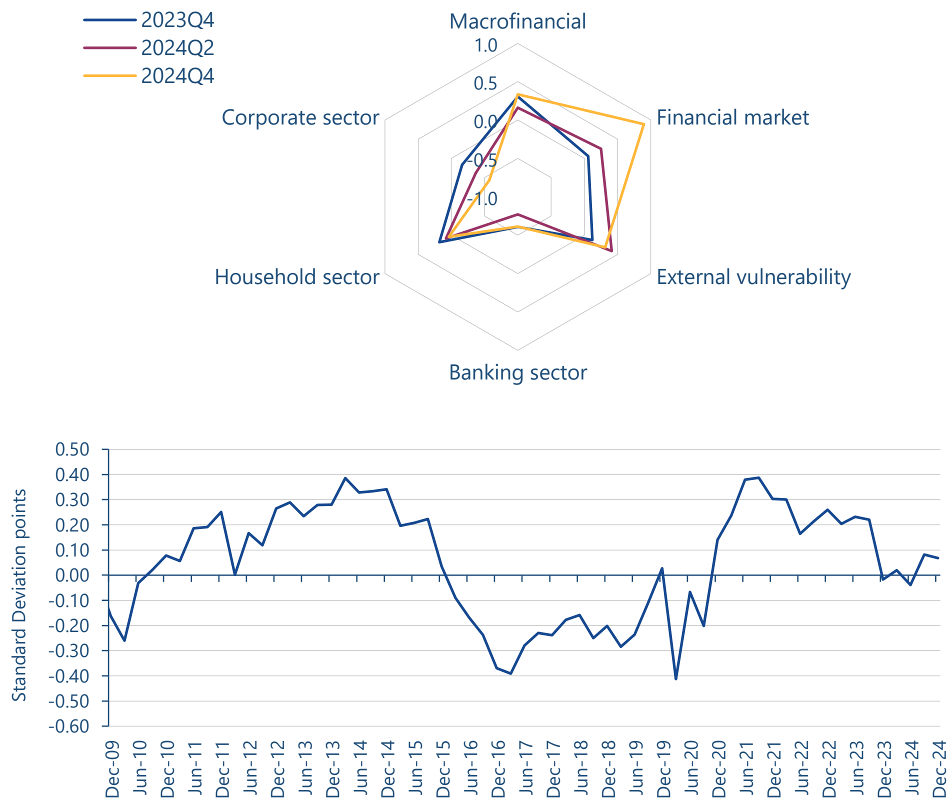
[6] *The Guideline on Liquidity Risk Management, fully aligned with the liquidity standards of Basel III, includes a set of minimum standards that banks must adhere to when managing liquidity risk. The Guideline has been consistently upgraded with improvements brought in 2009, 2010, 2017, 2019, 2020, 2021 and 2023 since its introduction in January 2000. It was overhauled in 2017 to introduce the Liquidity Coverage Ratio standard for the banking sector.*

[7] *The SRI gives an indication of the overall degree of systemic risk in the financial system. The SRI model was reviewed in July 2023 to improve its effectiveness in signalling the build-up of systemic vulnerabilities. As the SRI moves further upwards, the level of risk increases and vice versa.*

External vulnerabilities persisted and were mainly guided by an unfavourable interest rate differential between Rupee and US dollar financial assets. Strong capital and liquidity buffers enhanced the resilience of the banking sector. Risk from the household sector dropped slightly with the cut of 50 bps in the policy rate, culminating into lower debt servicing costs for households. Corporate sector vulnerabilities stayed low as debt sustainability risk was contained despite a surge in business leverage in the second half of 2024.

Looking ahead, risk to financial stability is projected stay around the same level after picking up in the second half of 2024 as per the baseline scenario, following downward revisions to past GDP data and subdued economic prospects for 2025. Upside risks in the financial system will be induced by macrofinancial conditions, financial markets dynamics, and the external environment. In contrast, the banking system is anticipated to remain in a strong position to absorb potential shocks. Projected subdued economic growth in 2025 and fiscal consolidation measures are expected to maintain systemic risk at moderate level in the next few quarters.

Chart 1.11: Systemic Risk Indicator



Source: Bank of Mauritius

2. Financial soundness of households and corporates

Better macrofinancial conditions contained sectoral vulnerabilities in the second half of 2024. The favourable macroeconomic environment, with steady economic growth and declining inflation, underpinned the financials of households and businesses. The less restrictive monetary policy stance led to improved debt servicing and leverage capacity of the household and corporate sectors. Risk in the household sector was curbed by positive labour market developments. Debt sustainability and serviceability ratios in the household sector hovered around healthy levels. Credit risk was low. Risk in the business environment was contained by robust performance of key economic sectors. Credit risk was broadly stable. Stress tests demonstrated the resilience on the corporate credit portfolios. Overall, favourable macrofinancial developments were supportive of financial stability.

Favourable economic conditions supported the resilience and soundness of households and businesses, containing risks to financial stability from these sectors. Lower borrowing costs as from September 2024 and falling inflation in the second half of 2024 alleviated the financial burden on both sectors. Positive developments in labour market indicators – such as nominal wage growth and falling unemployment – have propelled the balance sheet of households. Robust demand across economic sectors bolstered the corporate sector and earnings, leading to a rise in demand for credit from the sector. The favourable macrofinancial backdrop has largely contributed to restrain the emergence of sectoral risks and supported financial stability.

Risk from the household sector receded in the second semester of 2024, but pockets of vulnerabilities remained. Debt serviceability risk subsided with lower debt servicing costs while nominal income of households continued to grow. Disinflation further supported the purchasing power of households and helped to reduce financial strains. Debt sustainability ratios in the sector have stabilised. The non-performing loan (NPL) ratio of the sector hovered around its lowest levels in many years, signifying low credit risk. The credit cycle has stabilised, though some cyclical pressures persisted as the adjusted household credit-to-GDP gap was marginally positive. The uneven growth in residential real estate prices and wages has amplified concerns of stretched residential property prices in Mauritius.

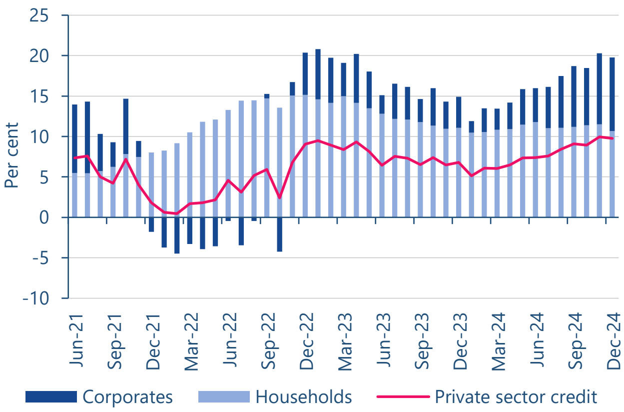
Corporate sector vulnerabilities stayed low in the second semester of 2024. Bank credit to corporates accelerated, underpinned by lower borrowing and debt servicing costs. The market capitalisation on the Stock Exchange of Mauritius drop marginally by 0.4 per cent to Rs382.7 billion. Debt sustainability in the sector was healthy and corporate earnings continued to grow.

The NPL ratio of the sector rose slightly but was mainly attributed to idiosyncratic factors and was not reflective of wider financial distress in the business landscape.

Bank credit to private sector expanded strongly

Bank lending to the private sector pick up pace in the second semester of 2024, driven by buoyant economic conditions and domestic demand. Private sector credit grew at an annual rate of 9.8 per cent in December 2024, from 7.4 per cent in June 2024 (Chart 2.1). Demand for credit from both the household and corporate sectors were robust. Bank lending to the household sector expanded at an annual rate of 10.7 per cent, while corporate credit went up by 9.1 per cent in December 2024.

Chart 2.1: Annual growth of private sector credit

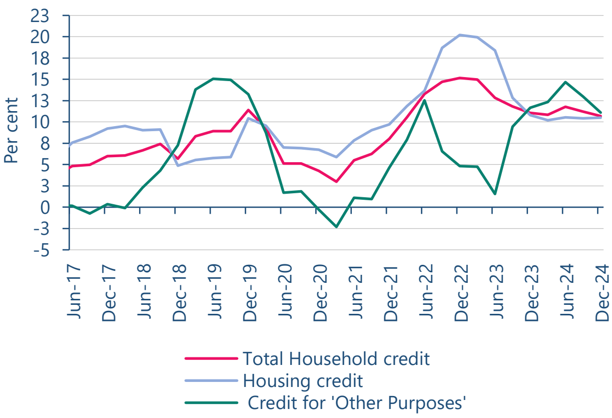


Source: Bank of Mauritius

Household credit growth slowed

The pace of growth of demand for bank credit by the household sector was broadly stable in the second semester of 2024. Households credit rose at an annual rate of 10.7 per cent in December 2024 (Chart 2.2). The trend in household credit was mostly driven by dynamics in the housing credit market, with steady appetite for residential real estate which represents nearly two-third of credit facilities extended to the household sector.

Chart 2.2: Annual growth of credit to households



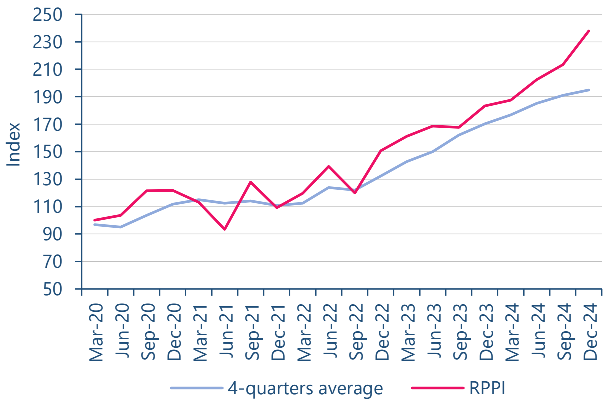
Source: Bank of Mauritius

The strong appetite for residential real estate investment was largely sustained by the rise in households' nominal income, the decline in inflation as well as favourable fiscal measures, which altogether supported household debt affordability. Housing credit expanded strongly throughout the second half of 2024, growing at an annual rate of 10.5 per cent in December 2024 (Chart 2.2).

Credit growth for *'other purposes'* hovered close to the higher end of its growth distribution, although a deceleration was noted in the second half of 2024.[8] Demand for consumption credit was supported by strong appetite for the acquisition of motor vehicles. On an annual basis, credit for *'other purposes'* grew by 11.1 per cent in December 2024.

Residential property prices continued to rise

Chart 2.3: Residential Property Price Index



Source: Statistics Mauritius

The stabilisation in housing credit growth, albeit at a comparatively high level, has not been reflected in house price dynamics in Mauritius. The Residential Property Price Index (RPPI) has maintained an upward trend in the second half of 2024 to reach a high of 237.9 in December 2024, after rising at an annual rate of 29.8 per cent (Chart 2.3). The procyclical effect between housing credit growth and residential property prices has moderated, though residential property prices have risen faster in the fourth quarter of 2024 despite a stabilisation of housing credit growth. The continuous rise in residential property prices has coincided with sustained credit to households for housing purposes as well as foreign direct investments into real estate under various schemes, which raises concerns of potential market imbalances.[9] The moderation of economic growth and fiscal consolidation measures in 2025 could potentially impact the trend in residential property prices, with implications for financial stability.

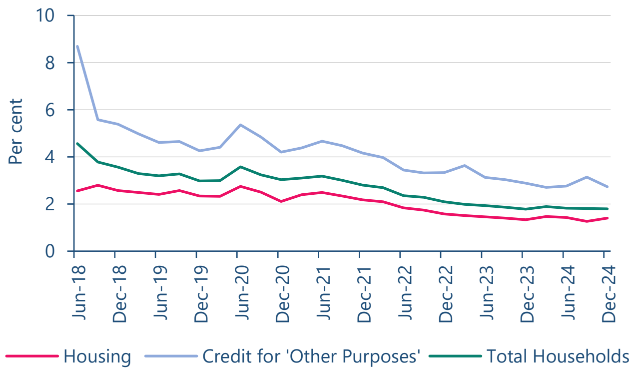
The Bank has reintroduced the macroprudential provisioning requirement for housing credit exposures in the banking sector effective 30 September 2024. Banks are required to set aside additional provisions of 0.5 per cent of their housing credit portfolio. The provisioning requirement is expected to enhance the resilience of banks against credit losses in their mortgage lending portfolio. The Loan-to-Value (LTV) limit also provides a cushion to banks against credit losses in case of a downward correction in house prices.

[8] *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.*

[9] *Integrated Resort Scheme/Real Estate Scheme/Invest Hotel Scheme/Property Development Scheme/Smart City Scheme.*

Household credit quality improved

Chart 2.4: NPL ratio for households

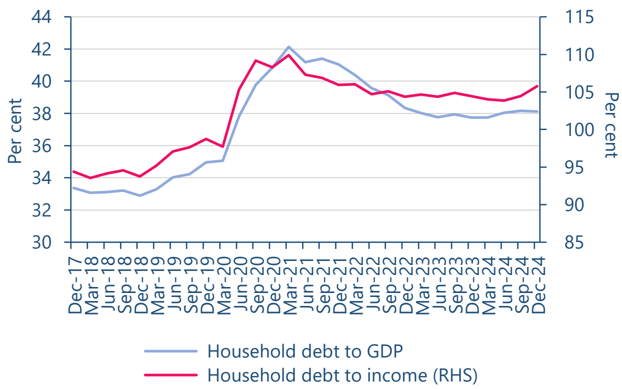


Source: Bank of Mauritius

The easing of credit risk from the household sector continued in the second half of 2024. The historically low NPL ratio is the result of prudential standards applied by banks and the capacity of households to service their debt obligations. The NPL ratio for the household sector was 1.8 per cent in December 2024, marking the lowest point in many years. Similarly, the NPL ratio for the housing credit stayed at 1.4 per cent while the ratio for credit extended for *'other purposes'* declined to 2.7 per cent (Chart 2.4).

Debt sustainability of households supported credit expansion

Chart 2.5: Indicators of household indebtedness to financial system



Source: Bank of Mauritius

Risk from debt sustainability in the household sector was well contained. The improvement in the nominal income of households and the interest rate cut in September 2024 have supported households' leverage capacity and contributed to keep debt sustainability risk relatively low.

Household indebtedness to the financial system – comprising banks, NBDTIs, insurance, leasing, credit finance and pension funds companies – relative to GDP remained broadly stable in the second half of 2024. The ratio stood at 38.1 per cent in December 2024, slightly higher than the figure recorded in June 2024. The ratio of total household debt to income rose to 105.8 per cent during the same period (Chart 2.5).[10] In nominal terms, aggregate household debt is estimated to have reached Rs264.5 billion in December 2024. Despite the rise of household indebtedness in the last five years or so, the debt servicing capacity of the sector has improved with the continuous increase in GDP.

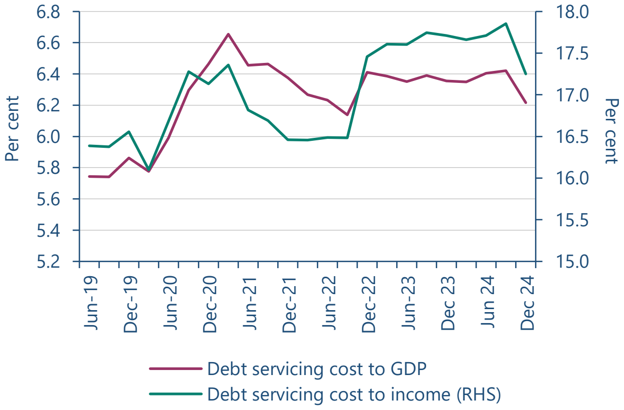
[10] *Household income is proxied by 'Compensation to employees' published in the national accounts by Statistics Mauritius. Compensation to employees comprises mainly wages and salaries paid in cash and kind.*

Resilient household debt service capacity

The debt servicing capacity of households stayed healthy in the second half of 2024. Debt servicing costs declined following the cut of 50 bps in the policy interest rate. Concurrently, the increase in wages combined with falling inflation have contributed to boost the financial buffers of households, making them more resilient to shocks. The WRI reached a new high in the second semester of 2024 after rising at an annual rate of 14.7 per cent.[11]

The debt serviceability metrics in the sector confirms the capacity of households to service their debt obligations, also reflected by low credit risk. The ratio of household debt servicing cost to income declined to 17.3 per cent in December 2024. When measured relative to GDP, the ratio dropped to 6.2 per cent in December 2024. The financial resilience of households has contributed to contain debt vulnerabilities from the sector (Chart 2.6).

Chart 2.6: Estimated debt servicing cost to income

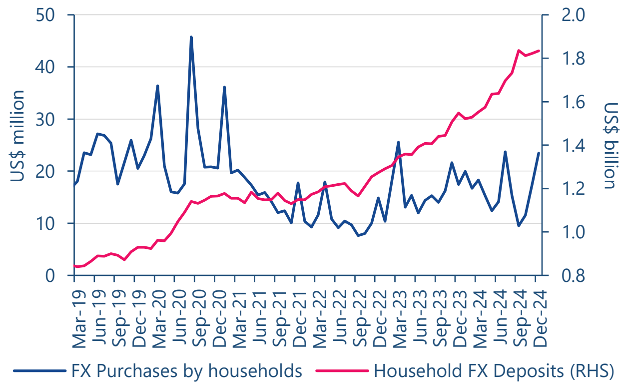


Source: Bank of Mauritius

Households accumulated more FX deposits

Household FX deposits maintained a general upward trajectory in the second semester of 2024. This trend suggests prolonged appetite of households to hold a portion of their financial savings in FX, the more so given the adverse interest rate differential between financial assets denominated in Rs and US dollar. Household FX deposits grew at an annual rate of 19.0 per cent to reach US$1.8 billion in December 2024, with the share in total household deposits going up to 15.2 per cent (Chart 2.7). Likewise, FX purchases by households in the second half of 2024 reached US$100.9 million, as compared to US$96.8 million in the preceding semester.

Chart 2.7: Households FX purchases and deposits



Source: Bank of Mauritius

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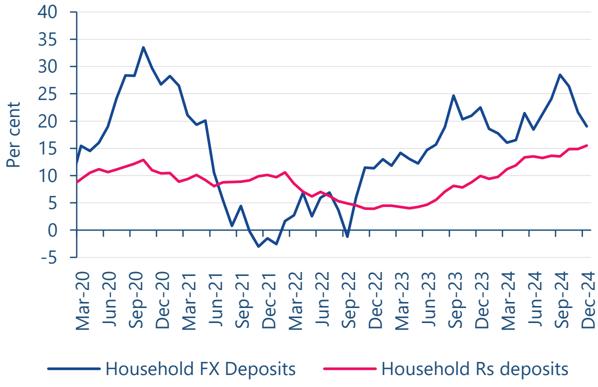
[11] *The WRI, published by Statistics Mauritius, shows changes in average wages paid to employees.*

Household FX deposits have grown consistently faster than Rs deposits since October 2022. The trend confirms the robust appetite of households to hold part of their financial wealth in FX. FX deposits held by households expanded at an annual rate of 19.0 per cent in December 2024 compared to 15.5 per cent for Rupee deposits (Chart 2.8).

Chart 2.8: Annual growth of household deposits



Source: Bank of Mauritius

Risk to financial stability from household sector remained subdued

Household sector vulnerabilities receded further in the second semester of 2024. Financial stress remained low. Credit risk hovered around its lowest levels in many years. Debt sustainability ratios stabilised and debt serviceability risks subsided. Cyclical risk has moderated as the pace of household credit growth stabilised. Yet, vulnerabilities persist in the residential real estate segment with the sustained rise in property prices. A combination of macroeconomic factors – notably, declining inflation and rising in nominal income – have supported the financial soundness of households and helped to limit the transmission of risks to the financial system.

The 50 basis points increase in the Key Rate in February 2025 is anticipated to cool demand for household credit and moderate cyclical risks further. Debt servicing cost of households are projected to increase, with modest strains on their debt servicing capacity. Macroprudential provisions applicable to the household sector – effective 30 September 2025 – will consolidate the resilience of banks against potential shocks to their household credit portfolio. Looking ahead, lower economic growth in 2025 accompanied by fiscal consolidation could exert some strains on household debt metrics.

Risk from the corporate sector stayed low

The business environment improved further in the second semester of 2024, as corporate earnings expanded and operating costs stabilised. The disinflation momentum along with steady demand in key economic sectors have strengthened the balance sheets of corporates. Demand for bank credit facilities from businesses accordingly picked up pace.

