Monetary Policy Report

May

2025

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Preface

Section 4(1) of the Bank of Mauritius (BoM) Act 2004 stipulates that the primary object of the Bank of Mauritius shall be to maintain price stability and to promote orderly and balanced economic development.

The Bank's Monetary Policy Framework, effective since 16 January 2023, is a flexible inflation-targeting framework that focusses on the primary mandate of price stability and, without compromise to this mandate, aims to achieve sustainable economic growth. The goal of price stability is defined as an inflation target range of 2-5 per cent, with the aim of achieving the mid-point of 3.5 per cent over the medium-term.

Monetary policy decision-making is independent. The Monetary Policy Committee (MPC), which is chaired by the Governor and comprises the Deputy Governors and external members, is responsible to formulate and determine the monetary policy to be conducted by the Bank to achieve its primary object. The MPC signals its monetary policy stance through changes in the Key Rate, which is the Bank's policy rate.

The Monetary Policy Report provides an insight into the macroeconomic and financial factors underpinning the monetary policy stance of the MPC. It aims to enhance public understanding of the Bank's objectives and assessment of economic conditions.

The analysis in this report pertains to the period ended April 2025, unless otherwise stated.

Enquiries on the Monetary Policy Report may be directed to the Communications Unit by email to communications@bom.mu.

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List of Acronyms

BML	Broad Money Liabilities
BoE	Bank of England
CIEA	Composite Indicator of Economic Activity
CPI	Consumer Price Index
ECB	European Central Bank
EMDEs	Emerging Market and Developing Economies
EPI	Export Price Index
FAO	Food and Agriculture Organisation
FED	US Federal Reserve
FPAS	Forecasting and Policy Analysis System
FX	Foreign Exchange
GBC	Global Business Company
GDP	Gross Domestic Product
GOIR	Gross Official International Reserves
HICP	Harmonised Index of Consumer Prices
IFC	International Financial Centre
IIP	International Investment Position
IMF	International Monetary Fund
IPI	Import Price Index
MERI	Mauritius Exchange Rate Index
MPC	Monetary Policy Committee
OECD	Organisation for Economic Cooperation and Development
OMOs	Open Market Operations
OPEC	Organisation of the Petroleum Exporting Countries
PCE	Personal Consumption Expenditures
PLR	Prime Lending Rate
PMI	Purchasing Managers Index
Q-o-q	Quarter-on-Quarter
QPM	Quarterly Projection Model
SDR	Savings Deposit Rate
SSB	Ship's Stores and Bunkers
WEO	World Economic Outlook
WRI	Wage Rate Index
Y-o-y	Year-on-year

Executive Summary

Monetary Policy Decision

At its May 2025 meeting, the Monetary Policy Committee (MPC) kept the Key Rate unchanged at 4.50 per cent per annum. Global growth has slowed and leading indicators are pointing towards weaker momentum going forward. The global economic outlook is clouded by elevated uncertainties. Multilateral institutions have revised their global growth forecasts for 2025 downwards. The International Monetary Fund (IMF), in its April 2025 World Economic Outlook, has revised down global growth by 0.5 percentage point to 2.8 per cent for 2025, against a backdrop of tariff-induced trade tensions. Economic activity in both advanced and emerging economies is anticipated to grow at lower rates compared to the January 2025 forecast.

Global inflation has continued to decline so far in 2025, although inflation remains above central banks' targets in some advanced economies. However, the imposition of tariffs and uncertainty surrounding the pace, timing and magnitude of any potential tariff wars, may have contrasting effects on inflation in 2025. On one hand, higher tariffs and supply chain disruptions may feed into higher import prices and trigger inflationary pressures for importing economies. On the other hand, slower growth, especially among advanced and emerging economies, may compress demand and lower inflation for importing economies. The net impact will largely depend on country-specific circumstances. According to the IMF, global inflation is projected to average 4.3 per cent in 2025, slightly higher compared to the January 2025 forecast.

