Minutes of the 74th Monetary Policy Committee Meeting held on 07 May 2025

Released on 21 May 2025

The 74th meeting of the Monetary Policy Committee (MPC) was held on Wednesday 07 May 2025 at 09:00 hours at the Bank of Mauritius (Bank). The following members attended the meeting:

- Dr Rama Krishna Sithanen, G.C.S.K (Governor and Chairman)
- Mr. Rajeev Hasnah (First Deputy Governor)

External Members

- Ms. Sharmila Banymadhub-Chakowa
- Dr Myriam Blin
- Ms. Martine Ip Min Wan
- Dr Jameel Khadaroo
- Dr Jeevita Matadeen

Apologies

- Mr. Gérard Sanspeur (Second Deputy Governor)

1. Since the announcement by the Trump administration of the enactment of US tariffs, the stop-go nature of its implementation and possible retaliations by partner countries, global uncertainty has increased. The global macro-financial environment is now confronted with shocks of seismic proportions that could alter the future of trade architecture and present economies in general with trade-offs in their policy-making, in a new macroeconomic landscape increasingly characterized by conflicting challenges.

2. As an open economy with a relatively high propensity to import, and characterized by relatively high pass-through effects from global commodity prices to domestic price developments, Mauritius is likely to be impacted. The more so that its underlying economic structure is dependent on tourism – mostly Eurocentric in nature - and on financial services.

3. The Bank has conducted various scenario-based assessments of the impact of those external developments on inflation, growth and trade dynamics over the short and medium terms.

4. The Bank viewed this assessment as crucial, especially bearing in mind that its dual objectives - namely maintaining price stability and promoting orderly and balanced economic development - may be jeopardized with the materialization of those developments to varying degrees of intensities.

5. The MPC carefully reviewed how these various scenarios could play out and impact on global and domestic macroeconomic variables, before deliberating on its policy decision.

Inflation Developments and Outlook

6. The imposition of US tariffs and uncertainty surrounding the pace, timing and magnitude of any potential tariff wars, may have contrasting effects on global inflation in 2025. On one hand, tariff-induced shocks and supply chain disruptions occasioned as a result of disruptions to the global trade architecture and heightened uncertainty, may feed into higher import prices and trigger inflationary pressures for net importing economies. On the other hand, slower growth or materialization of possible recessions, especially among advanced and emerging economies, may compress demand, lower global commodity prices and ease inflationary pressures for net importing economies. The interplay of these two offsetting factors will affect the trajectory of global inflation in 2025 and beyond. The resulting impact on net importing economies is likely going to depend on country-specific circumstances.

7. The Mauritian economy is a relatively open one, characterized by a high propensity to import and relatively high pass-through effects from global commodity prices to domestic prices. Due to these structural characteristics, inflationary developments in Mauritius are, to a large extent, closely linked to global inflation movements and trends, although domestic circumstances may also weigh in the balance.

8. Although inflation, both, among partner countries and in Mauritius, has been on the downside in 2025Q1, its trajectory may change during the year due to the playing out of the offsetting factors. For Mauritius, the balance of risks to the inflation outlook is resolutely tilted on the upside – in line with the future orientation of inflation outlook revisions as brought by the IMF in its April 2025 World Economic Outlook (WEO) for advanced economies which are now facing an upward revision to 2025 inflation projections at 2.5 per cent, as compared to 2.1 per cent which was projected in January. Overall for the global economy, the IMF projects a slowing down of the disinflation process for headline inflation and underscores clear upside risks to its future orientation, on the back of intensifying geopolitical tensions, particularly the possible escalation of trade tensions, disruptions to global supply chains and higher tariff-induced import prices.

9. Digging into the inflationary dynamics of the main trading partners of Mauritius, namely the Euro area, the UK and the US, clear signs exist that risks to the inflation outlook are on the upside. Core inflation continues to remain stubbornly sticky across these economies, on account of still-elevated services inflation alongside tight labour market conditions, especially in the US. In addition, stronger-than-anticipated wage growth in tight labour markets, especially if not accompanied by commensurate productivity gains, could lead to a wage-price spiral, and reverse the downward trend. Finally, should fiscal policy remain accommodative in these economies despite restrictive or neutral monetary policy, the disinflation process seen so far could very well reverse course in 2025.