Risks from the corporate sector were contained by favourable economic sentiment and conditions. Debt sustainability metrics hovered close to the lowest levels in many years. Credit risk remained in manageable territory. Corporate indebtedness – measured relative to GDP –

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

stood at 34.2 per cent in December 2024, around 4 percentage points below its long-term average. The corporate credit portfolio of the banking sector was well diversified, representing low sectoral concentration risk. Only four economic sectors had benefited from more than 10 per cent of overall corporate credit portfolio in the banking system. The *Wholesale and retail trade* sector surpassed the *Accommodation and food service activities* sector as the most leveraged sector in December 2024. Risk from the Commercial Real Estate (CRE) market stayed low as the exposure of the banking sector to this segment remained low.

Corporate credit growth picked up momentum

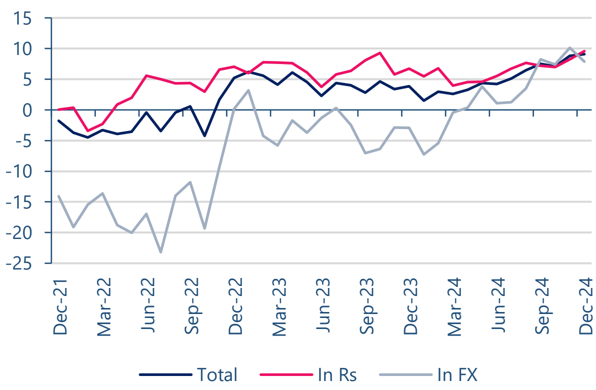
Bank lending to the corporate sector accelerated in the second half of 2024. Corporate credit grew at an annual rate of 9.1 per cent in December 2024 compared to 4.3 per cent in June 2024 (Chart 2.9). The surge in corporate credit was mainly driven by additional credit facilities extended to businesses operating in the *Wholesale and retail trade, Manufacturing, Agriculture, forestry and fishing, Professional* and *Construction* sectors. A notable contraction in corporate leverage was noted in the *Accommodation and food service activities* and *Real Estate Activities* sectors.

Bank loans remained the predominant form of funding for businesses, as compared to other types of financing instruments. Banks' corporate credit portfolio was primarily composed of loans, accounting for 84.2 per cent, while bank holdings of debt securities issued by corporate entities represented 15.8 per cent in December 2024 relative to 18.5 per cent in June 2025.

Rise in corporate FX credit

Risk to financial stability from corporate FX indebtedness was well contained. The exposure of banks to the corporate sector is mostly in domestic currency. The share of corporate credit in FX relative to the overall corporate credit portfolio was 28.4 per cent in December 2024. A general upward trend in corporate FX credit was noted in the second half of 2024, as interest rates on major international currencies were lowered globally. The expansionary momentum in FX corporate credit was mainly driven by a surge in credit facilities extended to enterprises in the *Wholesale and retail trade*, *Agriculture, forestry and fishing* and *Manufacturing* sectors. The apparent dearth of FX on the market in the second half of 2024

Chart 2.9: Growth of credit to the corporate sector



Source: Bank of Mauritius

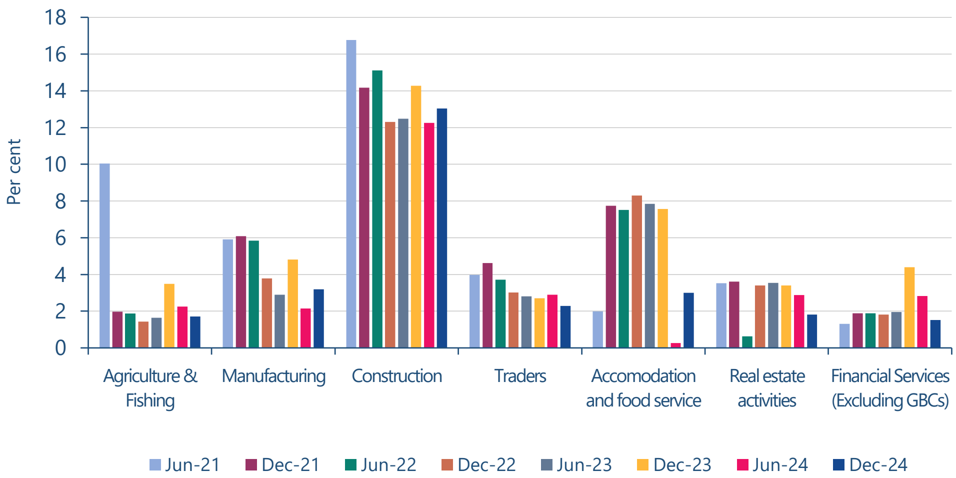
could have prompted banks to offer FX loans to customers operating in these sectors. Banks generally mitigate corporate FX credit risk by ensuring the cash flows of the borrowers are in FX.

Credit risk in the corporate sector was contained

The asset quality of the corporate sector was broadly sound in the second half of 2024. The NPL ratio rose only marginally to 3.2 per cent in December 2024, from 3.1 per cent in June 2024. The rise in the NPL ratio arose mainly from an increase in impairment in the *Accommodation and food services* sector that went up to 3.0 per cent in December 2024 from 0.3 per cent in June 2024.

From a sectoral perspective, credit risk receded in the second semester of 2024. The asset quality of the *Real estate activities*, *Financial Services*, *Wholesale and retail trade* and *Agriculture, forestry and fishing* sectors improved in December 2024 (Chart 2.10). The NPL ratio of the *Accommodation and food services* sector rose due to an idiosyncratic factor – the credit portfolio for one client becoming impaired – and was thus not of systemic nature. The NPL ratio of the *Construction* sector remained persistently high but banks have set aside significant provisions for the sector to cover potential losses. The reintroduction of macroprudential provisions by the Bank, effective 30 September 2024, for the *Construction* sector has strengthened the credit loss absorption capacity of banks.

Chart 2.10: Sector-wise NPL ratio for selected key sectors



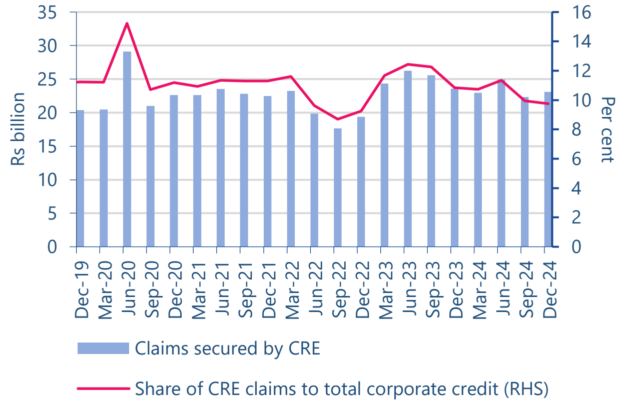
Source: Bank of Mauritius

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

Credit to commercial real estate market declined

Risk to financial stability from the CRE market remained low. The banking sector`s exposure to the CRE segment dropped to 9.7 per cent in December 2024 (Chart 2.11). Bank lending to this segment has been particularly stable over the years, reflecting a cautious approach towards CRE projects. Moreover, the macroprudential requirements for the sector has constrained the build-up of vulnerabilities from excessive lending.

Chart 2.11: Share of claims secured by CRE to corporate credit

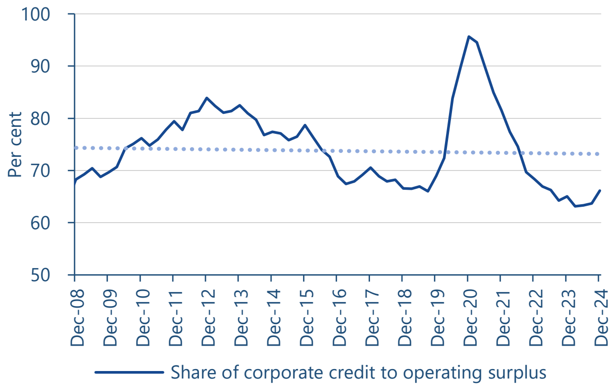


Source: Bank of Mauritius

Sound leverage capacity of the corporate sector

Corporate earnings grew healthily in the second half of 2024 and has supported the leverage capacity of businesses. Stronger balance sheets of corporates have underpinned their ability to avail of additional credit facilities and fulfil their debt obligations. As a result, the ratio of corporate credit relative to operating surplus rose to 66.1 per cent in December 2024, from 63.3 per cent in June 2024 (Chart 2.12). The ratio remained, nevertheless, below its long-term trend – denoting subdued corporate debt sustainability risk.

Chart 2.12: Share of corporate credit to operating surplus



Source: Bank of Mauritius

Risk from the corporate sector well contained

Risk to financial stability from the corporate sector stayed low due to positive developments in the macrofinancial environment. The September 2024 cut of 50 basis points in the policy interest rate reduced borrowing and debt servicing costs, followed by an improvement in debt servicing and leverage capacity. The stress tests exercise performed in the second half of 2024 showed that banks were resilient to a variety of potential shocks impacting their corporate credit portfolios.

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

Going forward, the business environment is projected to remain healthy despite lower estimated economic growth for 2025 relative to 2024. Fiscal consolidation and a revamped economic strategy are expected to bolster business sentiment and stimulate investment in the medium term. The hike of 50 basis points in the Key Rate in February 2025 is not anticipated to materially strain debt servicing capacity of businesses. The banking sector remains in a strong position to support the flow of credit to the corporate sector. Still, downside risk prevails for the export-oriented sector due to the turbulent geo-political landscape and the recent downgrade of global economic growth.

3. Banking sector resilience

The resilience of the banking sector was supported by solid capital buffers, sound liquidity management, and sustained profitability during the second half of 2024. Credit risk softened, with the non-performing loans ratio declining and improved provisioning sustaining financial stability. The banking sector continued to grow its balance sheet, driven by rising resident and non-resident credit portfolios, reinforcing its systemic importance. Cross-border banking activities expanded further, representing a substantial portion of total assets. Stress tests results confirmed the capacity of the sector to withstand adverse shocks, including macroeconomic, credit, market, and liquidity shocks. Forward-looking stress tests also confirmed its ability to absorb shocks under various scenarios, strengthening confidence in the stability of the banking system. Micro-prudential regulatory developments – including cyber risk mitigation and virtual asset-related regulations – reinforced the supervisory landscape to reduce vulnerabilities and risks to financial stability.

The robust capital and liquidity buffers supported the resilience of the banking sector in the second half of 2024. The strength of these buffers was confirmed by the results of the regular stress testing exercise. Banks pursued their strategy to grow their exposures to both resident and non-resident segments. Growing cross-border banking activities propelled balance sheet expansion, representing on average 54 per cent of assets, and earnings diversification.[12] Credit risk moderated further as asset quality continued to improve. The flow of credit to the domestic economy, in particular to the corporate sector, accelerated in the second semester.

The size of the banking system expanded further, with aggregate assets reaching 381 per cent of GDP and 90 per cent of the domestic financial system. The predominance of the banking sector makes it imperative to monitor its resilience to maintain financial stability. The structure of the banking sector remained unchanged.[13] Of 18 banks in operation, four banks were designated as Domestic-Systemically Important Banks (D-SIBs) as from May 2024, underlining their pivotal influence within the sector, and they are monitored closely to safeguard financial stability.[14] Concentration in the banking sector remained relatively moderate, with the Herfindahl-Hirschman Index (HHI) at 1,808. Notably, two of the D-SIBs held a significant share of the total banking sector assets, reflective of some concentration in the market structure while maintaining competitive dynamics.

[12] *Cross-border activities are examined in more details in Chapter 5.*

[13] *One bank is under conservatorship as from February 2024.*

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

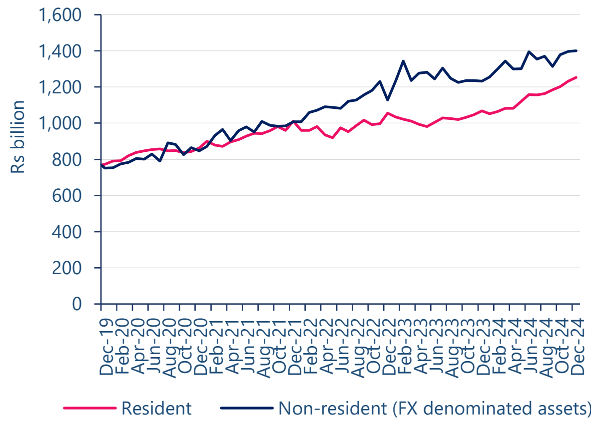
The performance of the four D-SIBs highlights the overall resilience and sustained expansion of the banking sector. Their capital ratios exceeded the regulatory thresholds, inclusive of the additional D-SIB capital surcharge that ranged from 1.0 per cent to 2.5 per cent, thus providing a solid cushion against risks to financial stability. These banks maintained sufficient liquid assets and actively pursued strategies to expand cross-border operations, reflecting their role in regional and international banking activities.

Growing banking sector balance sheet

The pace of expansion of the banking sector was upheld by a growing credit portfolio – for both residents and non-residents – as well as strategic investments in liquid assets. The balance sheet of the sector expanded at an annual rate of 15.4 per cent in December 2024, propelling total assets to Rs2.7 trillion. The banking sector has been able to balance growth with stability, partly due to the robust regulatory framework set by the Bank. This prudent approach has safeguarded a sound financial system, while fostering sustainable expansion amidst evolving demands.

The growth in banking sector assets during the second half of 2024 was driven by slightly higher contribution from the resident segment, which is inclusive of the Global Business (GB) sector. The resident segment held an average share of 46 per cent of aggregate banks' assets, relative to 54 per cent deployed in the non-resident segment. Asset growth demonstrated the strategic approach by banks in leveraging opportunities in both markets. In nominal terms, resident assets were valued at Rs1.3 trillion, marginally surpassed by Rs1.4 trillion in non-resident assets primarily denominated in FX (Chart 3.1).

Chart 3.1: Segmental banking sector asset



Source: Bank of Mauritius

More than half of non-resident FX assets of banks were held in liquid instruments, made up of deposits with banks overseas and investment in foreign governments' securities. The remaining assets were deployed as loans to foreign counterparts and investments in debt securities issued by foreign corporates. Loans to foreign counterparts went up significantly, at an annual rate of 53.2 per cent, while investments in debt securities grew by 13.6 per cent.

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 composition of banking sector assets was stable in the latter half of 2024, reflecting consistency in financial operations and strategic allocation from a risk management perspective (Chart 3.2a). This stability highlighted the continued emphasis on credit extension and investments in liquid assets – such as deposits, and government and Bank of Mauritius securities – which have been key components of the asset composition throughout the year.

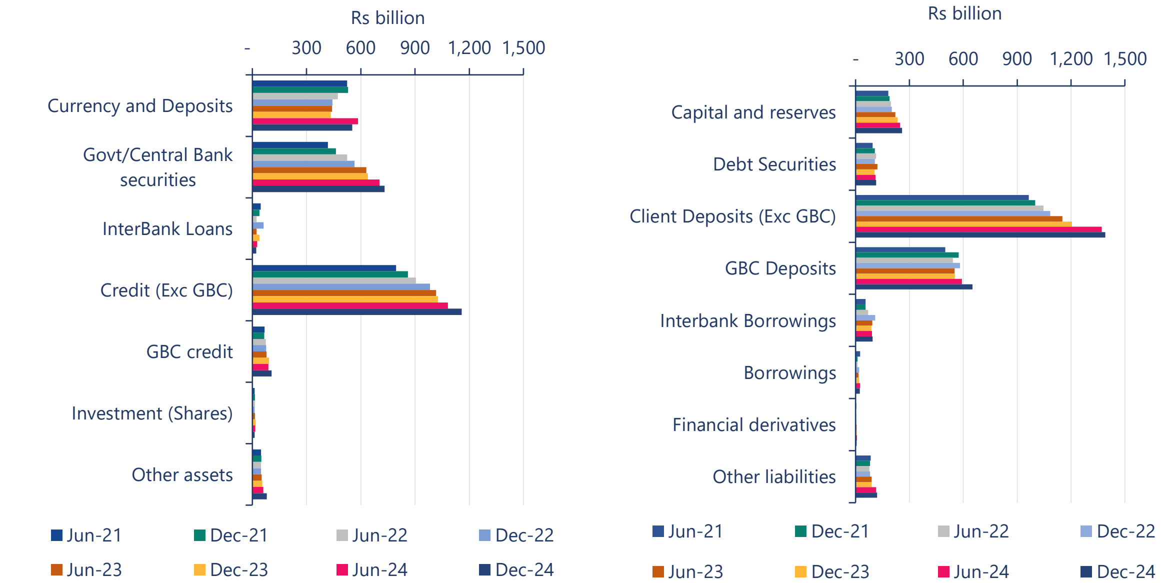
The capital and funding structure of the banking sector was supported by consistent growth in capital and reserves. Elevated earnings have enabled banks to strengthen the financial foundation of the sector and maintain a resilient funding framework (Chart 3.2b). Deposits of Rs2.0 trillion at the end of 2024 remained the cornerstone of banking sector funding, after surging at annual growth of 16.0 per cent in December 2024.

Deposit growth was mostly fuelled by FX deposits from the resident segment inclusive of Global Business Corporations (GBC). Deposits from resident corporates made up for 46 per cent of total deposits and grew at an annual rate of 14.9 per cent at the end of 2024. Household deposits amounted to Rs559.1 billion in December 2024, showing strong annual growth of 17.2 per cent. Non-resident deposits reached Rs515 billion at the end of 2024, marked by an annual growth to 18.3 per cent in December 2024, a slowdown from 33.1 per cent six months earlier as the global dynamics became more volatile. The funding structure remained geared towards wholesale deposits. Prudent liquidity risk management was thus important.

Chart 3.2: Banking sector balance sheet decomposition

a. Assets decomposition

b. Capital and liabilities decomposition



Source: Bank of Mauritius

Lower credit risk and better risk coverage[15]

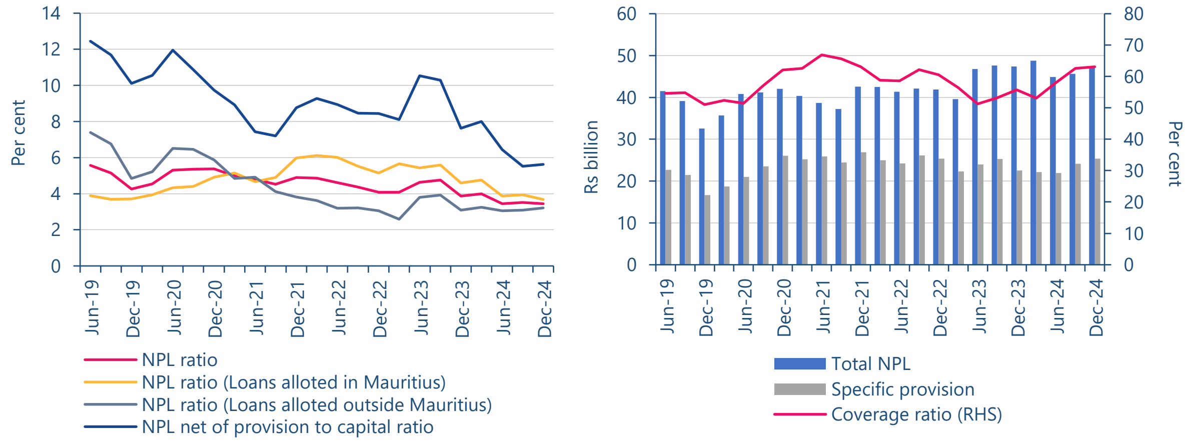
Banks registered further reduction in exposure to credit risk in the second semester of 2024. The combination of low impaired credit, an expanding credit portfolio, and the presence of strong loan-loss buffers contributed to ease risk to the credit portfolio. Additionally, the banking sector consolidated its balance sheet with enhanced capital buffers, which significantly improved its ability to absorb credit losses and manage other potential risks effectively.

The improvement in the impairment ratios provided a solid foundation to navigate potential future challenges and signalled a positive outlook for financial stability. The Non-Performing Loan (NPL) ratio was steady at 3.4 per cent in June and December 2024, reflecting the banking sector's consistent credit risk management (Chart 3.3a). The ratio of NPLs net of provisions to capital improved notably, declining to 5.6 per cent by December 2024, from 6.4 per cent in June 2024. The coverage ratio went up to 63.1 per cent at the end of 2024, reinforcing the capacity of banks to absorb credit risk (Chart 3.3b).

Chart 3.3: Asset quality

a. Non-performing loans

b. Specific provisions



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

Risk to the credit portfolio eased for both the resident and non-resident sectors. The NPL ratio for credit granted to resident clients dropped to 3.7 per cent in December 2024, from 3.9 per cent in June 2024. The GB sector, which is part of the resident sector, is a significant driving factor in the impaired asset portfolio. Exclusive of the GB sector, the NPL ratio for the resident sector remained low at 2.3 per cent in December 2024, unchanged compared to June 2024. The provisioning levels were stable, hovering around 58 per cent. The non-resident sector

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

followed the same trend, with its NPL staying at around 3.1 per cent during the second half of 2024, whilst the coverage ratio improved to 53.1 per cent in December 2024.