Regarding the domestic economy, data available so far suggest that GDP growth has slowed in the first quarter of this year. Tourist arrivals, which decreased in the first quarter, recovered subsequently and rose by 2.1 per cent in the first half of 2025 compared to the same period in 2024. The IMF's downward revision to the growth outlook for some of the major trading partners of Mauritius could negatively impact domestic growth momentum for 2025, mainly through the trade channel. Accordingly, the Bank has revised down its growth projection for 2025. Real GDP growth is now more likely to be in the range of 3.0 to 3.5 per cent for 2025, compared to the previous forecast of 3.5 to 4.0 per cent. With global uncertainty and imposition of US tariffs, the country's export sector could face additional headwinds, with growth prospects being further tilted on the downside.

Headline inflation maintained a downward trend up to March 2025, and increased modestly thereafter, primarily reflecting the impact of budgetary measures implemented to increase Government revenue and reduce the fiscal deficit. The Bank projects headline inflation to increase in the coming months and to close the year at around 4 per cent. This projection is slightly higher than the previous forecast of 3.5 per cent made at the May 2025 MPC meeting. The future course of inflation in Mauritius will depend on the interplay of external and domestic factors. Inflation in 2025 could rise above expectations, with the tariff-induced imported price increases and the stickiness of services inflation due to wage increases. However, this may be mitigated by declining commodity prices due to lower global demand.

Since November 2024, the Bank has implemented several measures aimed at eliminating distortions in the domestic foreign exchange market that have been prevailing for some time, enhancing market liquidity and alleviating pressures on the rupee exchange rate. These measures have paid dividend on several fronts. Firstly, yield differentials between Government of Mauritius Treasury Bills/Bank of Mauritius Bills and US yields in both 3-month and 12-month maturities became favourable, improving foreign exchange market conditions. Secondly, volume of both FX flows in the market and swap transactions surged, exceeding pre-pandemic levels. Additionally, the rupee has appreciated in both nominal and real terms.

While recognising that downside risks to the domestic growth outlook are significant due to heightened uncertainty regarding future tariff hikes and trade wars, the MPC also acknowledged that inflation in Mauritius may change direction and take an upward trajectory in 2025.

Monetary Policy Decision: May 2025 Meeting

Key Rate **unchanged** at 4.50% p.a.

Global growth: The IMF and OECD have revised down their growth forecasts for 2025, amid elevated uncertainties.

Global inflation: Inflation remains above central banks' targets in some advanced economies. IMF revised its 2025 global inflation forecast upward.

Domestic growth: The Bank has revised down its growth projection for 2025, to a range of 3.0%-3.5% for 2025.

Domestic inflation: The Bank projects headline inflation to increase in the coming months and to close the year at around 4%.

1. International Economic Developments

Global economic activity across both advanced economies and emerging market and developing economies (EMDEs) followed divergent paths in 2025Q1. The economic outlook remains clouded by uncertainties arising from the trade war between the US and its trading partners, its potential spillovers to the global economy, as well as geopolitical developments. Against this background, the global disinflationary process remains broadly on course, though at a slower pace for some advanced economies. The monetary easing cycle is likely to persist in 2025, but will likely be softer than initially expected as central banks are turning more cautious in light of global inflation concerns.

1.1 Impact of tariffs

The tariff measures announced by the US, retaliatory tariffs on the US by affected countries, as well as frequent revisions to the announced tariff rates, have clouded the global financial and economic outlook (See Annex 1 for a timeline on tariffs). Economic uncertainty initially reached historic highs while consumer confidence plummeted in the US, and inflation expectations soared (Panel Chart 1). However, financial markets recovered following the announcement of a 90-day pause on reciprocal US tariffs on 9 April, de-escalation of the US-China stand-off, and news of bilateral trade negotiations. They have remained jittery although developments since the end of the 90-day pause, including bilateral trade agreements between the US and some countries, have contributed to contain financial markets volatility.