10. In a similar vein, developments in global commodity markets since the last MPC meeting point to the existence of upside risks to inflation, despite benign performance. The Food and Agriculture Organisation (FAO) Food Price Index – which tracks monthly changes in the international prices of a set of globally traded food commodities – averaged 127.1 in March 2025, nearly unchanged from its February level. The World Bank in its January 2025 Global Economic Prospects report forecast food prices to decline in 2025, on account of favourable weather conditions and a positive global supply but warns that rising trade tensions, conflicts, trade agreements and extreme weather would play a significant role in shaping the food commodity markets outlook, going forward. These developments could also well reverse the downward trend of the Freightos Baltic Index (FBX) observed in 2025Q1. While crude oil prices fell in the first week of April with announcements of accelerated production increases and the possible implementation of a ceasefire in the Russia-Ukraine conflict, the downward trend could be reversed with ongoing uncertainty surrounding the architecture for global trade as the global tariff wars take shape. Adverse climate-related shocks could also constitute upside risks to global food prices.

11. Central banks are now adopting a more cautious approach in light of global uncertainty, while carefully balancing out risks to inflation prospects and to growth prospects. The probability that global inflationary pressures could flare up in 2025 had initially delayed the accommodative cycles in many countries which have witnessed declining inflation. Since the beginning of 2025, more central bank decisions were geared towards maintaining interest rates unchanged, while a few have cut interest rates on the back of favourable progress on inflation. Out of 137 MPC decisions taken globally, 40 decisions were about cutting rates, 84 decisions have been to maintain the status quo, as opposed to 13 decisions to raise rates. The ongoing trade tensions and economic uncertainty have added another layer to central banks' decision-making process: that of downward risks to growth outlook which appear to become less of a remote possibility.

12. The decision-making process in the presence of the so-called 'stagflation' risks, i.e., upside risks to inflation but downside risks to growth, is expected to become more complicated in an uncertain global economic environment as considerations vary from country to country and as financial stability considerations creep in. All the three major central banks, namely the US Federal Reserve Bank, the European Central Bank and the Bank of England have revised upwards their inflation forecasts for 2025. However, they are expected to loosen their monetary policy stance in 2025 on the back of downside risks to growth considerations and lower demand-induced inflation. According to the Refinitiv polls, the US Fed is expected to starting lowering interest rates as from 2025Q3, the ECB is expected to cut interest rates by an additional 25 basis points (bps) in 2025Q2, while the BoE is expected to ease interest rates by 25 bps in the same quarter.

13. These developments are assessed to have non-negligible consequences for net importing economies such as Mauritius. Although headline inflation and year-on-year (y-o-y) inflation have slowed down in March 2025, the underlying measures of inflation continue to show stickiness and inertia, upheld by relatively high prices of services and wage increases. Headline CORE1 inflation, which excludes the price effects of food items, increased to 2.3 per cent, while headline CORE2 inflation, which further adjusts for movements in energy and administered prices, stood at 4.2 per cent, up from 4.0 per cent in the previous month. On a y-o-y basis, CORE1 inflation and CORE2 inflation remained unchanged at 3.4 per cent and 6.0 per cent, respectively. Attribution analysis to decomposing the inflation dynamics shows an important development on the future evolutionary dynamics of inflation in Mauritius: domestically-generated inflation which, over the past year had remained relatively stable, has slightly receded while imported inflation which, over the past year had declined significantly, has stabilized. As highlighted in the February 2025 MPC report, the downward tendency in imported inflation observed during 2024 could reverse at any time, going forward. With the developments taking place globally at the geopolitical level, this may very well be the case and risks tilting the inflation outlook more on the upside.