The performance of the four D-SIBs mirrored the above trend, demonstrating their ability to manage credit risk and curb risk to financial stability. The combined NPL ratio for these DSIBs remained unchanged at 3.2 per cent from June to December 2024. They altogether held provisions of 75.4 per cent in December 2024, up by 5.9 percentage points from June 2024.

The sound quality of the credit portfolio is also evidenced by the application of IFRS-9 loan classification standards. The total outstanding credit facilities showed a consistent upward trend in the second semester of 2024. Notably, Stage 1 credits (those with lower risk) form the majority of the credit facilities, suggesting overall stability. Stage 2 (moderate risk) credits fluctuated, with a notable annual decrease of 46.4 per cent in December-2024. Stage 3 (higher risk) credits remained relatively stable across the periods.[16]

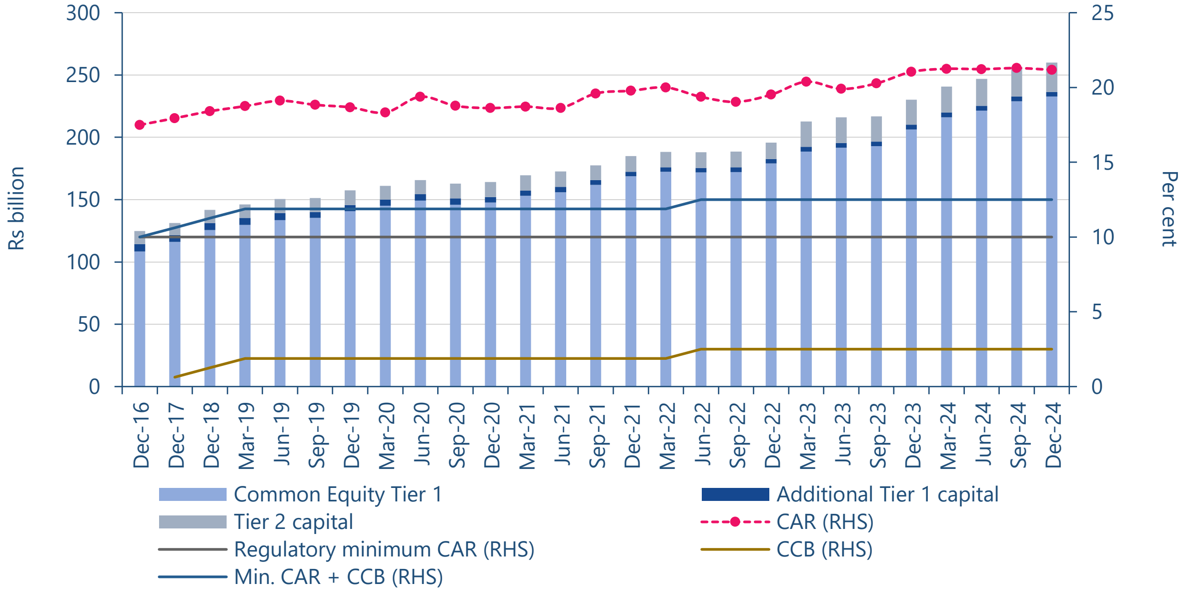
Sound capital buffers

The capital buffers held by banks was elevated and stable, with the Capital Conservation Buffer and D-SIB capital surcharge buttressing resilience against systemic risks. All banks – inclusive of the DSIBs – held CAR above their respective regulatory limits. The aggregate CAR for the banking sector *(excluding one bank under conservatorship since February 2024)* was stable at 21.2 per cent in June and December 2024 (Chart 3.4). The capital base of banks was Rs260 billion in December 2024, representing an annual increase of 12.9 per cent. The rising trend in Tier 1 and Common Equity Tier 1 capital showcased robust foundations in equity-based financial strength.

Total risk-weighted assets and risk-weighted credit exposures highlighted consistent risk management strategies, critical for regulatory compliance and financial stability. Risk-weighted assets rose at an annual rate of 12.2 per cent in December 2024 to stand at Rs1,228 billion.

[16] *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.*

Chart 3.4: Capital adequacy ratio of the banking sector



Source: Bank of Mauritius

Active management of interest rate risk

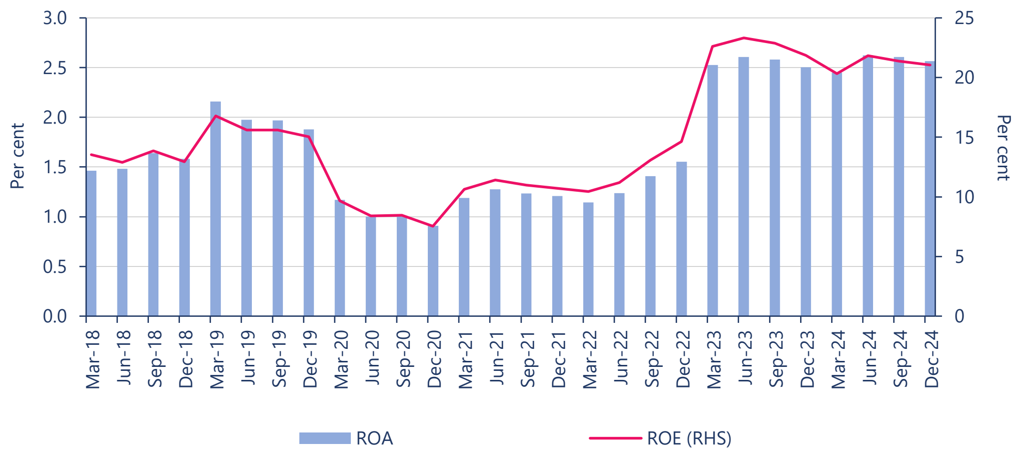
The impact of interest rate movements on the balance sheet of banks is regularly assessed to ensure adequate capital and liquidity buffers against interest rate risk. Banks actively managed interest rate risks by focusing on the maturity profiles and interest rate changes of their funding and asset structures. Most banks held positive interest rate gaps, as the mismatch in the 'up to 30 days' bucket was more than offset by favourable positions across longer-term time buckets ('31 to 90 days' to 'more than 20 years'). This indicated that interest-sensitive assets outpaced liabilities over extended periods, enabling institutions to benefit from higher interest rates through increased net interest income. Moreover, trading book assets – representing 25 per cent of Tier 1 Capital or 2.2 per cent of total assets at the end of 2024 – demonstrated the sound financial position of banks.

Sustained profitability

The profitability ratios were relatively steady in the second semester of 2024, contributing to support capital buffers. The Return on Assets (ROA) was at 2.6 per cent, indicative of minimal volatility in asset performance (Chart 3.5). The Return on Equity (RoE) remained elevated, though it moved marginally down to 21.1 per cent in December 2024 from 21.8 per cent in June 2024, on account of a slight drop in profit after tax over the same period.[17]

[17] *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.*

Chart 3.5: Profitability ratios of the banking sector



Source: Bank of Mauritius

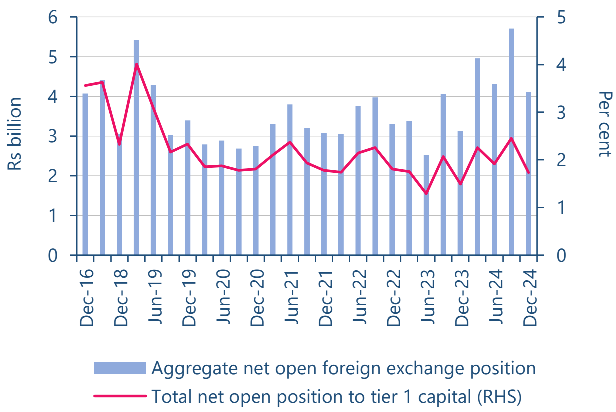
Lower credit concentration risk

Credit concentration risk was rigorously managed by the banking sector in adherence to the prescribed prudential limits. The value of large exposures relative to the Tier 1 fell markedly to 245.2 per cent in December 2024, from 296.5 per cent in June. This contraction in the risk-weighted exposure profile reinforced banking sector resilience against credit shocks. The stress test exercise also confirmed the capacity of the banking sector to withstand credit losses in the top exposures.

Banks maintained low FX exposures

The FX exposure metric reflected low appetite of banks to take on foreign exchange risk. They maintained low net open positions. The ratio of net open FX exposures to Tier 1 capital was well within the prescribed regulatory limit. It declined marginally to 1.7 per cent by December 2024, from 1.9 per cent in June 2024 (Chart 3.6).

Chart 3.6: FX exposure to tier 1 capital



Source: Bank of Mauritius

Resilience of the banking sector to solvency shocks

The Bank conducts quarterly stress tests to assess the capacity of the banking sector to absorb a range of adverse shocks. These tests are designed based on hypothetical yet plausible scenarios that reflect potential economic and financial strains – including various combinations of shocks to the economy, credit portfolio, interest rate, and exchange rate. The stress testing framework applied also goes beyond immediate impacts and evaluates the ability of the banking sector to maintain its critical functions and services over future time horizons during challenging periods.

The results have reaffirmed the robustness of the banking sector against the hypothetical shocks. The forward-looking scenarios highlight some vulnerabilities by mid-2025, but proactive measures and improvements in the buffers are expected to mitigate the risks.

Macroeconomic scenarios

The resilience of the banking sector to economic downturns is evaluated through macroeconomic shocks involving three distinct scenarios: a baseline growth of 3 per cent, no growth in a moderate case, and a 3 per cent contraction in a severe situation (Figure 1). These potential shocks are expected to primarily impact the sector via higher credit risk, reflecting borrowers' challenges in meeting debt obligations. Additionally, an augmented scenario incorporates market risk into the assessment. The analysis focuses on solvency, in particular to assess whether banks possess sufficient capital to absorb losses and continue to deliver core functions under stressed conditions.

Figure 1: Assumptions under the macroeconomic scenarios

Baseline: The economy is projected to grow by 3 per cent in 2025.

Domestic economic growth is assumed to settle towards a medium-term steady state. Key sectors including the *Construction, Financial services, Accommodation and food services and Wholesale and retail trade* are anticipated to continue driving domestic consumption and investment amidst global uncertainties.

Moderate: The economy is assumed to stagnate in 2025.

Domestic and external pressures could converge and stifle economic momentum. In such a scenario, dampened consumer and business investment – potentially triggered by global trade disruptions, geopolitical uncertainties, and persistent inflationary pressures – would likely weaken domestic demand and strain key sectors such as *Construction, Financial services, Accommodation and food services and Wholesale and retail trade*.

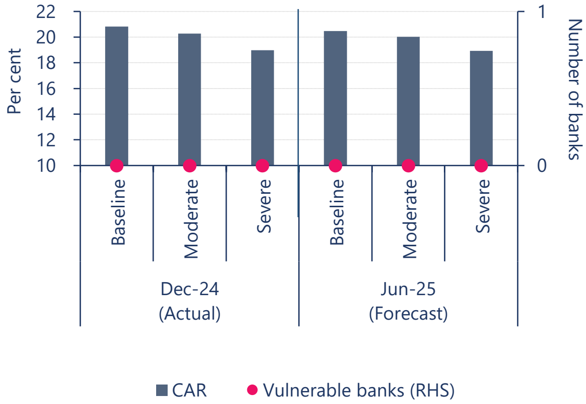
Severe: The economy is assumed to contract by 3 per cent in 2025.

Source: Bank of Mauritius

Hypothetical escalation of geo-political tensions and trade barriers would disrupt macroeconomic conditions globally and deteriorate domestic conditions. Supply chains would hit a bottleneck. Consumer and investment spending would drop, impacting various sectors of the economy such as *Manufacturing, Construction, Financial Services, Accommodation and food* services, *Wholesale and retail trade* and *Transportation* sectors.

The results of the stress testing exercise, based on December 2024 data, underscored the sustained resilience of the banking sector to economic downturns and the resulting transmission of shocks to banks' credit portfolios. The forecasts for the subsequent two quarters also confirmed all banks would maintain their post-shock CAR above minimum regulatory requirements across all three macroeconomic scenarios (Chart 3.7).

Chart 3.7: Macroeconomic shock results



Source: Bank of Mauritius

Of note, only one bank would have its post-shock CAR level drop below 15 per cent, but it will still meet the regulatory threshold of 12.5 per cent under the severe scenario, signifying robust performance. The forward-looking analysis demonstrates the capacity of the banking system to withstand macroeconomic shocks, reinforcing confidence in the stability and resilience of the sector.

Augmented macroeconomic scenarios

The augmented macroeconomic scenario introduces two layers of interest rate and exchange rate shocks to the baseline and moderate cases. The first layer combines an exchange rate depreciation with an interest rate cut, while the second involves a smaller currency depreciation paired with an interest rate hike (Table 3.1). These scenarios are purely hypothetical and aim to evaluate the shock absorption capacity of the banking sector to compounded stress factors, rather than reflecting anticipated developments. They provide valuable insights into the ability of banks to withstand simultaneous financial strains.

Table 3.1: Augmented macroeconomic shocks

	Augmented macroeconomic: set 1		Augmented macroeconomic: set 2	
	Baseline	Moderate	Baseline	Moderate
Growth rate	3 per cent growth	Zero growth	3 per cent growth	Zero growth
Interest rate	-200bps	-200bps	+200bps	+200bps
Exchange rate	3 per cent depreciation	6 per cent depreciation	2 per cent depreciation	4 per cent depreciation

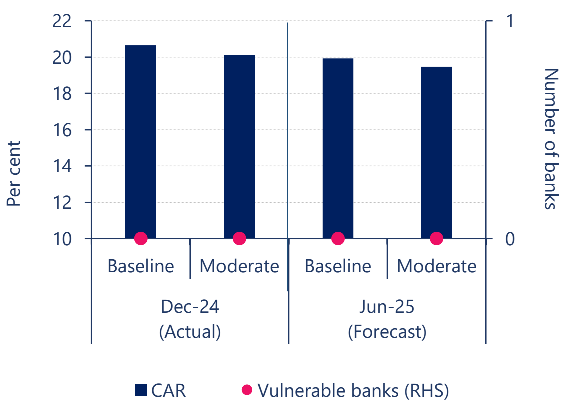
Source: Bank of Mauritius

The stress test results indicate the robust buffers of the banking sector under both augmented scenarios in December 2024 and June 2025. In the first scenario, banks effectively absorbed the downward interest rate shock due to their positive net interest rate-sensitive assets, supported by actual and forecast data (Chart 3.8a). In the second scenario, higher interest rate contributed positively to profitability given positive net interest rate-sensitive assets, facilitating further capital build-up and reinforcing resilience across all banks (Chart 3.8b). Banks with a positive net interest-rate sensitivity – where interest rate-sensitive assets exceed interest rate-sensitive liabilities – have an advantage in both rising and falling interest rate environments. When interest rates rise, loan yields tend to increase at a faster pace than funding costs, thereby expanding net interest income. Conversely, during periods of declining interest rates, funding costs typically adjust downward more rapidly than asset yields, allowing banks to sustain – or at times even enhance – profitability through lower interest expenses.

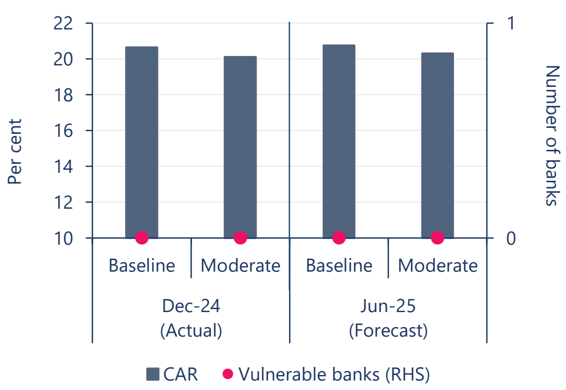
The depreciation of the domestic currency posed minimal risk to capital buffers, as the net open foreign exchange exposures of banks remained well below regulatory limits. These findings showed the capacity of the banking sector to withstand multiple shocks and ensure continued stability.

Chart 3.8: Augmented macroeconomic shock results

a. Set 1



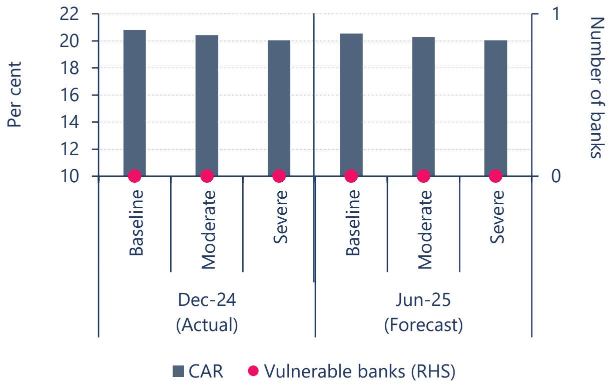
b. Set 2



Source: Bank of Mauritius

Sensitivity: sectoral credit shocks

Chart 3.9: Sectoral credit shock results



Source: Bank of Mauritius

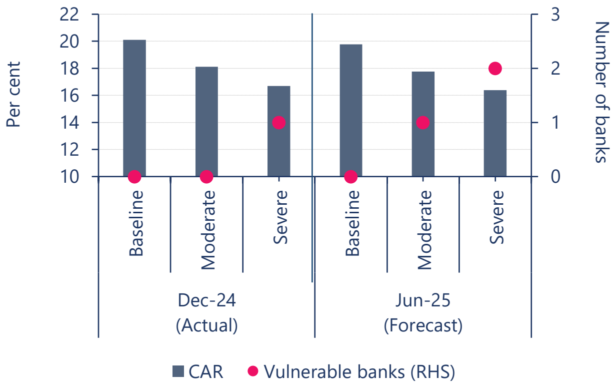
The sectoral credit sensitivity stress test evaluates the ability of banks to endure a deterioration in asset quality across seven key credit portfolios. The test assumes additional impairments in the performing credit portfolios of 4 per cent under the baseline scenario, 8 per cent under the moderate scenario, and 12 per cent under the severe scenario. These shocks are applied to portfolios of the following economic sectors: *Agriculture, Manufacturing, Wholesale and Retail Trade, Construction, Accommodation and Food Services, Real Estate, and Housing*. The results for December 2024 and June 2025 confirmed the resilience of all banks across all scenarios, demonstrating their capacity to absorb credit portfolio shocks without compromising systemic stability (Chart 3.9).

Sensitivity: credit concentration shocks

Credit concentration risk analysis examines the impact of cumulative defaults among the largest borrowers for each bank. Under the baseline scenario, it was assumed that the top borrower would default on its performing loans. In the moderate scenario, the analysis intensified, assuming defaults by the top five borrowers, while the severe scenario extended this assumption to the top ten borrowers. This approach highlights the potential vulnerabilities associated with concentrated credit exposures. It underscores the importance of maintaining diversified credit portfolios to mitigate concentration risks.

The stress test results revealed a notable decline in the aggregate post-shock CAR of the banking sector, from 21.2 per cent to 20.1 per cent under the baseline scenario, 18.1 per cent in the moderate scenario, and 16.7 per cent in the severe scenario (Chart 3.10). Nearly all banks maintained sufficient capital buffers to endure these shocks in December 2024, except for one non-D-SIB bank. The projections for June 2025 indicate potential vulnerabilities for two non-D-SIB banks.

Chart 3.10: Credit concentration shock results



Source: Bank of Mauritius

Robust liquidity buffers

Banks manage liquidity risk prudently, in line with the regulatory framework and internal standards, given the significant proportion of wholesale deposits in their deposit base. They consistently maintained strong liquidity buffers by strategically investing in liquid financial products.