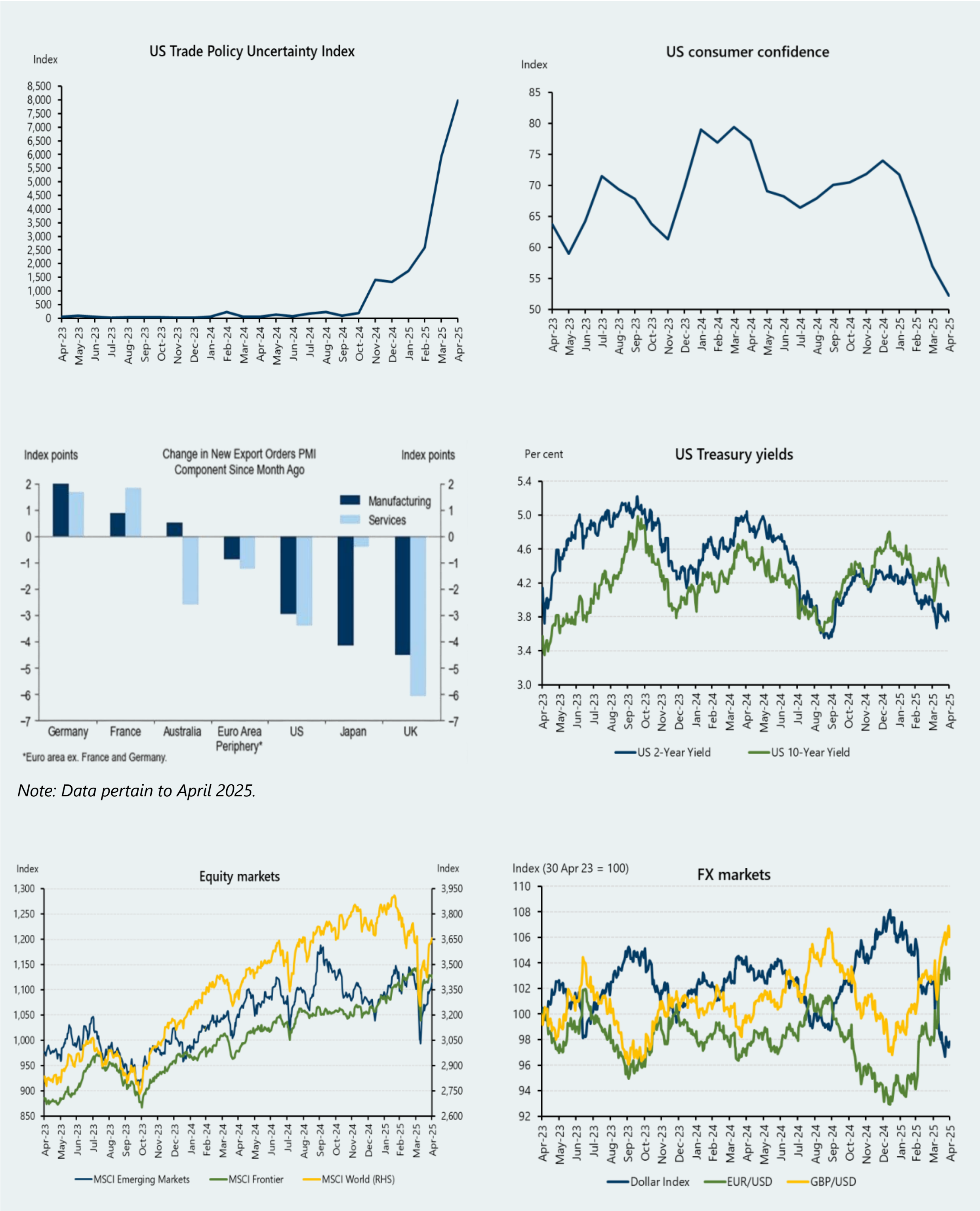
Equity and foreign exchange (FX) markets were initially significantly impacted by the US trade tariff developments. The long-lasting positive momentum in equities, largely driven by tech-stocks linked with artificial intelligence, which had already started to reverse course in February 2025, sharply decelerated in March and early April before recovering as trade tensions eased. Tech stocks performed robustly in 2025Q2, with the technology sector gaining more than 20 per cent. The US dollar took a major hit against the euro, yen, Pound sterling and a host of other currencies as investor confidence tumbled amid growth concerns and higher inflation expectations. On a trade-weighted basis, the US dollar has fallen by roughly 10 per cent this year, trading near a three-year low. Expectations are for continued dollar weakness against the backdrop of ongoing trade-related uncertainties, anticipated growth slowdown, and rising US fiscal debt.