14. The slight decline in domestically-generated inflation could stall in 2025. As excess capacity has receded as mirrored with the closing output gap, favourable labour dynamics could add overlays of pressures on inflation in 2025, especially the CORE2 component. The unemployment rate maintained its downtrend and reached a more than two-decade low of 5.8 per cent in 2024Q4. The Wage Rate Index (WRI), which provides an indication of the cost of labour in the economy, increased from 129.5 in 2024Q3 to 129.9 in 2024Q4. In y-o-y terms, the WRI rose substantially by 15.4 per cent and 14.7 per cent, respectively, in 2024Q3 and 2024Q4. Wage growth was relatively broad-based, with the main sectors facing increases in the range of 12-24 per cent. When adjusted for productivity gains, the rise in broad-based labour costs could generate inflationary pressures, should profit margins of firms prove to be insufficient as bulwark.

15. Looking ahead, the Bank projects headline inflation to increase in the coming months and to close the year at around 3.5 per cent. This projection is lower than the previous forecast of 3.7 per cent made at the last MPC meeting. The future course of inflation in Mauritius will depend on the interplay of a number of offsetting external and domestic factors. At the external level, there are opposing forces at play. On the upside, global inflation could be ignited with escalation of tariff wars at a global level on a grander scale and magnitude than before, with persistent trade and global value supply chain disruptions. On the downside, a recession engineered in major economies could also compress global demand and lead to disinflation among the major epicenters of the world. This could weaken the US dollar and mitigate imported inflation for economies that are at the net importing end such as Mauritius. Compressed global demand could add further impetus to the downward trend in global commodity prices. Furthermore, trade diversion may occur with Chinese goods entering markets other than the US, which may also accentuate dampening pressures locally. At the domestic level too, there are offsetting factors. On the upside, wage pressures unaccompanied by productivity adjustments and extreme weather conditions could trigger further rounds of price surges in agricultural products as well as other commodities and, by ricochet, contribute to domestic price pressures. On the downside, the positive interest rate differentials generated

through adequately managed liquidity situation in the domestic financial market by the Bank together with buoyancy of the rupee against the US dollar could step up the disinflation process seen so far. The net impact of these conflicting factors, both externally and domestically, means that headline inflation in Mauritius is poised to take an ascending trend from its March level of 2.5 per cent to reach 3.5 per cent at the close of the year.

Growth Developments and Outlook

16. The relatively high degree of openness of the Mauritian economy means that domestic growth prospects are linked to developments taking place externally.

17. In its April 2025 World Economic Outlook, the IMF revised down global growth for 2025 from 3.3 per cent to 2.8 per cent, 0.5 percentage point lower compared to its January 2025 projections. The downgrade mostly reflected the direct effects of the new trade measures and their indirect effects through trade linkage spillovers, heightened uncertainty, and deteriorating sentiment. Advanced economies are projected to grow by 1.4 per cent in 2025 while emerging market developing economies are anticipated to expand by 3.7 per cent, down by 0.5 percentage point (ppt) from the previous forecast. Given the stop-start nature of the tariff rollout, the IMF introduced a cut-off date of April 4 for its forecasts and does not include the new levies on China. If these policies were to be considered and sustained, this could slow global growth further. The IMF warned that the tariff rollout had also caused an increase in risks to financial stability. The unpredictability of the global economic environment with the onset of tariffs and countermeasures may well result in materialization of stagflation pressures with inflation on the hike and growth hindered. This environment could prove challenging for sovereign bond markets and constitute financial stability risks, especially for emerging market economies facing higher financing costs.

18. Risks to the domestic growth outlook have moved from a relatively balanced state at the last MPC meeting to one that is more tilted on the downside.

19. On the domestic front, Statistics Mauritius reviewed its national accounts data for 2024 in its March 2025 release. The GDP growth rate for 2024 was revised down to 4.7 per cent, from a previous estimate of 5.1 per cent considered at the February 2025 MPC meeting. The *'Construction'* and *'Accommodation and food service activities'* sectors were the most affected by the revisions to 2024 data. Quarterly projections were also revised downwards for 2024, especially 2024Q4. The *'Accommodation and food service activities'* grew by 3.7 per cent, down from 6.0 per cent in 2024Q3. While the tourism industry demonstrated resilience in 2024 with the number of tourists visiting the island reaching 1,382,177, at par with pre-pandemic levels, recent data shows a slowdown in arrivals, especially when compared with close competitors. Mauritius welcomed 326,389 tourists in 2025Q1, a decline of 5.8 per cent relative to 2024Q1, with the brunt of the fall being explained by decline in arrivals by European tourists. On a positive note, the number of tourists in the first fortnight of April went up by 7,000 compared to the same period in 2024, that is, a 15 per cent increase. Large hotels have reported satisfactory bookings for April and promising forward bookings during the year.