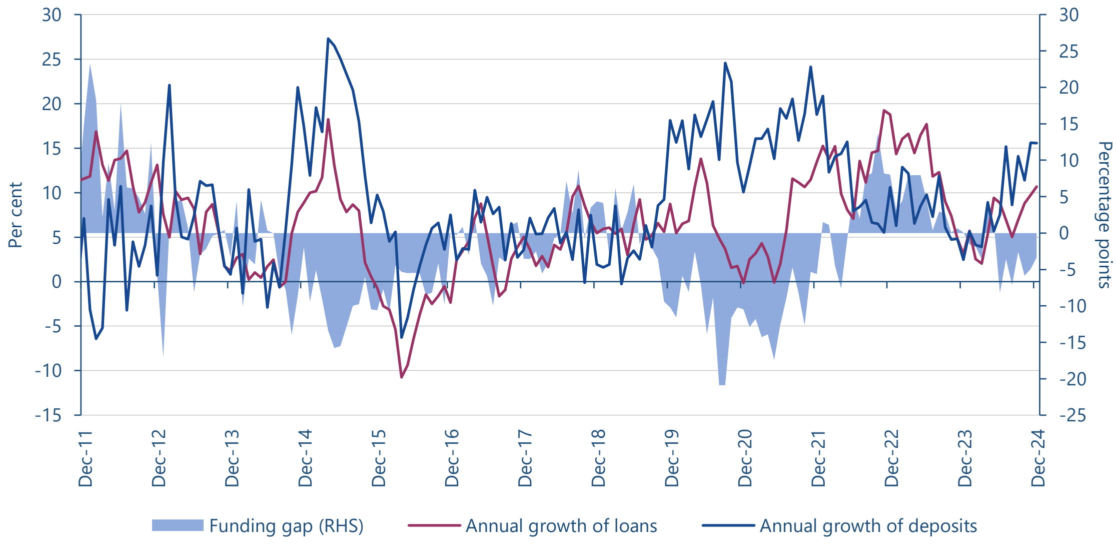
The total value of liquid assets in the banking sector reached Rs1.2 trillion in December 2024, denoting an annual increase of 19.5 per cent. These liquid assets mainly consisted of currency and deposits as well as government and Bank of Mauritius securities. The substantial value of these liquid assets was more than sufficient to cover short-term liabilities maturing within a 3-month period during the 2024, thereby significantly mitigating short-term liquidity risk.

The Liquidity Coverage Ratio (LCR), one of the core prudential standards measuring the adequacy of liquid buffers, was maintained well above the regulatory minimum of 100 per cent. The consolidated LCR was 299.0 per cent in December 2024, with the aggregate LCR in FX at 213.9.

The introduction of the Net Stable Funding Ratio (NSFR) by the Bank, effective 30 June 2024, has contributed to strengthened liquidity risk management. It ensures a stable funding profile for banks relative to assets over a one-year time horizon, thereby addressing structural liquidity vulnerabilities. The NSFR was implemented in a phased manner, at 70 per cent as from 30 June 2024, rising to 100 per cent by 31 December 2024. All banks reported NSFR for Rs and all significant FX exposure above 100 per cent. This implied that banks have the ability to withstand disruptions to their regular sources of funding without compromising their liquidity position at the end of 2024.

Banks maintained sufficient liquidity during the second semester of 2024 to ensure effective credit intermediation. The Loan-to-Deposit (LTD) ratio stabilised at 61 per cent for Rupee transactions and 62 per cent for FX, reflecting a balanced liquidity profile. The funding gap – defined as the annual growth difference between loans and deposits – remained in the negative territory, signalling strong deposit growth surpassing credit expansion (Chart 3.11). Notably, the funding gap narrowed significantly to -3.3 percentage points in December 2024 from -8.2 percentage points in June 2024, underscoring the banks' prudent management of liquidity risks. The negative funding gap underscores demand for liquidity by banks for prudential purposes and due to the high share of wholesale deposits.

Chart 3.11: Banking system's funding gap



Source: Bank of Mauritius

Liquidity stress tests

The liquidity stress test evaluates the capacity of banks to endure deposit outflows across sectoral depositors. The stress test supplements the prudential liquidity norms to ensure the banking sector is resilient to deposit withdrawals by households, corporates, GBCs, and non-residents (Table 3.2).

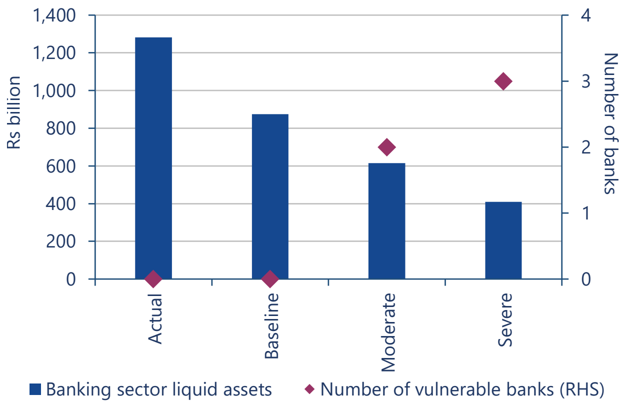
Table 3.2: Liquidity shock parameters

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

The results showed strong resilience of banks, with robust liquidity buffers effectively mitigating funding-related strains. The analysis of December 2024 aggregate liquidity data highlighted that all banks maintained adequate liquidity, except for two non-systemic banks under the moderate scenario and three non-systemic banks in the severe scenario (Chart 3.12). These findings emphasise the preparedness of the banking sector to respond to liquidity challenges while also identifying vulnerabilities among a few non-systemic banks.

Chart 3.12: Liquidity risk – banking sector liquid assets



Source: Bank of Mauritius

Regulatory developments

The Bank consistently improved its regulatory and supervisory framework to keep abreast of evolving international standards. These enhancements strengthen the soundness of the banking system against both current and emerging risks, ensuring stability against a dynamic financial landscape. By integrating the latest developments in international standards, the Bank reinforces its commitment to safeguard systemic integrity and promote robust risk management practices.

Guideline on Cyber Risk and Technology Risk Management

The reporting framework for cyber incidents and critical technology-related incidents was implemented in October 2024. The information reported by banks allows better analysis of the sources of cyber threats and the deployment of mitigating measures.

Fintech Innovation Hub and Digital Lab

The Bank launched its Innovation Hub, the Innov8, on 4 September 2024. The main objective of the Innov8 is to foster innovation and the use of emerging technologies for the banking and other related financial services sector in Mauritius. Several projects are ongoing at the Innov8. Innov8 serves as a platform for collaboration between fintech startups, financial institutions, and regulators. It engages key regional partners such as other central banks and international organisations – like the Bank for International Settlements (BIS) – to ensure that innovation is aligned with global trends and best practices.

Guideline on Compliance Risk Management and Governance Framework

An effective management of compliance risk is key to ensure the safety and soundness of financial institutions. The *Guideline on Compliance Risk Management and Governance Framework*, issued on 13 November 2024, sets out the minimum requirements to assist financial institutions in implementing a strong compliance culture and an effective governance and risk management framework for compliance risk. Financial institutions are recommended to establish frameworks that are commensurate with the size, nature and complexity of their business operations. Financial institutions should ensure that compliance forms part of the culture of the organisation and is not only the responsibility of compliance function staff.

Guideline for Virtual Asset Related Activities

Virtual assets related activities expose banks to a number of risks including liquidity risk, credit risk, market risk, operational risk (including fraud risk and cyber risks), money laundering and terrorist financing and proliferation risks, legal risks and reputational risks.

The *Guideline for Virtual Asset Related Activities*, issued on 13 November 2024, sets out the principles to be followed by banks involved in activities related to virtual assets. The guideline is based on the latest standards of the Basel Committee on Banking Supervision on crypto assets exposures published in July 2024. In conjunction with the Virtual Asset and Initial Token Offering Services Act and the regulatory framework established by the FSC, which regulates the non-bank financial services sector, this new guideline complements the virtual assets ecosystem in Mauritius and creates opportunities for operators from the region as well.

Box 1 – Extension of Financial Soundness Indicators

The IMF's 2019 Financial Soundness Indicators (FSIs) Compilation Guide outlines a comprehensive framework for assessing the stability and resilience of financial systems. It includes 50 FSIs – categorised into core and additional indicators – covering various aspects such as capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risks. These indicators are designed to evaluate the performance of deposit takers, other financial corporations, nonfinancial sectors, and households. The guide also introduces new metrics to enhance forward-looking analysis, such as concentration and distribution measures, and aligns with international standards like Basel capital and liquidity frameworks.

The Bank is extending the scope of FSIs to include other financial corporations (OFCs), the household and the non-financial corporations segments. These FSIs, compiled as per the requirements of the IMF FSI Guide 2019, enhance the assessment of strengths and vulnerabilities within the financial system. The additional indicators would also support macroprudential analysis and help identify potential risks that could impact the broader financial system. Previously, the FSIs covered only deposit-taking institutions due to data limitations in other segments. Significant progress was made in addressing these gaps with the support from the IMF Technical Assistance in March 2024. The initiative is set to conclude in 2025, marking a significant step toward a more comprehensive analysis of the resilience of the financial system. Certain gaps would still persist but these would be addressed in a second phase.

Household and non-financial corporations

The FSIs for households focus on assessing the financial health and stability of the household sector. Key indicators include metrics such as household debt-to-GDP ratio, household debt service and principal payments to income, and gross disposable income. These FSIs aim to evaluate the ability of the household sector to manage debt obligations and withstand economic shocks, providing insights into vulnerabilities that could impact the broader financial system.

As for the non-financial corporations, the FSIs would evaluate their financial health and stability, which is crucial for evaluating systemic risks and vulnerabilities. Key indicators include metrics such as the debt-to-equity ratio, debt-to-GDP ratio, and ROE. These FSIs measure the ability of non-financial corporations to manage debt, generate returns for shareholders, and cover interest expenses, providing insights into their financial performance and resilience.

Other financial corporations

The IMF FSIs provide a comprehensive assessment of financial stability by covering not only traditional deposit-taking institutions but also Other Financial Corporations (OFCs). This category includes insurance companies, pension funds, money market funds, and other non-deposit-taking financial intermediaries.

Tracking FSIs for OFCs is critical to understanding systemic relevance, given their role in credit intermediation, liquidity provision, and risk transfer within the financial system. Two key indicators for assessing OFCs include:

a. Assets to Total Financial System Assets, which measures their relative importance within the financial system.

b. Assets to GDP, which evaluates their contribution to the domestic economy.

Expanding macroprudential monitoring of OFCs is essential to mitigating emerging risks, particularly those linked to shadow banking activities, interconnected exposures with the banking sector, and regulatory gaps. With evolving financial markets, ensuring robust oversight will be vital to safeguarding financial resilience and systemic stability.

Box 2 – Climate and environmental financial risk disclosures by banks

The Bank recognises climate and environmental financial risks can impact the stability and soundness of the financial system. The Bank proactively introduced its *Guideline on Climate-Related and Environmental Financial Risk Management* in April 2022, with the objective of providing clear directives to deposit-taking financial institutions to incorporate climate and environmental risk considerations in their operations.

The Guideline outlines the broad principles that financial institutions may use to develop their climate-related disclosures. Financial institutions are required to disclose, at least annually, in their annual reports information on climate-related financial risks they are exposed to, the potential impact of material risks, and their approach to manage these risks.

The disclosure requirements of the Guideline are based on the 'Governance', 'Strategy', 'Risk Management' and 'Metrics and Targets' pillars as follows:

1. the governance process defines the roles and responsibilities of the board and senior management in managing climate-related risks;
2. the strategy adopted to address climate-related risks, the opportunities which have been identified over the short, medium, and long term, and the impact thereof on strategy and financial planning, all of which have to be disclosed;
3. the processes for identifying, assessing and managing climate-related risks and the integration of these risks in the overall risk management framework of financial institutions have to be described; and
4. metrics and targets used to estimate climate-related risks and measure performance against the set targets have to be defined.

These disclosures became fully effective as from financial year ended 31 December 2023. However, financial institutions were facing challenges to comply with the disclosure requirements included in the Guideline, in particular due to the lack of reliable data on GHG emissions from their clients' portfolio. As a result, the Bank issued revised disclosure requirements on 8 December 2023 which entailed amended disclosures for Strategy and Risk Management and voluntary disclosure for Metrics and Targets for the time being.

In compliance with the Guideline, financial institution have published the first set of climate-related disclosures in their annual reports. Preliminary analysis indicates that banks, in general, were broadly compliant with the requirements for the 'Governance' and

'Risk Management' pillars but nonetheless had challenges to disclose on 'Strategy', as per the requirements of the Guideline.

In relation to governance, banks disclosed that climate-related risks are overseen by their board of directors and supported by risk committees. They have devised climate-related strategies centred around reducing financed emissions and have committed funding for climate finance. Banks have also set sectoral targets to phase out or reduce lending to some high emitting sectors and have reviewed their credit risk appetites accordingly.

In respect of risk management, banks have already integrated or are in the process of integrating climate-related risks into their overall risk management frameworks. They primarily focus on credit risk when assessing the potential impact channels of climate-related risks.

Going forward, the Bank will continue to engage with banks to support them in further enhancing specific aspects of their disclosures.

4. Non-bank financial services sector

The non-bank financial institutions experienced robust growth and supported financial stability. The sector registered balance sheet expansion, improved credit risk profiles, and maintained strategic investments towards higher-yielding instruments while managing risks prudently. The growth of the insurance industry was pursued and the pension schemes shifted towards higher-yielding investments. The buffers in the insurance and pension segment improved. The non-bank lenders showed stable performance. The Bank and the FSC continue to collaborate in the close monitoring of NBFIs for the timely identification and mitigation of emerging systemic risk.

The non-bank financial institutions (NBFI) sector in Mauritius continued to grow and did not pose major threat to the stability of the financial system. The non-bank financial institutions (NBFIs) supplemented credit flow to the economy in the second half of 2024 while providing specialised financial solutions, particularly to underserved markets. The operators in the NBFI sector – comprising non-bank deposit-taking institutions (NBDTIs), insurance firms, and pension funds – expanded their business steadily.[18] The insurance, reinsurance, and pension sectors grew by 3.9 per cent annually in December 2024, based on the Gross Value Added at basic prices. These activities are projected to grow further by 4.0 per cent in 2025, reinforcing their ability to navigate economic uncertainties while adhering to prudent investment strategies.

External economic and financial conditions impacted the performance of the NBFI sector. Global market volatility combined with shifting equity trends and commodity prices affected investment funds, prompting portfolio rebalancing. Tourism activity contributed to strong investment-linked insurance products, boosting returns in sectors tied to hospitality and real estate. Interest rate dynamics also strengthened fund performance and improved bond valuations. Beside the cut in interest rate by the Bank in September 2024, the reduction in interest rate by the US Federal Reserve and the ECB drove capital inflows into emerging markets.

Trade uncertainties posed challenges to financial institutions with global exposure, prompting adjustments in risk management strategies. Stringent regulatory compliance, particularly

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[18]*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 Financial Corporations Survey, investment funds and financial auxiliaries were excluded from the analyses as they represent a smaller portion of the market as well as due to a lack of relevant data. The GBC sector is analysed in depth in the next chapter.*

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

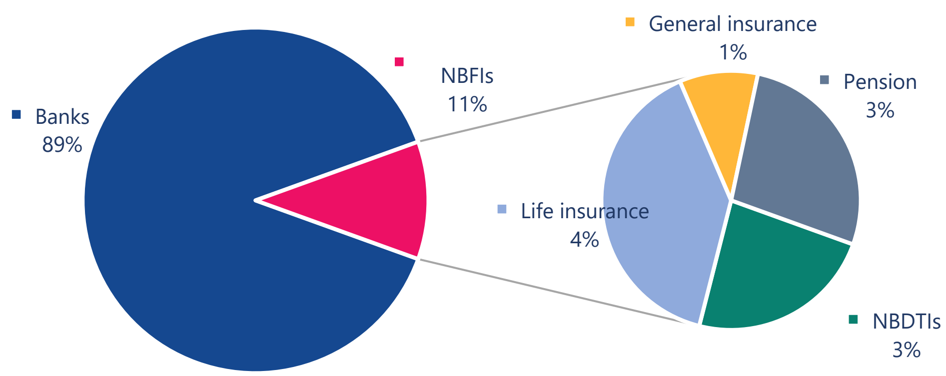
alignment with FATF standards, bolstered transparency and risk mitigation frameworks. Climate-related risks emerged as another focal point, requiring revisions in insurance underwriting policies and investment approaches to mitigate sectoral vulnerabilities.

The collaboration between the Bank and the FSC fostered risk assessment and monitoring in the NBFI sector to ensure systemic stability. With the Bank regulating NBDTIs and the FSC overseeing the other NBFIs, this division of responsibilities has allowed targeted risk mitigation efforts. The interlinkages between NBFIs and the banking sector are monitored and helps to address potential transmission of risks. Recognising the systemic importance of these interactions, the financial sector regulators are extending the Financial Soundness Indicators (FSIs), macroprudential indicators, and cross-sectoral risk assessment to reinforce financial stability.

Structure of the NBFI sector stayed broadly unchanged

The NBFIs complement banks in financial intermediation and ancillary financial services. The share of NBFIs assets in total financial sector assets was unchanged at 11 per cent, reinforcing their steady yet secondary position in Mauritius' financial system (Chart 4.1). Within the NBFI landscape, the insurance segment remained the dominant non-bank financial service providers, underscoring their systemic importance. Their interconnectedness with banks presents potential systemic risks, as strains in the insurance sector can have broader financial stability implications by transmitting financial distress across the financial system. The total assets of the NBDTI segment rose further, though the share in total financial sector assets stayed at 3 per cent.

Chart 4.1: Composition of the financial sector (% of assets as at end-December 2024)



Source: Bank of Mauritius

The performance of insurance and pension sectors was steady, representing 5 per cent and 3 per cent of the financial sector respectively. The sectors were well-positioned for sustained growth going forward despite macroeconomic challenges. The composition of insurance industry remained unchanged in the second half of 2024, with 7 life insurers and 15 general insurers at the end of December 2024.

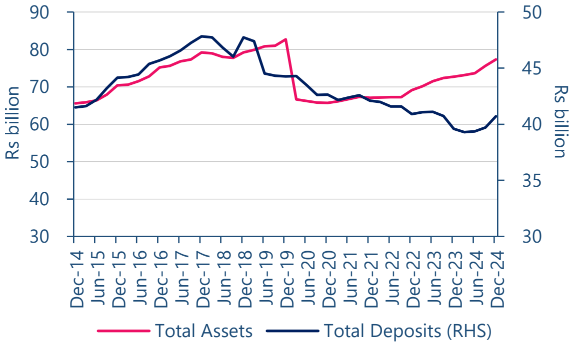
The *Insurance, Reinsurance and Pension Funding* sector maintained its impetus observed in the recent years, with an expansion of 3.6 per cent and 3.5 per cent in the last two quarters of 2024 respectively. Declining inflation combined with stable underwriting indicated that pricing pressures and claim risks were manageable. The steady asset expansion – driven by strong equity market performance – and the modest increases in both penetration and density reflected increasing consumer trust and market reach. This boded well for the capacity of the industry to underwrite risks effectively, supporting long-term investment, and contributed to overall financial stability. Additionally, the consistent employment levels signal a robust operational foundation.

Pension funds continue to face long-term challenges globally stemming from demographic shifts, financial market volatility and evolving regulatory frameworks. These factors present risks to the capacity of pension funds to meet future obligations. Robust risk management strategies and proactive regulatory oversight are prerequisites to ensure the sustainability of pension funds. In Mauritius, pension funds held assets equivalent to 4.6 per cent of GDP at the end of 2024, a proportion that signals both stability and vulnerabilities. Given the increasing pressures from shifting market conditions and evolving regulatory requirements, ensuring the resilience of pension schemes remains crucial to maintaining financial stability.

Stable performance of NBDTIs

The NBDTI sector remained an essential part of Mauritius' financial system, providing niche credit services while supporting overall financial stability. NBDTIs played a limited role compared to traditional banks but continued to hold 13.2 per cent of total private sector credit extended by deposit-takers at the end of 2024. Their loan portfolio remained entirely focused on the resident sector, with households accounting for 90 per cent of total credit, of which 30 per cent was dedicated to housing finance. This allocation reflected a strategic alignment with consumer credit trends, supporting both short-term liquidity needs and long-term asset accumulation. The remaining exposures were to non-financial corporations, around 9 per cent, and financial corporations, less than 1 per cent, which helped maintain a stable credit risk profile though limiting sectoral diversification. NBDTIs had low FX risk on their balance sheet given their minimal exposure to FX assets and liabilities.

Chart 4.2: Total assets and deposits of NBDTIs



Source: Bank of Mauritius

The NBDTI sector exhibited strong balance sheet growth in the second half of 2024, driven primarily by sustained credit expansion. The six institutions classified as NBDTIs, collectively held Rs77 billion in assets as of December 2024, representing approximately 11 per cent of GDP. Total assets increased by 6.3 per cent on a year-on-year basis in December 2024 to attain Rs77 billion by the end of the year (Chart 4.2).[19] The credit risk profile for the NBDTI sector improved. The NPL ratio fell to 4.2 per cent in December 2024, from 4.8 per cent in June 2024, indicating healthier portfolio management and stronger asset quality.

Liquidity risk was well contained, with the ratio of liquid assets to total assets improving to 10.6 per cent in December 2024, ensuring sufficient buffers for short-term obligations supporting a strategic balance between liquidity management and risk management. Concurrently, a shift towards higher-yielding instruments – including loans to the private sector and investments in government securities – rather than focussing on liquid holdings improved earnings.