1.2 Global growth developments

The impact of tariffs on regional and individual economies is complex to assess due to the possibility of both positive and negative spillovers. In addition to financial market links, spillovers could occur through some of the channels outlined below:

(i) *Lower growth in US and China with adverse impact on other countries.* Lower output and incomes would reduce their demand for imports from other countries;

Panel Chart 1: Impact of tariff announcement



Note: Data pertain to April 2025.

Sources: Economic Policy Uncertainty, University of Michigan Survey of Consumers, Goldman Sachs Investment Research, and Refinitiv.

(ii) *Lower commodity prices.* Weaker growth in the US and China could also weigh on the demand for commodities, leading to lower prices. This could lead to a positive terms-of-trade shock for commodity importers and a negative terms-of-trade shock for commodity exporters;

(iii) *Trade and investment diversion.* The tariffs could shift trade and investment flows away from current patterns as country competitiveness and attractiveness change; and

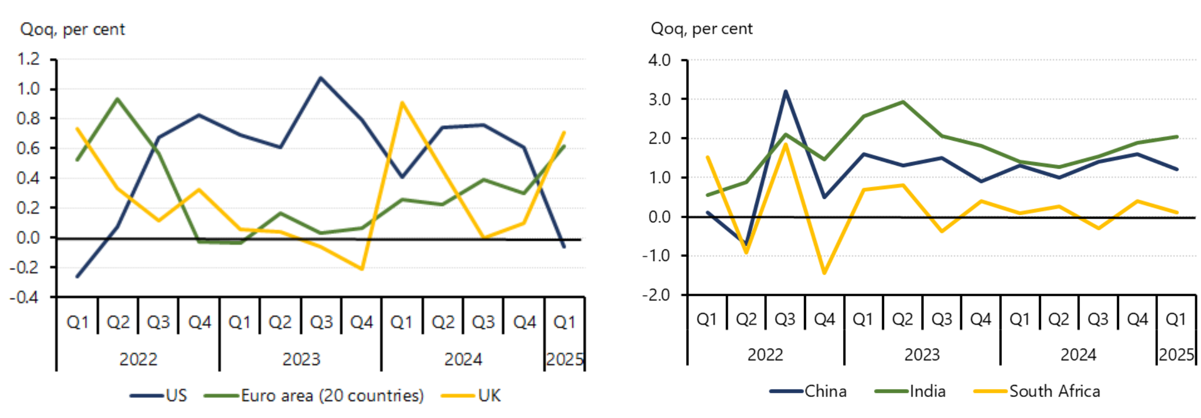
(iv) *Higher prices along global value chains.* Prices of goods at different stages of production in the US and China or rely on US and Chinese value chains could rise.

So far, tariff-related uncertainty is expected to be negative for global growth. Tightening financing conditions and a drop in commodity prices could also pressure EMDEs.