20. On the demand side, growth in 2024Q4 was supported by sustained expansion of 4.0 per cent in consumption expenditure, led by growth of 2.8 per cent in household spending and 10.8 per cent in government spending. On the downside, investment expenditure, measured by Gross Fixed Capital Formation, contracted by 1.9 per cent. On the external front, net exports of goods and services dragged down growth in 2024Q4. Exports of goods contracted by 2.4 per cent even though exports of services expanded by 1.3 per cent, driven by a robust performance of the tourism sector. Imports of goods and services rose by 12.7 per cent over the same period, reflecting higher spending on capital projects and upbeat domestic consumption amidst rising household income.

21. A micro-structural decomposition analysis of the external account shows that, excluding ships, stores and bunkers, exports of goods fell by a higher rate of 3.3 per cent due to a decline in the exports of *'Articles of apparel'*, reflecting rising costs of production and loss of competitiveness in this segment. In volume terms, the decline in goods exports is even higher

at 8.2 per cent y-o-y. In recent years, the value of imports has been almost three times higher than nominal exports. Nominal imports (f.o.b. i.e. excluding insurance and freight) have risen by 9.1 per cent y-o-y and, in volume terms, have gone up by 12.5 per cent. Excluding petroleum products, a large part of import volume growth was driven by road vehicles. Overall, the current account deficit is estimated to have deteriorated to 6.4 per cent of GDP in 2024. Composition-wise, the current account deficit situation essentially reflects widening balance of trade deficit in the goods account. The secondary income account was in deficit as well. The other two items, namely services account and primary income account were both in surplus due to positive contribution of gross tourism earnings and elevated global interest rates in 2024, respectively. In the first three months of 2025, gross tourism earnings registered a fall of 1.7 per cent relative to the corresponding period a year ago, while tourist arrivals fell by 5.8 per cent during the same period.

22. For 2025, the country's growth performance looks set to suffer from headwinds, especially the tariff-induced shocks and trade pattern disruptions which could undermine performance of the export sector and, by ricochet, the current account of the balance of payments.

23. The Bank projects a weaker growth performance than forecast at the previous MPC meeting. *As such, real GDP growth for 2025 is projected to be within the range of 3.0 to 3.5 per cent, down from an initial forecast range of 3.5 to 4.0 per cent.*

Financial Market Development and Financial Stability

24. The Bank has pursued efforts to restore order in, both, the money and domestic foreign exchange (FX) markets since the February 2025 MPC meeting.

25. As mentioned in the February 2025 MPC report, financial market pressures - in the form of compressed yields as a result of excess liquidity situation and contributing to negative yield differentials with currencies such as the US dollar – could engender a weakening of the rupee

if unaddressed and contribute towards fueling inflation. The Bank continued to pursue its open market operations with a view to maintaining an adequate level of liquidity in the banking system, whilst ensuring an efficient monetary policy transmission. Effective from February 2025, the Bank reduced its issuances and issued Bank of Mauritius (BoM) Bills for a total amount of Rs2.5 billion in the 91-Day tenor only. Weekly issuances of the 7-Day BoM Bills for an amount of Rs1.0 billion at the Key Rate were continued up till mid-March 2025. Surplus funds at the end of the day were placed under the Overnight Deposits Facility at the rate of 3.00 per cent per annum. On average, an amount of Rs19.0 billion was placed on overnight deposit with the Bank since the last MPC meeting. Transactions on the interbank market took an uptrend. Following the last MPC's decision to hike the Key Rate by 50 basis points to 4.50 per cent, interbank interest rates have increased together with short-term yields. The weighted average Overnight Interbank Rate, which stood at 2.76 per cent in January 2025, rose to 3.32 per cent in February, to 3.54 per cent in March 2025 and to 3.55 per cent as at mid-April 2025. Since the February 2025 MPC meeting, yields on the 91-Day Bills, 182-Day Bills and 364-Day Bills have increased by more than the 50 bps increase in the Key Rate.