Funding in the NBDTI sector remained stable, as the deposit level went up and NBDTIs also relied on loan capital to fund their activities. Deposits grew at an annual rate of 2.8 per cent to attain Rs40.7 billion in December 2024. The positive net liquidity gap – implying that inflows exceed outflows – minimises liquidity risk. Under behavioural conditions, around 15 per cent of the deposit base may to be withdrawn over a three-month period. The net positive liquidity gap provides adequate buffers to limit liquidity risk. This stability ensured that NBDTIs can meet short-term obligations without significant disruptions, reinforcing their ability to sustain credit intermediation while maintaining adequate liquidity buffers.

The NBDTI sector maintained strong capital buffers, well in excess of the 10 per cent minimum threshold, bolstering the shock absorption capacity of the sector. The CAR was 51.5 per cent in December 2024. Profitability was robust, with ROA improving to 3.6 per cent and ROE rising to 9.3 per cent in December 2024, reinforcing capital buffers and sustainable earnings trends.

[19] *Three NBDTIs are engaged only in leasing activities, two in lending activities, and one in both leasing and lending activities.*

The interconnectedness of the NBDTI sector with the broader financial system makes its macroprudential surveillance essential to assess risks and monitor potential spillovers, particularly under stressed scenarios. The Bank and the FSC are broadening the set of the FSIs, macroprudential tools, and cross-sectoral risk assessment frameworks to ensure financial sector resilience.

Insurance industry maintained its growth momentum

The performance of the insurance sector depicted its adaptability to evolving macroeconomic conditions. Favourable trends in the domestic securities market enabled life insurers to maintain their asset growth momentum to support underwriting practices. General insurers also registered consistent asset growth, with technical reserve levels gradually returning to normal following temporary increases triggered by severe climate-related events in the first quarter of 2024. These elements reinforced the capacity of the insurance sector to absorb risks, playing a vital role in maintaining broader financial system stability.

The total assets of the sector amounted to Rs162.9 billion in December 2024, of which around 80 per cent were held by life insurers and 20 per cent by general insurers. The sector demonstrated sustained growth, as evidenced by the annual asset growth accelerating to 11.4 per cent in December 2024. This was driven by solid investment performance from the equity market boosted by higher investors sentiment. The penetration of the insurance industry in Mauritius was 4.6 per cent as of December 2024, representative of a 0.2 percentage point increase since end-June 2024.[20] Insurance density also increased by 7.0 per cent during June-December 2024, to reach Rs25,567 per capita at the end of the year 2024.[21] Employment in the insurance sector stood at around 2,800 in December 2024.

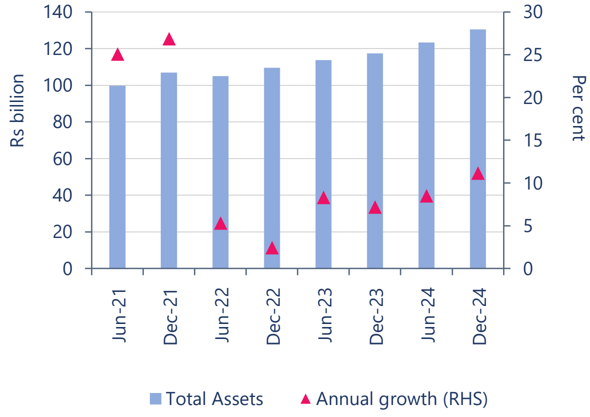
[20] *Measured as the ratio of total annualised insurance premium to GDP.*

[21] *Measured as the ratio of total annualised insurance premium to total population of Mauritius.*

Balanced investment strategy of life insurers

Robust performance in both equity and fixed income investments strengthened the balance sheet of life insurers. The total assets of life insurers rose at an annual rate of 11.2 per cent to Rs130.6 billion in December 2024 (Chart 4.3). Equity investment was the principal portfolio strategy of life insurers, which expanded by 16.5 per cent annually to Rs49.3 billion in December 2024 (Chart 4.4). Domestic equity holdings went up by 12.2 per cent in December 2024, in line with the SEMDEX increasing by 16.7 per cent, denoting attractive capital market conditions.

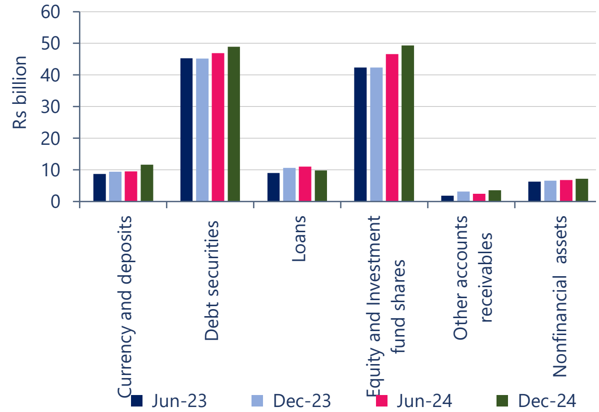
Chart 4.3: Total assets and annual growth



Source: Financial Services Commission

Concurrently, life insurers rebalanced their portfolios by expanding investment in debt securities at an annual rate of 8.2 per cent in December 2024 to Rs48.9 billion to capitalise on stable interest rates. These investments were primarily in long-term corporate bonds from *Other Non-Financial Corporations*. The balanced portfolio allocation – roughly 38 per cent each to equities and debt instruments – underscored a prudent approach that mitigated concentration risk and enhanced the resilience of the insurance sector. This portfolio bolstered the solvency and earnings capacity of the life insurers, contributing to broader financial stability by ensuring that the sector remained capable of absorbing shocks.

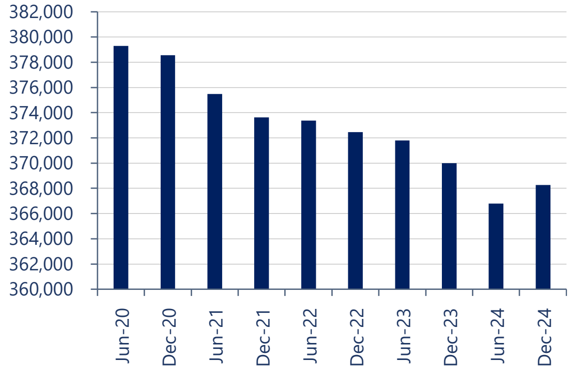
Chart 4.4: Assets distribution



Source: Financial Services Commission

Life insurers registered a notable surge in new policy covers, likely driven by intensive marketing efforts, favourable market conditions, and enhanced product offerings. The total number of policies in force reached 368,269 in December 2024 (Chart 4.5). New policy covers aggregated 13,557 in the second half of 2024. There was a marked decline of 33.2 per cent lapsed policies during that period.[22] Stronger customer retention and market appeal favourably propelled the life insurance sector.

Chart 4.5: Total policy covers in place



Source: Financial Services Commission

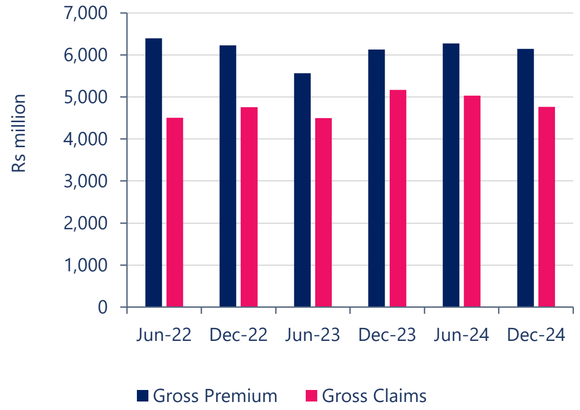
Life insurance business registered higher underwriting performance in the second half of 2024, driven by the increased issuance of new policy covers. Net income from insurance activities rose at an annual rate of 18.3 per cent in December 2024, while annualised gross premium grew annually by 6.2 per cent. Concurrently, gross claims went up by 1.3 per cent (Chart 4.6). The life assurance segment was the primary source of revenue in the life insurance business in the second half of 2024.[23] The linked long-term insurance segment superseded the pension segment as the second largest source of revenue in the life insurance business (Chart 4.7).[24]

[22] *A lapsed policy refers to an insurance policy that becomes inactive due to non-payment of premiums within the specified grace period. When a policy lapses, the insured loses coverage, meaning no claims can be made unless the policy is reinstated under the insurer's terms. Lapses can occur for various reasons, including financial constraints, policyholder oversight, or shifts in coverage needs.*

[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.*

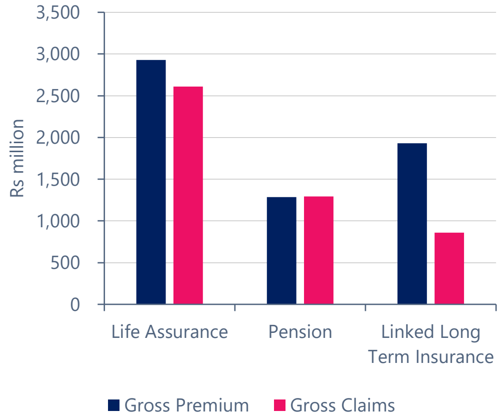
[24] *Linked long-term insurance refers to life insurance policies where benefits are directly tied to the performance of underlying investments, such as stocks, bonds, or mutual funds. Unlike traditional life insurance, where payouts are fixed, linked policies fluctuate based on market conditions, offering 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 4.6: Gross premium and gross claims



Source: Financial Services Commission

Chart 4.7: Gross premium and gross claims by class of policies during June-December 2024

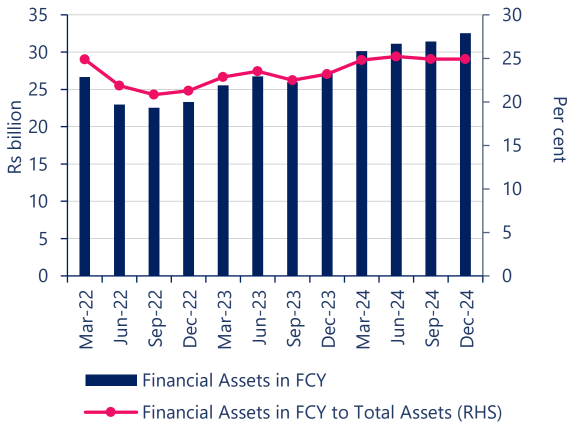


Source: Financial Services Commission

The profitability of life insurers recorded a significant improvement in the second semester of 2024. Higher profits were driven by the substantial growth in investment income, which expanded at an annual rate of 5.5 per cent. The annualised ROE was at 47 per cent in December 2024, reflecting enhanced performance both investment and underwriting performance. The profitability surge led to the consolidation of capital reserves, thereby improving resilience against financial shocks and policyholder claims.

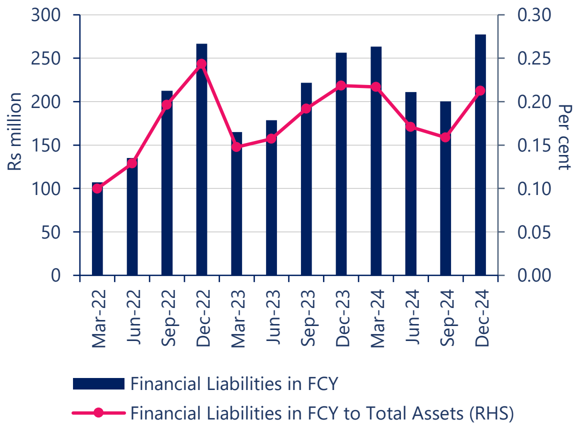
Foreign exchange (FX) risk remained a key concern for life insurers due to their high exposure to FX assets compared to the share of their liabilities denominated in foreign currencies. Foreign currency assets accounted for 24.9 per cent of total assets of life insurers in December 2024 (Chart 4.8). The primary issuers of these foreign currency assets were non-residents with a share of 57.2 per cent, followed by GBCs at 20.9 per cent, and *Other Depository Corporations* at 14.4 per cent. On the liabilities side, FX exposure was minimal, representing only 0.21 per cent of total liabilities. The significant currency mismatch introduces risk with the movement of the Rupee. In the event of an exchange rate depreciation, life insurers are protected given that their liabilities are mostly in Rupee and will benefit from revaluation gains on their foreign assets. However, in a scenario where the Rupee appreciates, the value of FX assets would decline when converted to the domestic currency, potentially reducing foreign investment income and adversely impacting solvency buffer.

Chart 4.8: FX financial assets



Source: Financial Services Commission

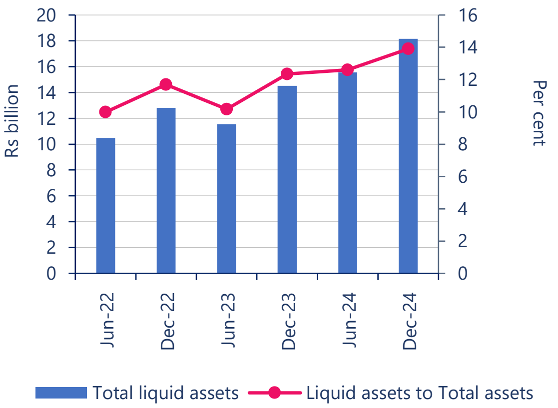
Chart 4.9: FX financial liabilities



Source: Financial Services Commission

Liquidity risk in the life insurance segment remained low. Liquidity buffers were robust, with liquid assets growing annually by 25.1 per cent to reach Rs18.2 billion in December 2024.[25] The liquid asset ratio rose to 13.9 per cent in December 2024 (Chart 4.10). Improved liquidity position enabled life insurers to meet short-term obligations and absorb market shocks more effectively.

Chart 4.10: Liquid assets to total assets



Source: Financial Services Commission

Long-term insurance companies maintained appropriate capital adequacy levels, ranging from 0.03 to 0.32. Although the average ratio of Shareholders' Equity to Invested Assets declined slightly by 0.19 percentage point between June and December 2024, the capital and reserves buffer grew steadily at an annual rate of 12.8 per cent in December 2024. Higher buffers enhanced the ability of life insurers to absorb shocks and contribute to overall financial stability.

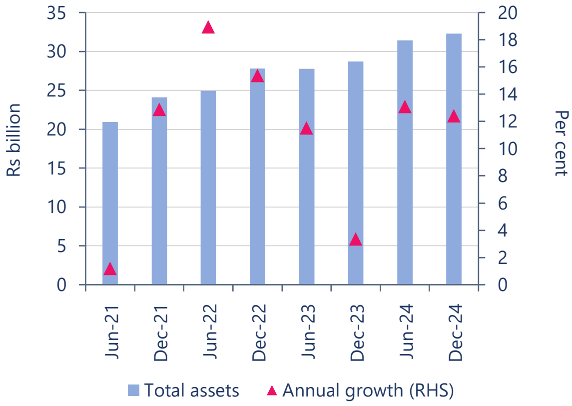
General insurance industry improved its buffers

General insurers pursued balance sheet expansion, accompanied by improvements in profitability and reserve accumulation. These developments reinforced stability in the general insurers sector, though continued monitoring of climate-related vulnerabilities and systemic risk exposure is warranted.

[25] *Inclusive of cash, transferable deposits, debt securities and loans with original maturity less than 1 year and receivables.*

The assets of general insurers maintained an upward trend, increasing at an annual rate of 12.4 per cent to reach Rs32.3 billion in December 2024 (Chart 4.11). Their technical reserves rose at a slower pace in the second half of 2024 after earlier climate-related adjustments but were aligned with historical patterns.[26]

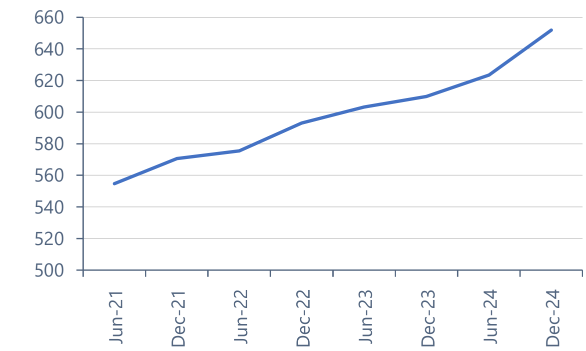
Chart 4.11: Total assets and annual growth



Source: Financial Services Commission

The number of general insurance policies grew steadily in the second half of 2024. The total number of policies was 651,911 in December 2024, representing an annual increase of 6.9 per cent (Chart 4.12). The number of policies in the motor and non-motor segments were 486,290 and 165,620, respectively, at the end of December 2024. Motor vehicle policies rose at an annual rate of 7.8 per cent in December 2024, supported by the sustained increase in the number of registered vehicles, while non-motor policies increased by 6.8 per cent over the same period.

Chart 4.12: Number of policies

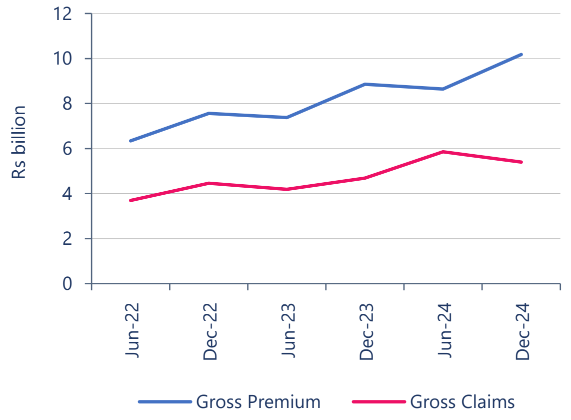


Source: Financial Services Commission

The growth of the premiums was strong while claims payouts moderated, contributing to better underwriting profitability and reflecting shifting risk dynamics. Annualised gross premium collected across all major lines of business went up at an annual rate of 16.0 per cent. Concurrently, annualised total gross claims payments increased by 26.8 per cent (Chart 4.13). Gross claims in the motor segment – with a share of 45.6 per cent of the total gross claim payments – registered a decline of 8.1 per cent during June-December 2024 (Chart 4.14).

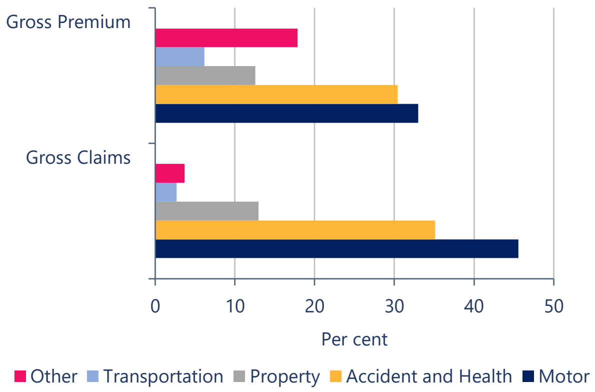
[26] *The extreme climatic events in the first semester of 2024 prompted non-life insurers to readjust their technical reserves to impact for provisions to cover for future claims.*

Chart 4.13: Gross premium and gross claims (per semester)



Source: Financial Services Commission

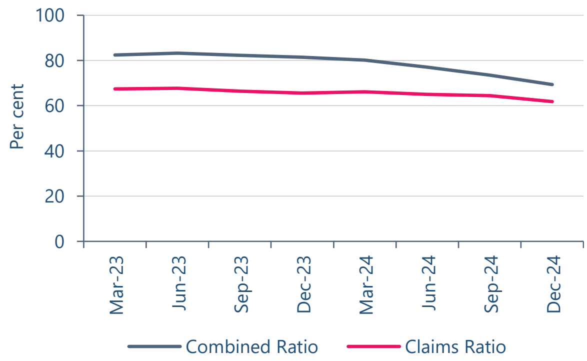
Chart 4.14: Sectoral distribution of gross premium and gross claims (June-December 2024)



Source: Financial Services Commission

The general insurance sector registered higher profitability driven by net income, a rise in the number of policies and stronger returns on equity. As a result, the combined ratio and claims ratio of the sector declined to 69.4 per cent and 61.8 per cent, respectively, in the second semester of 2024 (Chart 4.15).[27] This drop was led by favourable progress in the core insurance business activities along with relatively lower underwriting expenses compared to recent trends. Net income from insurance activities rose at an annual rate of 35.2 per cent in December 2024 and the annualised ROE ratio improved to 12.3 per cent.