Global economic activity moderated in 2025Q1, with key economies becoming increasingly fragmented and grappling with mixed challenges (Chart 1.1). In the US, GDP shrank by 0.1 per cent on a quarter-on-quarter (q-o-q) basis, primarily as a result of an increase in imports due to frontloading ahead of tariffs, slowdown in consumer spending and contraction in government expenditure, that were partly counterbalanced by growth in investment and exports. In the euro area, GDP rose by 0.6 per cent q-o-q in 2025Q1, as exports surged ahead of the implementation of trade tariffs by the US. The UK economy grew by 0.7 per cent q-o-q in 2025Q1, recovering from anaemic growth of 0.1 per cent q-o-q in the previous quarter, buoyed by stronger exports and expansion in its manufacturing and services sectors.

In EMDEs, economic activity exhibited mixed patterns in 2025Q1. China's growth moderated to 1.2 per cent, q-o-q, supported by expansionary fiscal and monetary policy as well as rapid export growth. Nonetheless, the real estate sector remained a drag on the economy. India's economy maintained its robust growth momentum at 2.0 per cent q-o-q, upheld by strong domestic demand, infrastructure development, and policy support measures to boost domestic production. In South Africa, GDP growth fell to 0.1 per cent q-o-q as weak investment and global uncertainties continued to weigh on confidence and output.

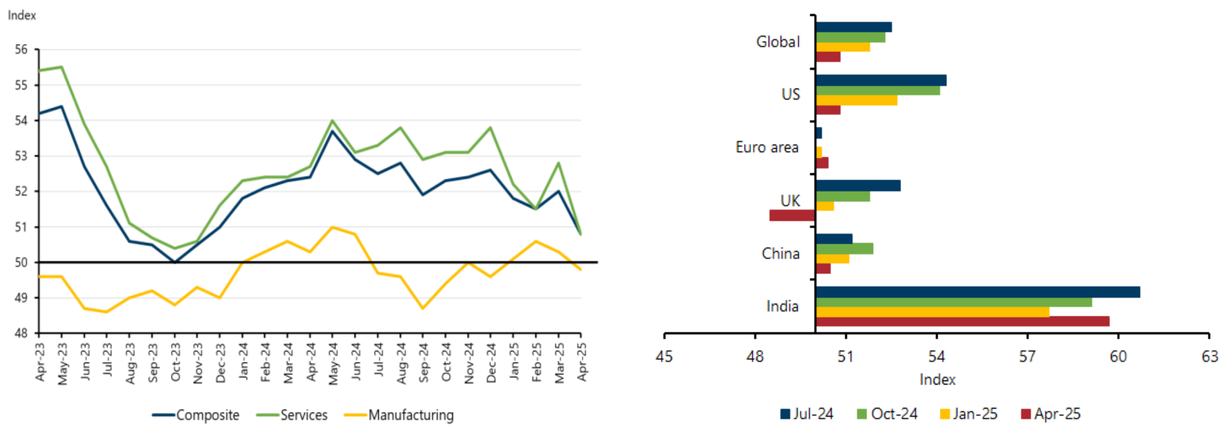
Chart 1.1: Quarterly GDP growth of selected economies



Source: OECD.

The J.P. Morgan Global Composite PMI Output Index, a leading indicator of economic activity, fell markedly in April 2025 (Chart 1.2). The decline was mostly driven by the contraction in new export orders for both the manufacturing and services sectors. Moreover, business confidence slumped in April as trade volatility surged. Country-wise data signalled that the slowdown was broad-based, with weaker expansions in US and China and contraction in UK activity.

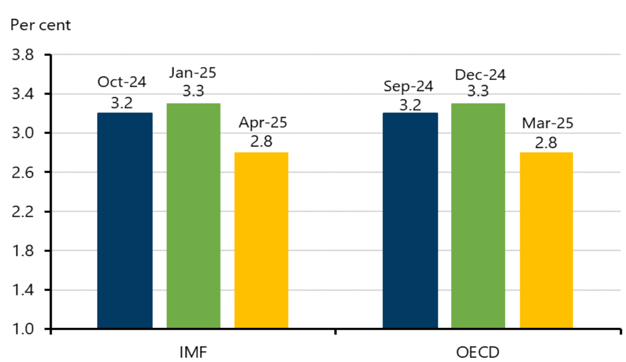
Chart 1.2: J.P. Morgan Global Composite PMI Output Index



Sources: J.P. Morgan and S&P Global.

