



MEDIA RELEASE

The Monetary Policy Committee of the Bank of Mauritius raises the Key Rate by 50 basis points

Released at 15:50 hours on 4 February 2025

The Monetary Policy Committee (MPC) of the Bank has unanimously voted to raise the Key Rate by 50 basis points from 4.00 per cent to 4.50 per cent per annum at its meeting today.

Global growth has remained steady so far, although divergences persist across countries. The International Monetary Fund, in its January 2025 World Economic Outlook Update, forecast global growth at 3.3 per cent in both 2025 and 2026. Global inflation has been on a downtrend. The latest developments taking place in the geopolitical arena, with likely tariff imposition by the US on imports from Canada, Mexico, China and probably the European Union may nonetheless reverse that trend and rekindle global inflation, with pernicious effects on countries that heavily rely on imported commodities. The materialization of this risk may delay the attainment of central banks' inflation targets and slow down the pace of rate cuts globally.

On the domestic front, GDP growth was broad-based and driven by the construction sector, financial services, tourism, and trade sectors. On the demand side, growth was mostly driven by consumption and investment. Major economic sectors are expected to post positive performances in 2025. The Bank projects growth to be between 3.5 to 4.0 per cent for 2025. The output gap is expected to remain in positive territory and to contribute to underlying inflationary pressures.

Although inflation in Mauritius reached 3.6 per cent in December 2024, risks to the inflation outlook are tilted on the upside both domestically and externally. As a small open economy which imports the bulk of what it consumes, Mauritius is not immune to risks of global inflationary pressures including supply chain shocks as well as climate-related events. In light of the uncertainties on the global scene, the risks of imported inflation are assessed to be high. Furthermore, domestically-generated inflation, including services inflation, remains sticky. The Bank projects inflation to close the year 2025 at 3.7 per cent, which is above the mid-point target of 3.5 percent over the medium-term. However, with a potential global trade war looming in 2025, domestic inflation could turn out to be higher than currently anticipated.

Excess liquidity remains an important issue and, if unaddressed through the Bank's open market operations, can hamper the smooth transmission mechanism of monetary policy and contribute to underlying inflationary pressures in the economy. This arises essentially as low yields resulting from excess liquidity contribute to negative interest rate differentials with major currencies, which in turn stymies the proper functioning of the domestic foreign exchange market.

The MPC deliberated that several underlying factors could coalesce to weaken the rupee against the US dollar and add to inflationary pressures. Furthermore, the ongoing growth momentum is positive. This offers space to reverse the negative interest rate differential which had contributed to a sustained depreciation of the rupee over the past few years. Against a backdrop of potential external headwinds that could lead to higher global inflation and contribute to further exchange rate pressures, a pro-active decision was warranted.

As a result, the MPC has unanimously decided to raise the Key Rate by 50 basis points from 4.00 per cent to 4.50 per cent per annum. It is expected that, going forward, banks shall pass on this higher rate to their customers with more attractive Savings Deposit Rate, thereby enhancing the efficacy of the monetary transmission mechanism. Debt serviceability of households and corporates, which was already sound before the rate hike, should continue to remain so.

The MPC wants to ensure that inflation expectations are solidly anchored in Mauritius while exchange rate pressures are contained. The MPC will continue to closely monitor economic developments and take appropriate actions to achieve the Bank's mandate of maintaining price stability and promoting orderly and balanced economic development.

The next meetings of the MPC during the year are scheduled for 07 May, 13 August and 12 November.

The Minutes of today's meeting shall be released on 18 February 2025.