Chart 4.15: Combined and claims ratios



Source: Financial Services Commission

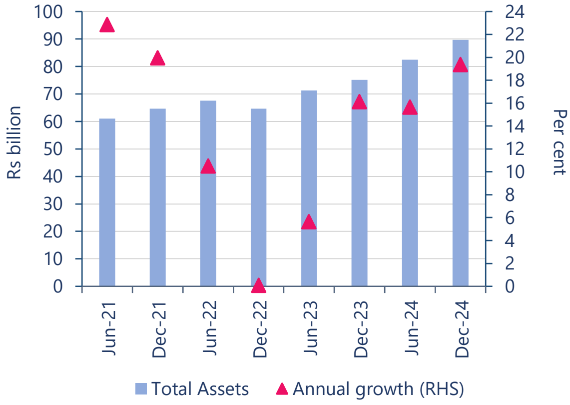
Capital buffers of general insurers stabilised. The ratio of shareholders' equity to invested assets of general insurers averaged 0.72 per cent for the semester ended 31 December 2024. The capital and reserves of general insurers went up by 9.8 per cent annually in December 2024, signalling gradual stabilisation compared to the previous semester. With stable reserve accumulation, general insurers were well-positioned to navigate underwriting risks and maintain long-term financial strength in a risk-prone environment.

[27] *The combined ratio represents the sum of claims expenses and underwriting expenses as a percentage of earned premiums. A ratio below 100% indicates underwriting profitability, whereas a ratio above 100% suggests underwriting losses. Claims Ratio reflects the proportion of gross claims incurred relative to gross premiums earned, providing insights into risk exposure and loss trends. A lower claims ratio typically signifies effective risk management, while an elevated ratio may indicate higher claims frequency or severity.*

Pension schemes shifted to higher-yielding instruments

The pension scheme industry exhibited sustained stability through the second half of 2024, with 74 active pension schemes in operation. The assets of the industry expanded at an annual rate of 19.4 per cent to attain Rs89.7 billion in December 2024 (Chart 4.16). This notable expansion was driven by strong investment returns across both domestic and international equity markets, reinforcing the ability of the sector to withstand market fluctuations. The consistent asset growth underscores the resilience of the industry and its strategic adaptability, ensuring continued support for long-term retirement planning.

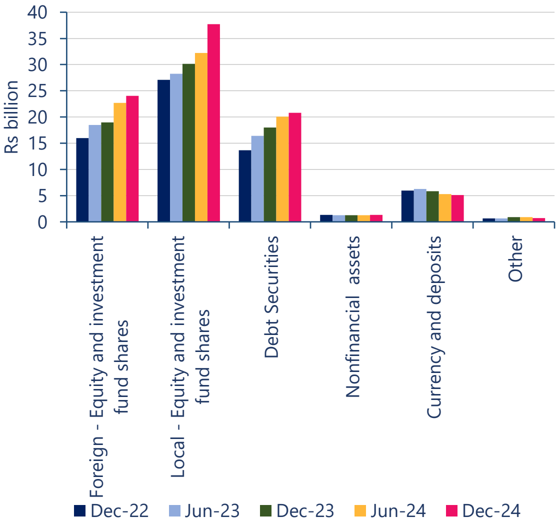
Chart 4.16: Total assets and annual growth



Source: Financial Services Commission

Investments in equity instruments grew at higher rate compared to debt securities. Equity investments rose at an annual of 25.7 per cent while the holdings of debt securities increased by 15.6 per cent in December 2024. Domestic equity – with a share of around 61 per cent of total equity investments – surged at an annual rate of 25.0 per cent in December 2024, outpacing the performance of SEMDEX (Chart 4.17). Investment in equity issued by non-residents also rose significantly, at an annual rate of 26.7 per cent in December 2024.

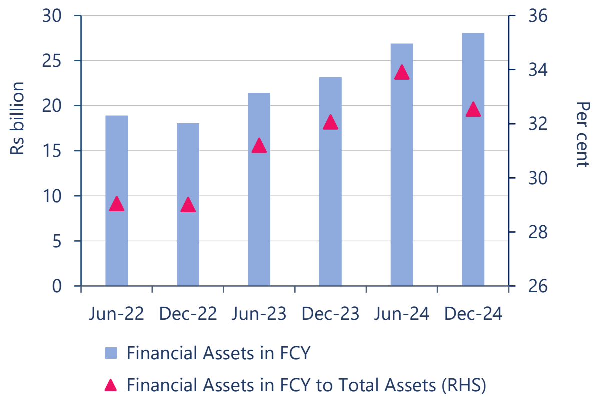
Chart 4.17: Asset allocation



Source: Financial Services Commission

The FX exposure of pension schemes fell in December 2024 as the industry shifted to higher yielding assets, with the share of the FX financial assets dropping to 32.5 (Chart 4.18). Liabilities were entirely denominated in the domestic currency, as pension benefits are exclusively disbursed to residents. While the currency mismatch posed FX risk to the pension sector, the long-term investment strategy alleviated the risk given the general trend in the domestic currency and the diversification benefits arising from cross-correlations among foreign currency exposures relative to the domestic currency.

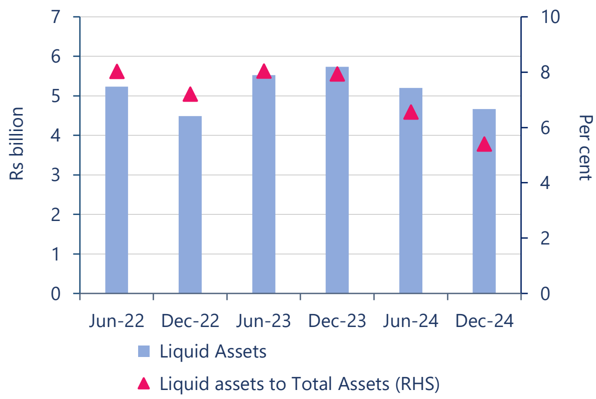
Chart 4.18: FCY assets



Source: Financial Services Commission

Pension schemes increased their position in higher yielding assets, in lieu of liquid assets, to tap in market opportunities. The liquid asset ratio dropped to 5.4 per cent in December 2024, compared to 6.6 per cent in June 2024 (Chart 4.19). This decline was primarily due to a decrease in transferrable deposits in domestic banks during the last semester of 2024.

Chart 4.19: Liquid assets

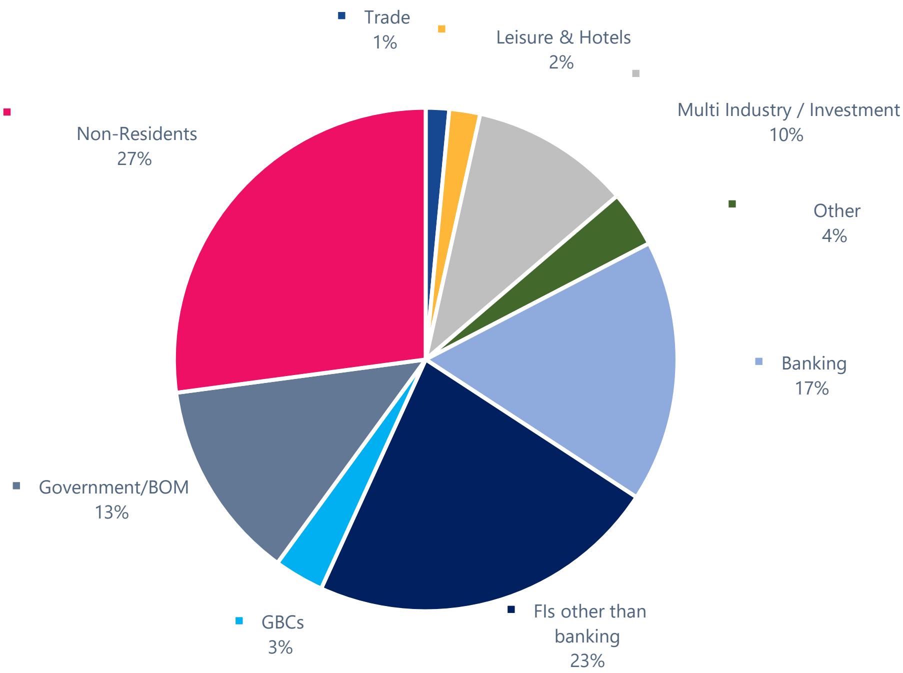


Source: Financial Services Commission

The trend in institutional and sectoral exposures suggests enhanced investment activity and moderate risk diversification. Non-residents held the largest share of private pension scheme exposure with an asset share of 27.1 per cent, followed by financial institutions at 22.6 per cent and the banking sector at 16.8 per cent (Chart 4.20).

The pension industry is projected to experience steady growth in 2025, supported by diversification into alternative assets and sustainable investment strategies. Additionally, digital transformation and fintech adoption are positively impacting fund management, improving efficiency and accessibility.

Chart 4.20: Asset distribution by industry

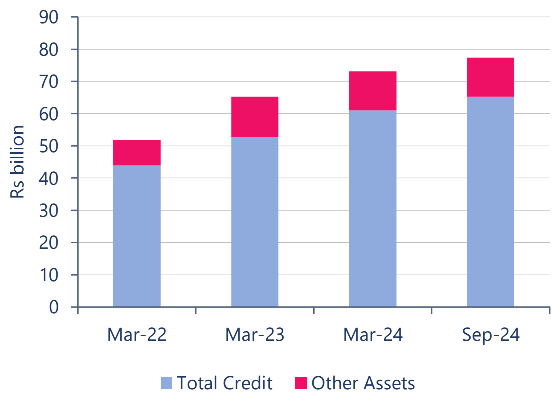


Source: Financial Services Commission

Non-bank lenders remained stable amid evolving risk landscape

The non-bank lender (NBL) sector has an important role in financial intermediation, complementing traditional banking channels.[28] The sector maintained steady growth, fuelled by its growing credit portfolio. The risk assessment suggests the presence of moderate risks in the NBL sector arising mainly from credit concentration, liquidity mismatches, funding dependencies, and interconnectedness with the broader financial sector.

Chart 4.21: Total assets

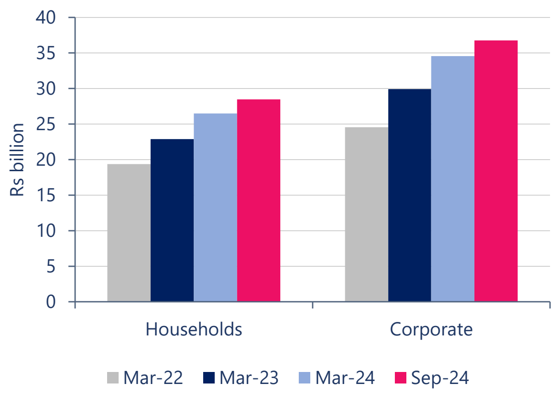


Source: Financial Services Commission

[28] *This segment of the non-bank financial services sector comprises leasing, credit finance, factoring and treasury management activities. Data on the NBL sector are currently available for March and September and the analysis is based on September 2024 data.*

The NBL sector consisted of 33 entities – employing approximately 1,400 people – as of December 2024. The HHI of 1,782 signalled moderate concentration, ensuring a competitive yet stable market structure. The size of NBLs expanded by 5.8 per cent over the period March to September 2024, to reach Rs77.4 billion. The growth was mainly driven by an increase of 6.9 per cent in credit portfolio during the same period (Chart 4.21).

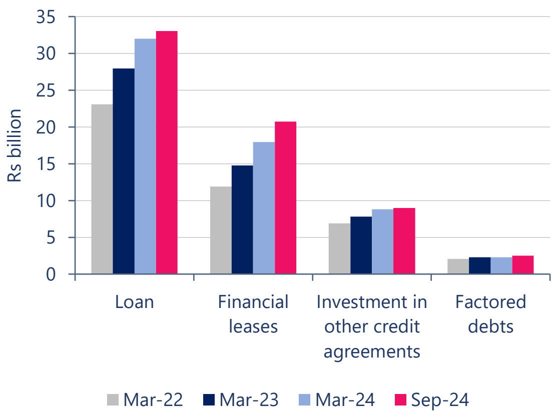
Chart 4.22: Credit to households and corporates



Source: Financial Services Commission

Corporate credit expansion was led by financial leases. The total credit portfolio of NBLs was largely concentrated, with almost 50 per cent was allotted to a single state-owned company in the *Transportation and storage* sector. The next largest debtors were in the *Wholesale and retail trade, Construction* and *Manufacturing* sectors, each receiving between 7.5 per cent and 8.0 per cent of total credit in September 2024.

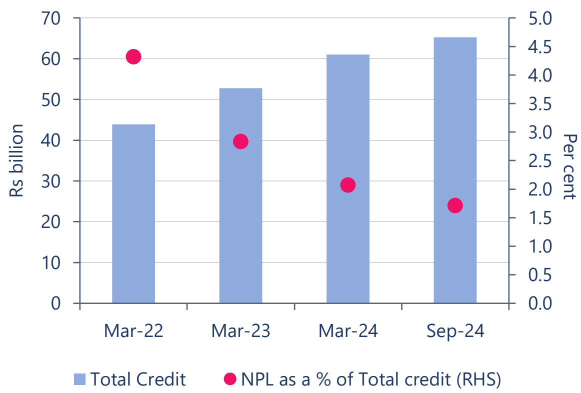
Chart 4.23: Credit portfolio



Source: Financial Services Commission

The household and corporate sectors continued to rely on NBLs for financing. Credit extended by NBLs to both these sectors went up by 7.0 per cent over the period March to September 2024. Corporates held the largest share of the total credit at 56.4 per cent (Chart 4.22). The corporate credit portfolio's growth was largely driven by a 15.6 per cent rise in financial leases during the semester ending September 2024 (Chart 4.23). These leases were predominantly provided to businesses in the *Construction* and *Manufacturing* sectors.

Chart 4.24: Asset quality

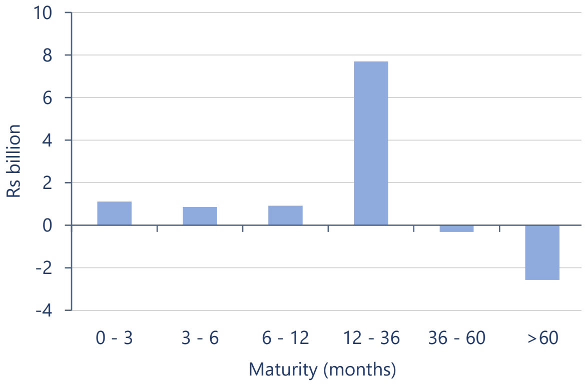


Source: Financial Services Commission

The asset quality of NBLs continued a favourable trend, characterised by a consistent decline in the NPL ratio to 1.7 per cent in September 2024 representing a drop of 0.4 percentage point when compared to March 2024 (Chart 4.24).[29] This reduction was mostly driven by one large-sized entity.[30]

NBLs maintained stable liquidity thereby containing liquidity risk. The liquidity profile of NBLs indicates positive alignment of asset maturities and debt instruments up to 3 years (Chart 4.25). On a cumulative basis, this alignment mitigated the longer periods of mismatch. Smaller NBLs maintained stronger liquidity buffers, providing greater short-term resilience, while larger entities exhibited balanced funding structures.

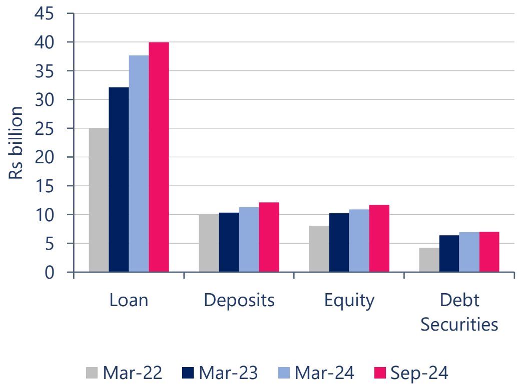
Chart 4.25: Net Asset maturity



Source: Financial Services Commission

Funding structures varied across the sector as NBLs comprised a diverse group of entities that have access to finance through various channels depending on their structure and affiliations. Some operate as subsidiaries of large conglomerates and are primarily financed by related parties, while others rely on funding from banks, shareholders, or are state-owned. This highlighted highlighting diverse funding dependencies. NBLs primarily secured funding through loan financing, which increased by 6.1 per cent from March to September 2024, reaching Rs40.0 billion in September 2024 (Chart 4.26). Of the total loan portfolio, approximately 40 per cent were financed through the banking sector.

Chart 4.26: Financing of non-bank lenders



Source: Financial Services Commission

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

[30] *Small sized entities are those with assets up to Rs200 million; medium sized between Rs200 million and Rs2 billion and large sized entities above Rs2 billion.*

NBLs had exposures to various segments of the economy given their business model, including households, businesses and other financial institutions. This wide reach amplified the importance of closely monitoring the financial health of NBLs, particularly their capital adequacy, to ensure stability and resilience in times of stress. The capital-to-assets ratio of most NBLs improved across the sector but at varying levels. Large-sized lenders recorded a 3.0 per cent increase, indicating sounder capital buffer while that of medium-sized companies remained broadly unchanged, over the six months ended September 2024. Smaller entities, however, experienced a 12.9 percentage point contraction in capital ratios, but remained within acceptable thresholds.

Table 4.1: Capital to Assets Ratio by category of Non-Bank Lenders[31]

	31 Mar 24	**30 Sep 24**
	Per cent	
Small-sized companies *(Assets up to Rs200 million)*	75.0	62.1
Medium-sized companies *(Assets between Rs200 million and Rs2 billion)*	19.2	19.3
Large-sized companies *(Assets more than Rs2 billion)*	14.2	14.6

Source: Financial Services Commission

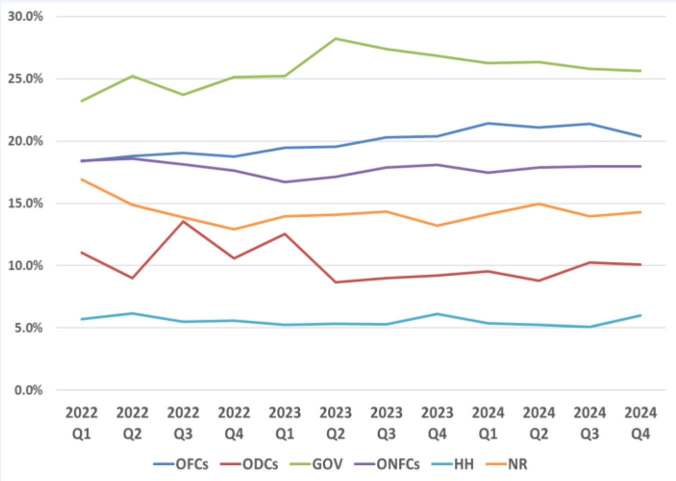
[31] *Exclusive of non-bank lenders holding a deposit taking licence.*

Box 3 – Interconnectedness of long-term insurance within the financial sector

Financial assets and liabilities held by life insurers create multilateral exposures with institutional sectors in Mauritius as well as non-residents. These links contribute to more efficient allocation of resources in the economy while providing life insurance coverage to households. However, this connectedness can also become conduits for transmission and expansion of risks at time of crisis. It is, therefore, important for the safeguard of financial stability to understand the nature of these links and monitor their evolution.

Exposure to government remained the largest at 25.6 per cent of life insurers' assets at the end of 2024 (Chart I). During the past four quarters, however, life insurers reduced their holding in government debt securities, gradually converging to its historical range after the peak observed in 2023 fuelled by the multiple interest rate hikes. The portfolio mix changed towards higher-yielding financial instruments issued by Other Financial Corporations (OFCs) and Other Non-Financial Corporations (ONFCs), representing a share of 20.4 per cent and 18.0 per cent, respectively, in December 2024.

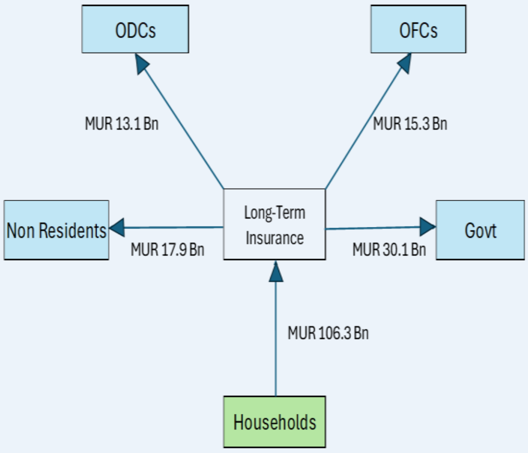
Chart I: Exposure of Assets of Life Insurers (Rs billion)



Source: Financial Services Commission

OFCs comprised mainly of large holding companies listed on the local stock market; affiliated GB funds set up principally as special purpose entities for foreign investments; and general insurers denoting the presence of insurance groups in the financial system. Combining OFCs and Other Depository Corporations (ODCs), the interconnectedness of Long-Term Insurance within the Financial Sector stood at Rs39.8 billion or 30.5 per cent of life insurers' total assets in December 2024. The extent of this exposure has remained broadly unchanged for the past years. The long-term insurance segment has a net receivable position of Rs15.3 billion on OFCs and Rs13.1 billion on ODCs (Chart II).