In its April 2025 World Economic Outlook, the IMF revised down its global growth forecast for 2025 from 3.3 per cent to 2.8 per cent, 0.5 percentage point (pp) lower compared to its January 2025 projections (Chart 1.3). 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 EMDEs are anticipated to expand by 3.7 per cent, down 0.5 pp 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 did not include the new levies on China. If these policies were to be taken into account and sustained, this could slow global growth further.

Chart 1.3: Global growth projections for 2025



Sources: IMF and OECD.

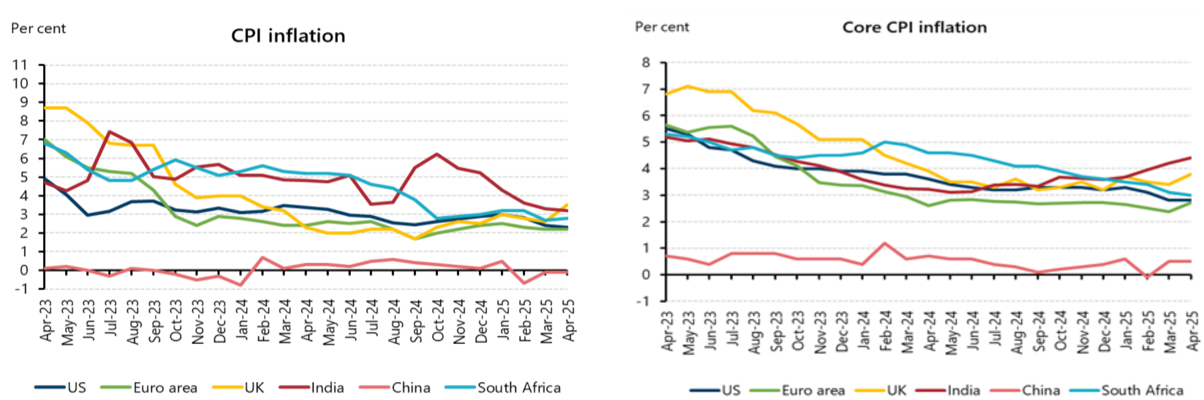
Risks to the global growth outlook are tilted to the downside. According to the IMF, escalating trade tensions, fuelled by tariff announcements and subsequent countermeasures, have significantly increased policy uncertainty. This environment of unpredictability and rising protectionism is expected to hinder both short-term and long-term growth prospects. Furthermore, tighter global financial conditions if inflation persists or regains upward momentum and heightened economic uncertainty would increase financial stability risks. The potential for further asset price corrections, strains impacting non-bank financial institutions, and turbulence in sovereign bond markets add to these downside pressures, particularly for emerging market economies facing higher financing costs.

The OECD, in its March 2025 Interim Economic Outlook, underscored a period of moderate global growth and sustained inflation, driven by escalating trade tensions and geopolitical uncertainties. The OECD forecast global growth slowing to 3.1 per cent in 2025 compared to an estimated growth of 3.3 per cent in December 2024, amid important divergences across economies and regions.

1.3 Price developments abroad

Global inflationary pressures have subsided modestly on favourable developments in commodity prices. While inflation in the US was on an upward path in 2024Q4, it declined steadily in April 2025 on easing fuel prices and stable food prices (Chart 1.4). In the Euro area, inflation remained stable at 2.2 per cent in April 2025 compared to the previous month, with the largest contribution stemming from services, followed by food, alcohol and tobacco. However, inflation in the UK accelerated to 3.5 per cent in April, from 2.6 per cent in March, reflecting a rise in air fares over the Easter holidays. China remained in deflation for the third consecutive month on the back of a drop in food prices. Inflation in India and South Africa were broadly unchanged. Core inflation measures picked up in some countries on account of still-elevated services inflation alongside tight labour market conditions.