26. Regarding the exchange rate of the rupee, the Bank intervened on the market for an aggregate amount of US$25 million since the last MPC meeting, to contain excessive volatility in the rupee exchange rate. The rupee continues to reflect key economic fundamentals of demand and supply, as well as international currency movements. The series of measures announced by the Bank to restore order in the domestic FX market and to correct imperfections in the market have continued to bear positive results. The depreciation of the rupee against the US dollar – a key indicator of potential inflationary pressures given the country's relatively high marginal propensity to import and pay in dollars - has been stalled. Between 04 February 2025 and 29 April 2025, the rupee exchange rate has appreciated by 3.8 per cent against the US dollar, despite losing steam against the euro and the pound sterling. The Mauritius Exchange Rate Index which stood at 129.5 in December 2024, appreciated by 1.6 per cent, to 127.5 in April 2025.

27. Despite the challenging global conditions brought about by heightened geopolitical and geostrategic uncertainty amid the imbroglio around the US new tariff policy, the Mauritius IFC is expected to continue to be resilient by attracting global financial flows. The country's external buffers continued to remain comfortable in 2025Q1. The Gross Official International Reserves (GOIR) stood at US$8.8 billion as at end-March 2025, representing 12.2 months of import cover (based on import bill of calendar year 2024), compared to US$7.2 million as at end-March 2024.

28. The risks to financial stability are assessed to be relatively moderate, despite the hike in policy rate of 50 bps in February 2025. Favourable macro-financial conditions in the form of lower inflation and wage increases have supported the debt serviceability capacity of households – which remained broadly on par with 2024 levels. The corporate sector remained supported by strong balance sheets and positive earnings which helped them maintain their debt resilience at healthy levels. Credit to the private sector grew sustainably since the last MPC meeting and registered a growth of 10.4 per cent in March 2025 alone. The asset quality of the banking system remained sound and non-performing loans were adequately provisioned for. Overall, the banking sector displayed robustness and resilience, both solvency-wise and liquidity-wise. The Capital Adequacy Ratio (CAR) was 21.2 per cent as of December 2024, well above the regulatory minimum of 12.5 per cent, reflecting strong ability of the banking sector to absorb shocks. In terms of liquidity management, banks maintained high Liquidity Coverage Ratio (LCR) at 330.6 per cent in February 2025, significantly exceeding the regulatory threshold of 100 per cent. Stress test results demonstrate the resiliency of the banking sector in Mauritius to strong but hypothetical shocks.

MPC Decision

29. The MPC thoroughly reviewed developments taking place at the global and domestic levels, scrutinized the impact of the various scenario-based assessments conducted by the Bank, and deliberated on their implications on domestic growth and inflation trajectories for 2025.

30. The magnitude, intensity and timing of shocks facing economies will differ from country to country. As a result, there is no one-size-fits all solution. Policymakers will meticulously scrutinize developments to their growth and inflation outlooks, undertake a careful assessment of risks and take a policy decision that best fits their country-specific circumstances and policy mandates.

31. The MPC deliberated that, at the present juncture, considering the significant uncertainty regarding future US tariff moves and their impact on trading partner countries, downside risks to the domestic growth outlook surpass the upside risks to the inflation outlook. However, despite inflation going down so far in Mauritius, the risks that inflation may change trajectory in the future and escalate due to materialization of external developments continue to exist and may result in future inflation rates overshooting the Bank's middle target of 3.5 per cent over the medium-term.

32. As such, the MPC is faced with a difficult balancing act yet again. Given existing circumstances, the MPC decided that it was better to hold and wait for further information about the likely evolution of the global environment, whilst remaining vigilant to the evolving balance of risks.

33. As a result, the MPC unanimously decided to keep the Key Rate unchanged at 4.50 per cent per annum at its meeting.

34. The next MPC meeting is scheduled for Wednesday 13 August 2025.

35. The MPC will continue to closely monitor economic developments and stands ready to meet in between its regular meetings and take appropriate actions to achieve its dual mandate of maintaining price stability and promoting orderly and balanced economic development.

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