Chart II: Linkages between life insurance business and other segments of the economy in December 2024



Source: Financial Services Commission

As regards ONFCs, the largest receivers of life insurers' investments consisted of listed companies operating in the tourism, construction and manufacturing industries which are arguably the highest performing economic sectors. While the exposures to ONFCs remained stable for the last three years, the funding mix changed significantly. The share of equity investment made in ONFCs fell to 58 per cent in December 2024 from 68 per cent in December 2022. The value of corporate debt securities in the investment portfolio of life insurers increased by 80 per cent to reach Rs8.7 billion during the same period. On one hand, this indicates the progress of the local securities markets into providing more diverse investment opportunities to life funds and other investors. On the other hand, the departure from the traditional credit channels intermediated by the banking system may add heightened risk in the financial system which has to be managed and monitored. Life Insurers had a net claim of Rs22.7 billion on ONFCs in December 2024.

In terms of external sector exposures, life insurers held Rs18.7 billion in foreign investments in December 2024, representing 14.3 per cent of their total assets. These currency-linked instruments consisted primarily of shares issued by listed companies abroad, Exchange-Traded Funds and debt securities issued by foreign governments. Foreign investments allow Life Insurers and other institutional investors to tap into a wider spectrum of investment opportunities but at the same time increase exposure to currency risks and externalities. Based on historical data the latter risk is believed to be within the range of acceptability. The long-term insurers held a net receivable position of Rs17.9 billion in December 2024, after netting off around Rs750 million of payables principally owed to foreign reinsurance companies.

Life insurers are almost exclusively financed by the household sector through the issuance of life insurance policy contracts. The household sector is the sole sector holding a net receivable position on life insurers, standing at Rs106.3 billion in December 2024.

Box 4 – Insurance development: IFRS 17

The IFRS 17 is a landmark change to accounting requirements which will require insurers to either customise, or overhaul, their current financial reporting processes and systems, actuarial models, financial statements, and business planning and forecasting models. IFRS 17 represents a significant change in the accounting of insurance contracts and its implementation is posing challenges for insurers.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 (Financial Instruments) is also applied.

IFRS 17 replaces IFRS 4 Insurance Contracts. When introduced in 2004, IFRS 4 - an interim Standard - was meant to limit changes to existing insurance accounting practices. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Following a bidding exercise for the 'Consultancy Services for the implementation of IFRS 17 and applicable IFRSs', the Commission awarded the contract to Ernst & Young Ltd.

The Insurers Association of Mauritius has made representation on 27 December 2023 to extend the time limit for insurers to submit their returns.

The Financial Services Commission – vide Communique dated 01 March 2024 – has extended the filing dates of:

a. audited financial statements/ annual reports and actuarial investigation report;
b. auditor's certificate and statutory returns;
c. documentation relating to risk management framework, auditor report and actuary report; and
d. quarterly/interim financial statements for insurers – including those entities registered as Reporting Issuers.

On the 17 June 2024, the Insurers' Association of Mauritius has requested the FSC to consider further extending the filing dates of:

a. audited financial statements/ annual report and actuarial investigation report for the year ended 31 December 2023 (from 30 June 2024 to 31 August 2024); and
b. quarterly/ interim financial statements for the quarter 2024Q1 (from 31 July 2024 to 30 September 2024).

The FSC – via its Communique dated 25 June 2024 – has extended the filing dates.

The regulatory framework for returns and solvency requirements of insurers and professional reinsurers has been published in September 2024.

The Insurers Association of Mauritius made representation on 04 December 2024 to extend the deadline for financial years ended/ending between 31 December 2023 to 30 September 2024, and 31 December 2024 to 31 March 2025 inclusive and each quarter of 2024 and part of the quarter of 2025. The FSC – vide Communique dated 10 December 2024] – has extended the filing dates.

5. Global business sector and cross-border activities

The Global Business sector showed resilience to global economic uncertainties during 2024 and the licensing of new entities coupled with robust investment flows upheld the soundness of the sector. Funding vulnerabilities eased in the banking sector as reliance on Global Business sector deposits declined further. Liquidity risks from the volatility of these deposits were prudently managed by banks, backed by substantial liquidity buffers. Although credit risk remained elevated, banks kept sufficient provisions to mitigate potential losses. As a result, risks from the GB sector are unlikely to pose a threat to financial stability in the short term.

The Global Business sector weathered global economic uncertainties during 2024. New Global Business companies were licensed while exits stabilised in the Mauritius International Financial Centre. Investment flows through the Mauritius jurisdiction were sound and contributed to restraining funding and liquidity risks in the banking system. The Global Business sector grew by 3.0 per cent in real terms, contributing positively to economic growth and employment across the financial services and related sectors.

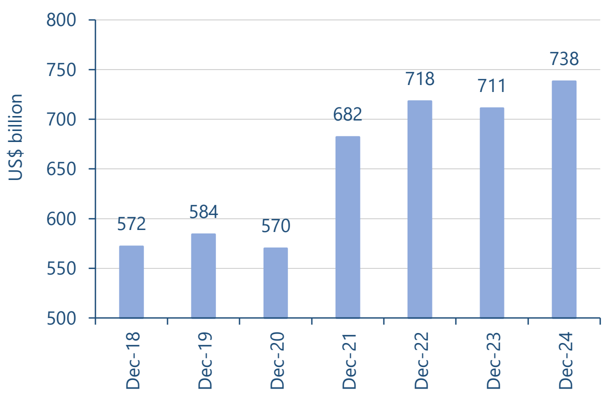
The operating environment in the Global Business (GB) sector was favourable as the Mauritius International Financial Centre (MIFC) continued to attract new GBCs. With positive and steady conditions in the GB sector in the second half of 2024 together with a resilient banking system, risk from the GB sector to the macrofinancial landscape was well contained, thus restraining the emergence of risk to financial stability. Risk to the GB sector from the volatile external environment was moderate as the number of new GBCs continued to rise. The number of active GBCs in the sector was around its highest levels in the last decade. Investment flows through the MIFC – particularly to India and Africa – were robust.

The sector remains a cornerstone of the economy. It contributed 8.4 per cent to the GDP in 2024, making it one of the largest contributors to Mauritius' national income. In real terms, the sector expanded by 3.0 per cent in 2024 and is expected to grow at a faster pace in 2025. Management companies, the main service providers to GBCs, employed nearly 6,000 individuals directly in 2024. The indirect employment reach of the GB sector extends to other economic activities such as banking, auditing, legal services and accounting.

Foreign income flows to the GB sector are supportive of the balance of payments. The sector contributes significantly towards containing the current account deficit. Around 50 per cent of net primary income in the current account came from GB sector activities in the second semester of 2024.

The aggregate asset size managed in the MIFC continued to expand in the second half of 2024. Sound conditions in the GB sector were backed by continued growth in the number of newly licensed GBCs and robust investment flows. The number of GBC exits from the MIFC was roughly at the same level it was in 2023. The aggregate assets of GBCs expanded by 3.8 per cent on an annual basis to reach US$738.1 billion in December 2024 (Chart 5.1).

Chart 5.1: Total assets of GBC



Source: Financial Services Commission

The positive and stable climate in the GB sector contributed to restrain risks to financial stability. The linkage between the GB sector and the banking system remained strong. Bank deposits held by GBCs rose during the second semester of 2024 and represented around one-third of the banking sector deposit base in December 2024. Funding risk from deposit concentration to the GB sector was contained by the robust inventory of liquid assets held by banks to cover for any sudden outflow of GBC deposits. Credit risk from the sector stayed relatively high, despite an improvement noted during the semester. The provisioning coverage for the sector was nevertheless at a comfortable level, cushioning the potential impact of credit losses.

Resilient GB sector amid heightened uncertainty

The GB sector was resilient against heightened uncertainty and volatility in the global economic and financial setting. Geopolitical tensions – including those in the Middle East – along with global trade frictions were elevated. The GB sector is inherently vulnerable to such developments, as they can adversely affect global investor sentiment, cross-border trade and financial flows. Nonetheless, GB sector activities were steady with the influx of new GBCs and sound capital flows through the MIFC.

Recent update on Multilateral Instrument

The Central Board of Direct Taxes (CBDT) of India issued a circular on 21 January 2025 to provide clarification on the application of the Principal Purpose Test (PPT) under the Double

Taxation Avoidance Agreements (DTAAs). The aim of the PPT is to ensure that the DTAA is not used exclusively for the purpose of deriving tax benefits. Previously, there was uncertainty regarding whether capital gains from equity acquired before 1 April 2017 – grandfathered under the DTAA with India – would be subject to the PPT. The circular confirmed that the PPT will only apply to transactions occurring after its implementation. The circular also clarifies that the grandfathering provisions are excluded from the scope of the PPT. This ensures that investments made under these provisions remain unaffected by the PPT, preserving the tax benefits originally agreed upon.

Reinforcement of the fund segment

Investment vehicles benefit from greater flexibility under the new Variable Capital Company (VCC) framework that was introduced by the FSC in 2022. This structure streamlines the issuance and redemption of shares for fund managers without requiring capital adjustments. As a result, the number of new fund management licenses surged to 89 in 2024, a significant increase from 13 in 2023 – highlighting Mauritius' expanding role as a global investment hub.

With global investors increasingly prioritising environmental, social, and governance (ESG) factors, the FSC introduced the new *Guidelines for ESG Funds* on 10 March 2025. Designed to combat greenwashing and empower investors with informed decision-making, these guidelines provide a structured framework to help financial institutions and investors integrate ESG considerations into their processes. By outlining a comprehensive set of recommendations and requirements, the regulator seeks to foster responsible investments and advance sustainability considerations in the financial sector.

Development of a roadmap for the sector

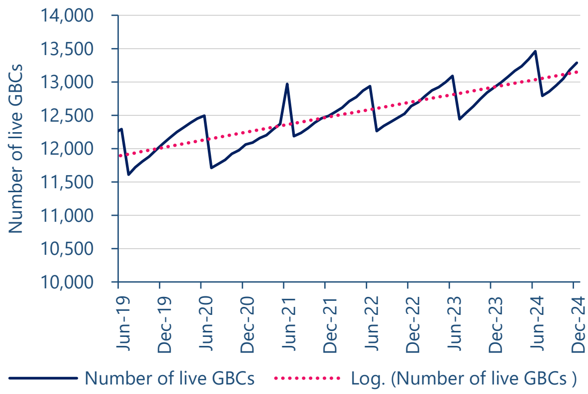
The authorities held a consultative workshop in March 2025 with industry stakeholders to devise strategies to further the development of the GB sector. The workshop aimed to develop a roadmap to strengthen the position Mauritius as a leading IFC. Discussions focused on tackling key sector challenges and shaping future strategies. Bold policies are needed to drive innovation, enhance competitiveness, and attract global players and investments.

A major point of concern was the growing talent shortages and rising labour costs. The need for strategic measures to train, retain and attract skilled professionals as well as investment in productivity-enhancing technologies were emphasised. A skilled and industrious pool of talent will contribute to further propel Mauritius as a dynamic, forward-thinking financial hub capable of adapting to an evolving global economic and financial landscape.

Increase in live GBCs

The operating environment in the GB sector was sound in the second half of 2024. The number of active GBCs went up by 2.9 per cent annually in December 2024 to reach 13,288 (Chart 5.2). The continuous rise in the number of active GBCs suggests investors' trust and confidence in the MIFC as a credible, compliant and sound jurisdiction.

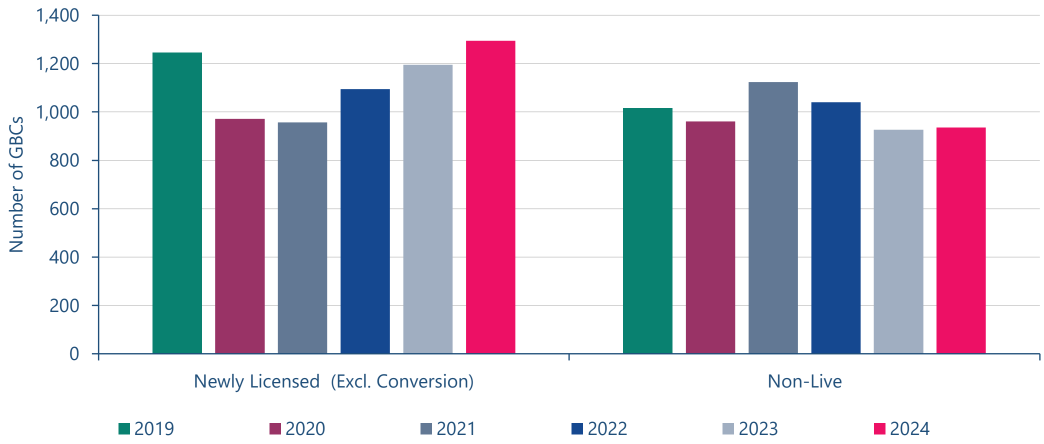
Chart 5.2: Evolution of Live GBCs



Source: Financial Services Commission

The MIFC continued to attract new licensees in the second semester of 2024. Newly licensed GBCs expanded at an annual rate of 8.3 per cent in 2024 to reach 1,294 new entrants, around the same level as it was prior to the COVID-19 pandemic as well as FATF listing of Mauritius. Concurrently, the number of GBC exits – or non-live GBCs – were stable around the same range as in 2023 (Chart 5.3).

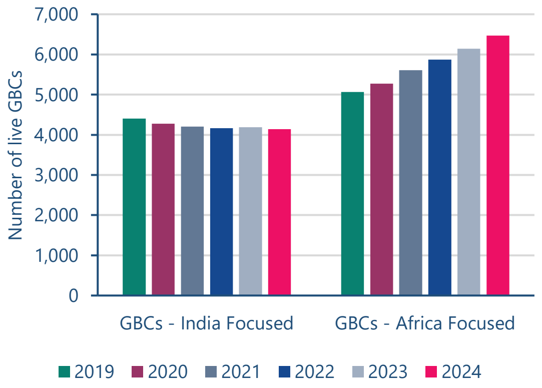
Chart 5.3: Evolution of newly-licensed and non-live GBCs



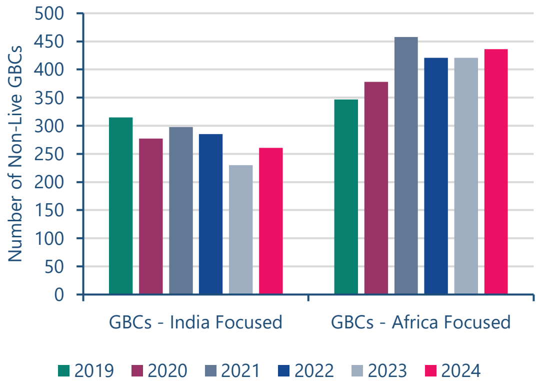
Source: Financial Services Commission

The African market remained the main driver of growth in the number of active GBCs. GBCs targeting the African continent represented 48.7 per cent of active GBCs, compared to 31.1 per cent for the Indian market in December 2024. The number of newly licensed Africa- and India-focused GBCs displayed mixed dynamics in the second half of 2024. New incomings GBCs targeting the African continent rose at an annual rate of 10.2 per cent, while India-focused incomings contracted by 12.6 per cent in December 2024. The number of GBCs that left the jurisdiction rose by 1.1 per cent on annual basis in December 2024. In nominal terms, most GBCs leaving the MIFC were Africa-focused ones, with exits rising at an annual rate of 3.5 per cent. The exit of India-focused GBCs rose at an annual rate of 13.5 per cent in December 2024 (Chart 5.4).

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



Source: Financial Services Commission



Source: Financial Services Commission

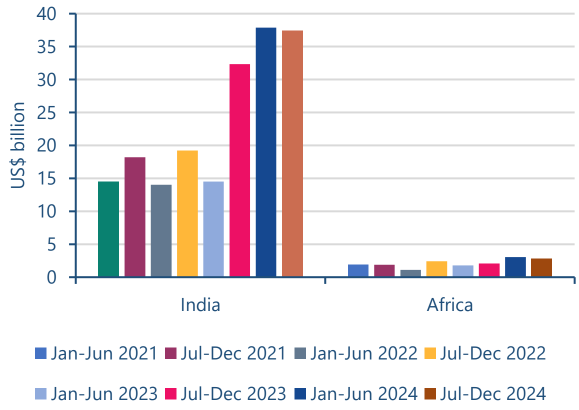
Sound investment flows in the MIFC

Consistent investment flows going through the MIFC contained funding and liquidity risks in the financial system. These flows targeted the Indian economy mainly, as strong growth of the economy in the second half of 2024 attracted significant investment flows. The Indian market represented around 76 per cent and 48 per cent of total portfolio and direct investments, respectively, from the MIFC in June 2024. Dynamics in investment flows through GBCs are, therefore, influenced by economic conditions in India.

Foreign Portfolio Investment (FPI) flows through the GB sector grew strongly in the second half of 2024. FPI flows were primarily driven by portfolio investments to India, rising at an annual rate of 15.8 per cent in the second half of 2024 relative to the corresponding period in 2023. The robust rise in FPIs to India was mirrored by the robust performance of the NIFTY Total Market Index, the benchmark index for the National Stock Exchange of India.[32] Similarly, FPI to the African market expanded robustly growing by 34.6 per cent annually over the same period (Chart 5.5).

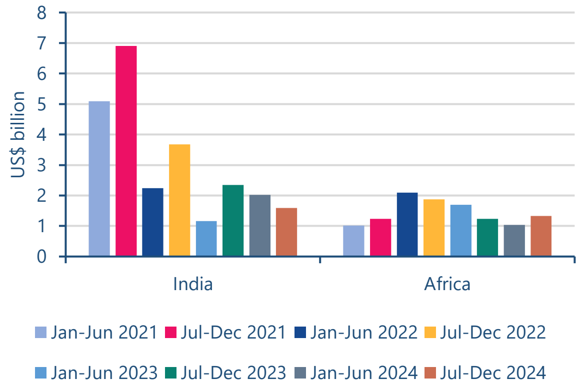
Foreign Direct Investment (FDI) flows to India and Africa displayed mixed movements.[33] FDI flows to India contracted by 32.1 per cent in the second half of 2024 relative to the same period in 2023. In contrast, FDI flows to Africa went up by 7.8 per cent over the corresponding period (Chart 5.6).

Chart 5.5: Gross flows of FPI



Source: Financial Services Commission

Chart 5.6: Gross flows of FDI



Source: Financial Services Commission

Interconnectedness between the GB and banking sectors

Banks managed risks arising from interactions with GBCs prudently, in line with the regulatory norms and their internal risk management framework. Risks from the interconnectedness were comparatively low and were not major threats to the stability of the financial system. Banks held a robust inventory of liquid assets to mitigate potential liquidity risk emerging from the short-term and volatile nature of GBC deposits. The implementation of the Net Stable Funding Ratio (NSFR) – effective 30 June 2024 – further supported the resilience of the banking sector against funding risk, including those stemming from GBCs.

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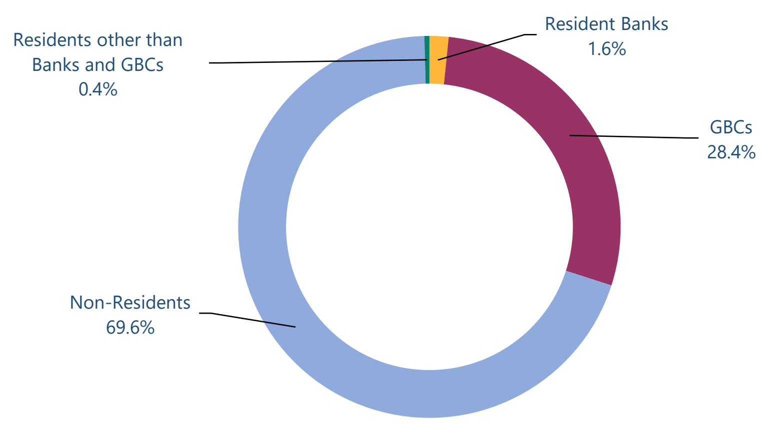
[32] *The NIFTY Total Market Index rose by 15.8 per cent, on annual basis, as at end-December 2024.*

[33] *FDI flows display higher volatility than FPI flows and this is normally due to the scale and nature of the private equity projects which may vary significantly from one year to another.*

GBCs conducted most of their transactions with non-residents and their relations with the banking sector were mostly in the form of deposits and loans. GBCs held deposits of US$13.7 billion with resident banks in December 2024, compared to their aggregate monetary and financial assets of US$719.5 billion. The GBC assets were mostly invested in non-resident entities, representing 69.6 per cent in December 2024, while cross-shareholding among GBCs accounted for 28.4 per cent.