Chart 1.4: Annual and core inflation of selected economies



Sources: OECD, Refinitiv and country statistical offices' websites.

The IMF expects global headline inflation to decline at a pace that is slightly slower than what was projected in its January 2025 WEO Update, reaching 4.3 per cent in 2025 and 3.6 per cent in 2026. Notable upward revisions are projected for advanced economies, with inflation forecast at 2.5 per cent in 2025 compared to 2.1 per cent projected in January. However, inflation in EMDEs has been revised marginally down and is expected to reach 5.5 per cent in 2025 compared to 5.6 per cent in the previous projection.

Risks to the inflation outlook are skewed to the upside. Intensifying geopolitical tensions, particularly the escalating trade tensions and policy-induced uncertainty, could further disrupt global supply chains, leading to higher import prices and ultimately feeding into domestic inflation. A resurgence of commodity price shocks, whether due to geopolitical events or unexpected supply constraints, also poses a significant upside risk to inflation. 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, embedding inflation more persistently.

1.4 Global commodity prices

Global food prices have edged up. 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 128.3 in April 2025, up 1.0 per cent from March and 7.6 per cent from April 2024 (Chart 1.5). The increase in the index was mainly driven by higher prices of cereals, meat and dairy products, which outweighed declines in prices of sugar and vegetable oils. The World Bank, in its April 2025 Commodities Market Outlook, forecast food prices to decline by 7 per cent in 2025, on account of ample grain supplies and easing of rice export restrictions from India.

Chart 1.5: FAO Food Price Index

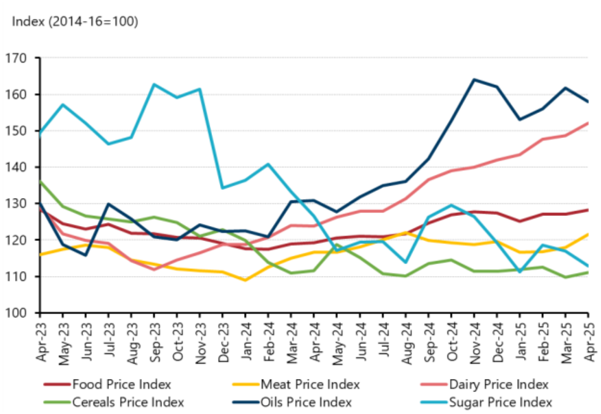
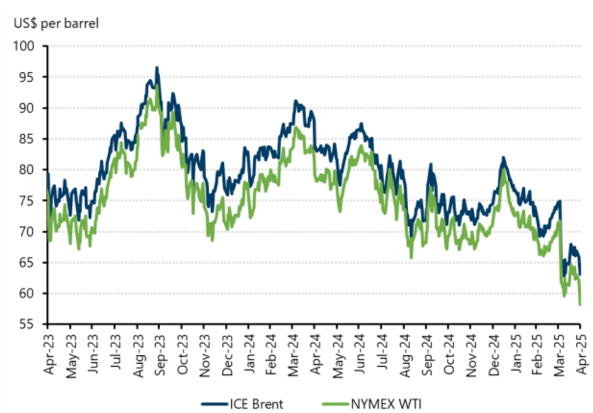


Chart 1.6: Crude oil prices



Sources: FAO and Refinitiv.