Chart 5.7: Exposures of GBCs by institutional sectors as at end-December 2024



Source: Financial Services Commission

GBCs an important source of funding to banks

Banks are increasingly relying on cross-border activities to expand their balance sheets, with mobilisation of external funding – from both GBCs and non-residents – playing a key part in that strategy. The stock of GBC deposits in the banking sector was healthy in the second half of 2024, although its trend remained volatile.

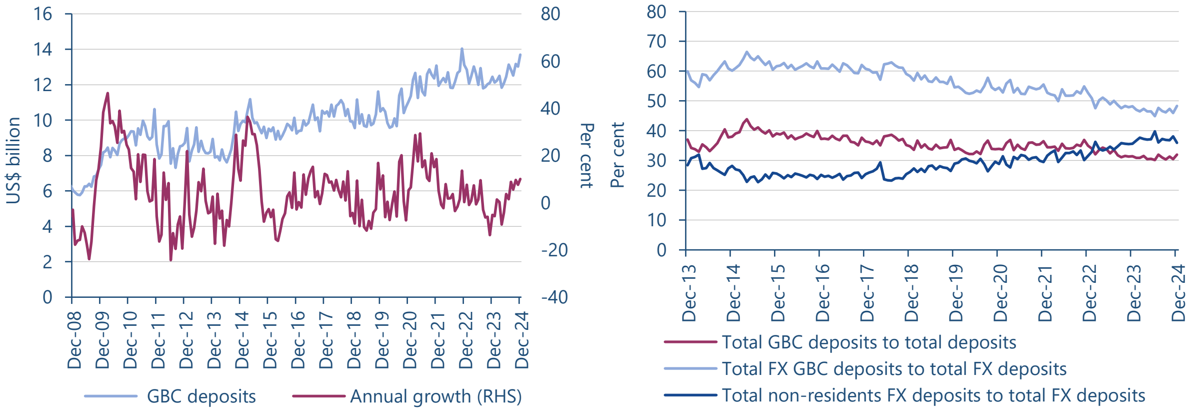
Funding conditions in the banking system were sound in the second half of 2024. Deposits held by GBCs maintained a general upward trend, growing at a faster pace in the second semester compared to the first half of 2024, and grew at an annual rate of 10.0 per cent in December 2024. The capacity of banks to mobilise deposits from the GB sector is a critical barometer of risk perception in the financial system. Deposits from GBCs are predominantly in FX and any constraints in obtaining funding from the sector could signal potential strains in the wholesale funding market with implications for financial stability.

The inherent nature of GBC deposits – volatile and short-term – can induce funding and liquidity risks in the banking system and be a source of vulnerability. Banks have diversified

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

their funding structures and reduced their reliance on GBCs for FX deposits since 2020. The share of GBC FX deposits to total FX deposits fell to 46.7 per cent in the second half of 2024, as compared to a share of 61.4 per cent observed for the period January 2007 to December 2019. Concurrently, banks have resorted to non-resident sources to mobilise FX deposits. The share of non-resident FX deposits to total FX deposits averaged 36.8 per cent in the second half of 2024, as compared to an average share of 24.7 per cent from January 2007 to December 2019 (Chart 5.8).

Chart 5.8: Evolution of GBC deposits and its share in the deposit base of banks



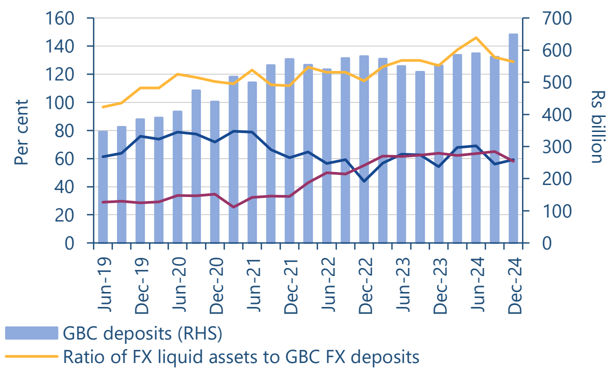
Source: Bank of Mauritius

Source: Bank of Mauritius

Banks maintained a prudent approach to managing liquidity risk from GBC deposits. They invested a large portion of these deposits in liquid assets, including deposits held with other banks abroad. The liquidity outlay on GBC FX deposits stayed at a comfortable level. The ratio of FX liquid assets to GBC FX deposits was 128.9 per cent in December 2024, though reflecting a drop from 146.0 per cent in June (Chart 5.9). Around 55 per cent of the liquid instruments are recognised as High Quality Liquid Assets (HQLA) under the Basel III LCR framework, which means more than half of these instruments are unencumbered and could be disposed during times of stress at little or no costs.

The Basel III NSFR came into effect on 30 June 2024. The NSFR requires banks to maintain a stable funding structure over a one-year horizon. Banks are bound to match the maturity profile of their funding base with their deployment strategy, constraining large scale maturity transformation. The effective implementation of the NSFR completes

Chart 5.9: Deployment of GBC deposits



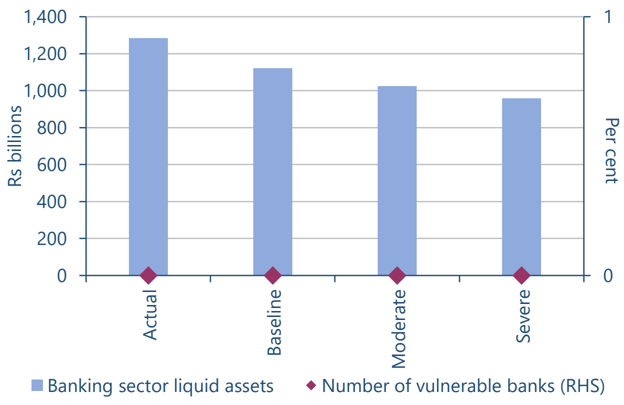
Source: Bank of Mauritius

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 alignment of the Bank`s macroprudential liquidity toolkit with the Basel III standards.

Stress tests on GBC deposits

Chart 5.10: Number of vulnerable banks



Source: Bank of Mauritius

The banking sector exhibited commendable resilience to sudden withdrawal of GBC deposits in the second semester of 2024. Banks held strong liquidity buffers to manage any strains from funding exposures, in line with sound liquidity risk management practices. The quarterly stress test exercise, conducted based on data for December 2024, showed that all banks passed the liquidity resilience test from plausible shocks to GBC deposits (Chart 5.10).[34] When shocks are applied to GBC and non-residents deposits combined, the stress test results indicate that all banks maintained adequate liquidity, except for one non-systemic bank in the severe scenario.

The FSC uses a risk matrix to monitor the potential impact on the banking system of exits of GBCs from the MIFC. The matrix revealed that the risk of GBCs leaving the MIFC has decreased in the second semester of 2024. The share of GBCs that were more susceptible to exit the jurisdiction fell to 10.1 per cent in December 2024, from 11.0 per cent in June 2024. Nonetheless, the GBC deposits with a high risk of exiting the banking sector rose to 16.5 per cent in December 2024, from 11.2 per cent in June 2024 (Table 5.1). Still, the capacity of the banking sector to absorb such shocks was sound as depicted by the stress test results.

[34] *Refer to Box 4 in the FSR of December 2023 for details on the liquidity stress test.*

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

As at end-December 2024

Risk Score – GBCs leaving the Mauritian jurisdiction	Sub-Total Risk scores	Low Impact	Medium-Low Impact	Medium Impact	Medium-High Impact	High Impact
High Risk	10.1	0.0	3.3	4.8	2.0	0.0
Medium-High Risk	13.7	0.1	4.9	6.3	0.6	1.8
Medium-Low Risk	14.4	0.1	4.8	6.4	2.0	1.1
Low Risk	61.8	0.4	25.7	17.5	4.6	13.6
Sub-Total Impact Score		0.6	38.7	35.0	9.2	16.5

Impact Score – Deposit withdrawals

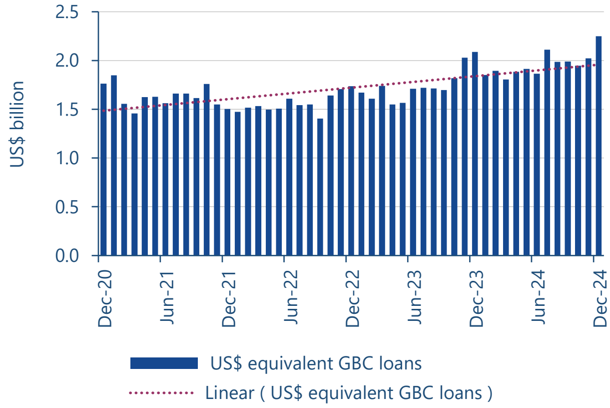
Source: Financial Services Commission

Credit risk in the GB sector remained elevated

The exposure of banks' credit portfolio to the GB sector stayed relatively low, despite a rise in credit facilities to the sector. Bank credit to GBCs grew by 7.8 per cent on an annual basis in December 2024 to reach US$2.2 billion, but its share in the overall credit base of the banking sector was less than 10 per cent.

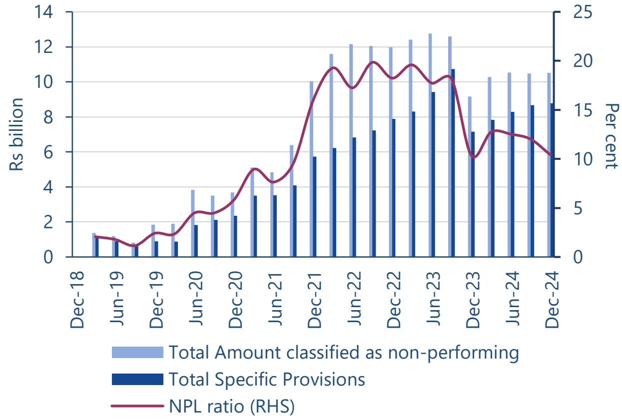
Credit impairment from the GB sector was elevated, in spite of an improvement in the credit risk metric of the sector. The NPL ratio declined to 10.4 per cent in December 2024, from 12.5 per cent in June 2024. This improvement was primarily driven by a rise in credit facilities, diluting the significance of the impaired amount relative to the credit base. The provisioning coverage for the sector was robust at 83.5 per cent in December 2024, representing an increase as compared to 78.7 per cent in June 2024.

Chart 5.11: Evolution of GBC loans in US$



Source: Bank of Mauritius

Chart 5.12: Asset Quality of GBC Loans



Source: Bank of Mauritius

Effective management of cross-border banking activities

Cross-border banking activities present risks, challenges and opportunities to the banks but the prudent management of exposures have kept risks comparatively low. Effective risk management have enabled banks to enhance the stability and profitability of their operations, while leveraging global financial opportunities. The cross-border stress test provides insights into the capacity of the banking sector to handle varying degrees of stress, ensuring that appropriate risk management measures are in place to maintain financial stability.

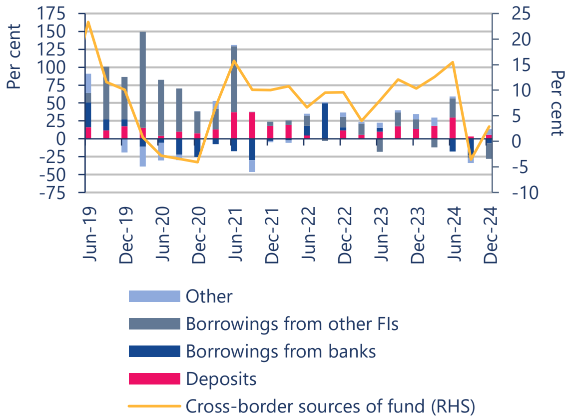
Cross-border funding played a crucial role in the banking system. Funding from non-residents continued to grow, although at a lower rate of 2.9 per cent annually in December 2024 (Chart 5.13a). Banks held US$13.2 billion in cross-border funds, inclusive of non-resident deposits and borrowings mainly, representing 24.6 per cent of their total funds. Funds sourced from non-residents rose at an annual rate of 2.9 per cent in December 2024. The lower growth rate was primarily due to an annual decline in banks' borrowings from both banks and other foreign financial institutions domiciled abroad. Deposits from foreigners and other sources of cross-border funding expanded at an annual rate of 5.7 per cent and 7.8 per cent, respectively. These developments illustrate the global interconnectedness of the banking sector and its ability to mobilise resources effectively.

The structure of cross-border funding highlights the diversified sources of funding by banks. The principal sources are the African, European, and Middle Eastern regions (Chart 5.13b). The majority of the funding consisted of deposits and intra-bank borrowings. Deposits from Europe and the Middle East supported the growth in total foreign deposits, whilst those from African sources experienced an annual decline of 5.9 per cent in December 2024. This trend was particularly evident in transactions involving the UK and Northern Ireland, the UAE, and South Africa, highlighting the dynamic nature of these funds.

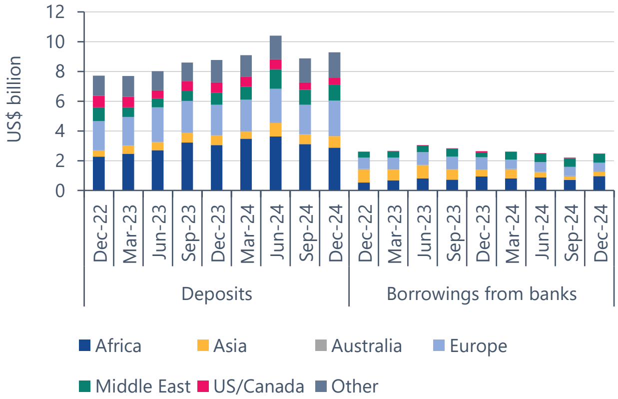
Contents
Macrofinancial environment
Financial soundness of households and corporates
Banking sector resilience
Non-bank financial services sector
Global business sector and cross-border activities

Chart 5.13: Cross-border sources of fund

a. Annual growth



b. Distribution by continent



Source: Bank of Mauritius

The cross-border uses of funds by banks involve the deployment of financial resources to foreign counterparties through various channels such as credit facilities, investments in shares and sovereign government securities, and deposits (Chart 5.14a). This practice allows banks to diversify their portfolios, manage risks, and tap into global financial opportunities. Funding to non-residents totalled US$26 billion in December 2024, representing an annual increase of 7.1 per cent. The funds were sourced from non-resident counterparts aggregating US$13.2 billion and from the GB sector – considered part of the resident segment – which held deposits of US$13.7 billion in December 2024.

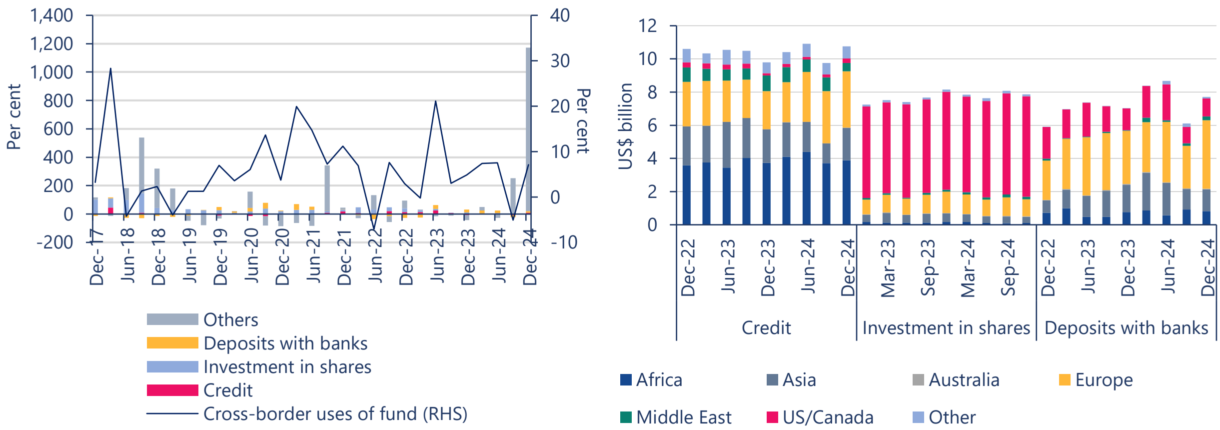
Banks showed a preference in allotting credit facilities to non-residents and depositing funds in foreign banks, each recording an annual growth of 9.9 per cent in December 2024. There was a notable shift in banks' investment strategy, with investments in shares declining annually by 3.4 per cent, as they favoured deploying funds in other instruments, predominantly sovereign government bonds.

The destination of funds remained significantly focused on the US, UK and Northern Ireland. Credit facilities and deposits were significantly directed to banks in the UK and Northern Ireland, with an annual increase of 48.7 per cent and 29.0 per cent respectively in December 2024. Investment in shares in UK and Northern Ireland domiciled entities registered a decline of 21.0 per cent, driving the contraction noted in total investment in shares abroad. This was partly in favour of US and Canadian counterparts. Cross-border funding through other instruments was also allotted to the USA and, UK and Northern Ireland.

Chart 5.14 Cross-border uses of fund

a. Annual growth

b. Distribution by continent



Source: Bank of Mauritius

The close integration of the banking system with the global financial network exposes it to external events and stresses, making it vulnerable to risks from cross-border activities. These risks can impact the sector and pose a threat to financial stability. To address these risks, the Bank has implemented regulations that encourage banks to prudently manage cross-border risks, ensuring that they take appropriate measures to mitigate potential threats and maintain overall stability.

Banks maintained robust capital and liquidity buffers and adhered to prudent risk management practices. This contributed to safeguard financial stability and effectively navigate the challenges posed by cross-border activities. The asset quality of credit allotted to non-residents showed a slight downside risk, as the NPL ratio increased to 3.2 per cent in December 2024, compared to 3.0 per cent six months earlier. This increase was idiosyncratic, relating to a few specific industries abroad.

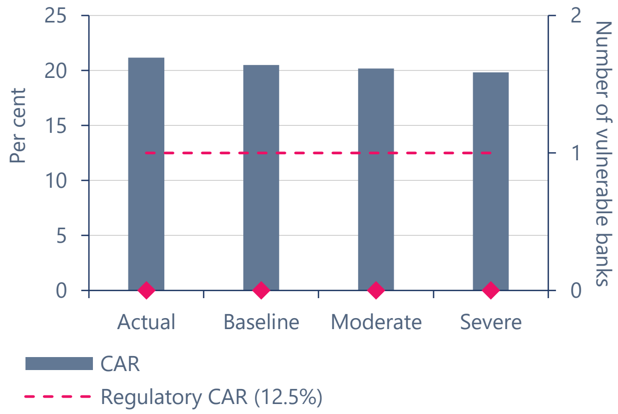
The FX liquidity buffers, measured through the LCR, indicated adequate capacity to mitigate FX outflows, with the FX LCR standing at 214.2 per cent in December 2024, well above the regulatory floor of 100 per cent. Additionally, the NSF demonstrated robust liquidity buffers in significant FX currencies across all banks.

Cross-border stress testing

The Bank evaluated the resilience of the cross-border portfolio of the banking system against potential shocks from foreign counterparties. These shocks – arising from global economic uncertainties, political instability, and regulatory changes – can increase the likelihood of defaults by foreign counterparties. The stress test was conducted using scenarios based on the levels of NPLs in jurisdictions where funds were deployed, accounting for approximately 80 per cent of total cross-border credit facilities to assess this risk. The baseline shock level was determined by the average historical impairment ratio in each jurisdiction, with moderate and severe scenarios amplifying this ratio by 1.5 times and 2 times, respectively.

The stress test results highlighted the resilience of the banking sector to withstand shocks across all scenarios. The CAR would decrease from 21.2 per cent in December 2024 to 20.5 per cent in the baseline scenario, to 20.2 per cent in the moderate scenario, and to 19.8 per cent in the severe scenario (Chart 5.15). Despite these reductions, all banks would maintain CAR levels above their respective regulatory requirements even after the shocks, demonstrating their robust capital positions.

Chart 5.15: Cross-border credit risk stress test results



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

List of charts

Non-bank financial services sector

Global business sector and cross-border activities

List of tables and boxes

Tables

Banking sector resilience

Global business sector

Boxes

Financial soundness of households and corporates

List of acronyms

ARA	Assessing Reserve Adequacy
AVR	Actuarial Valuation Report
Bank	Bank of Mauritius
BEPS	Base Erosion and Profit Shifting
CAR	Capital Adequacy Ratio
CRE	Commercial Real Estate
D-SIBs	Domestic-Systemically Important Banks
DSTI	Debt-Service-to-Income
DTAA	Double Taxation Avoidance Agreement
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
HHI	Herfindahl-Hirschman Index
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
MLI	Multi-lateral Instrument
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
RSA	Regulatory Sandbox Authorisation
SRI	Systemic Risk Indicator
UK	United Kingdom
US	United States
US$	US dollar
VCC	Variable Capital Company
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 (RPPI), *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.*