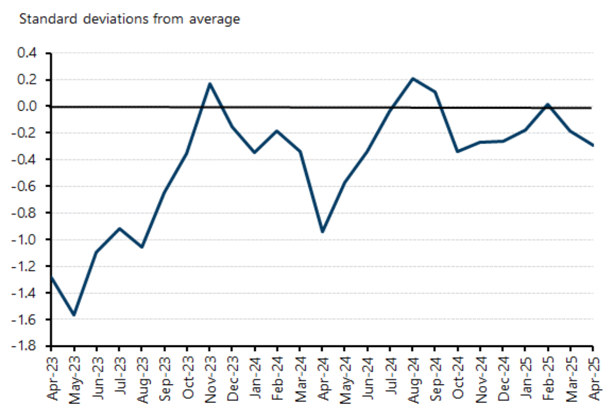
Crude oil prices fell sharply in April 2025 as oil market participants assessed announcements that the US would impose new tariffs and OPEC+ would accelerate production increases (Chart 1.6). The US Energy Information Administration's Short-Term Energy Outlook of May 2025 has reduced its forecast for crude oil prices by US$2 per barrel for both 2025 and 2026 compared to its April projections due to a build-up in inventories amidst a combination of lower oil demand and increased supply growth from both OPEC+ countries and other producers. Hence, crude oil prices are expected to average US$66 per barrel in 2025 and US$59 per barrel in 2026.

The Freightos Baltic Index, a measure of freight costs, maintained a downward trend amid normalising cost of procuring containers for imports into the US and the waning impact of the Red Sea conflict on shipping times and costs. The index, which was at 4,337 on 9 January 2025, plummeted by 55 per cent to 1,966 on 30 April 2025. Going forward, importers are expected to diversify sourcing partners as trade barriers increase (Chart 1.7).

The Global Supply Chain Pressure Index, a measure for supply chain disruptions that encompasses global transportation cost and manufacturing indicators, has eased, partly reflecting the 90-day pause on reciprocal tariffs imposed on most countries, barring China (Chart 1.8). Nevertheless, continued disturbances in global trading networks may potentially amplify supply chain rigidities.

Chart 1.7: Freightos Baltic Global Container Index

Chart 1.8: Global Supply Chain Pressure Index



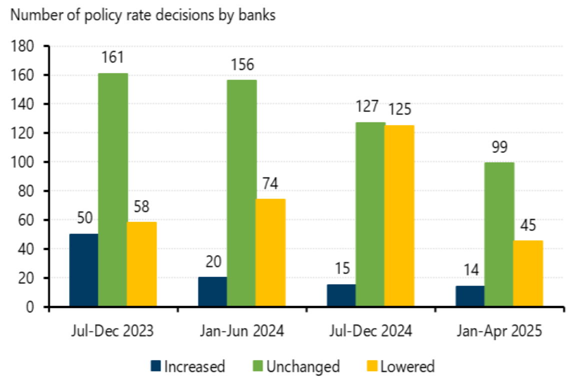
FEU denotes forty-foot equivalent unit.
Sources: Federal Reserve Bank of New York and Refinitiv.

1.5 Global monetary policy

The global monetary easing cycle continues, but at a slower pace as central banks are turning more cautious in light of global uncertainty. Since the beginning of 2025, more central bank decisions were geared towards maintaining interest rates unchanged, while a few have cut interest rates on favourable progress on inflation. Out of 158 MPC decisions taken globally, 45 decisions were about cutting rates and 99 decisions have been to maintain the status quo, as opposed to 14 decisions to raise rates (Panel Chart 2).

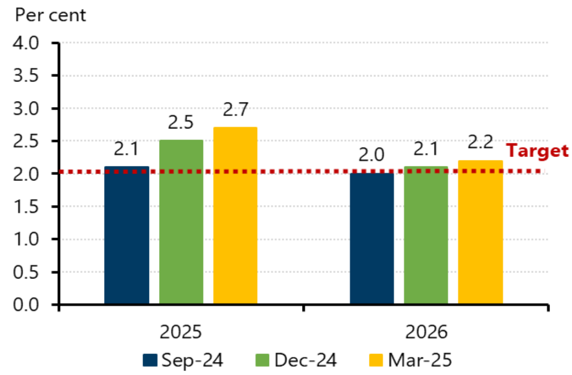
Panel Chart 2: Policy rates and inflation forecasts of major central banks

Change in policy rates



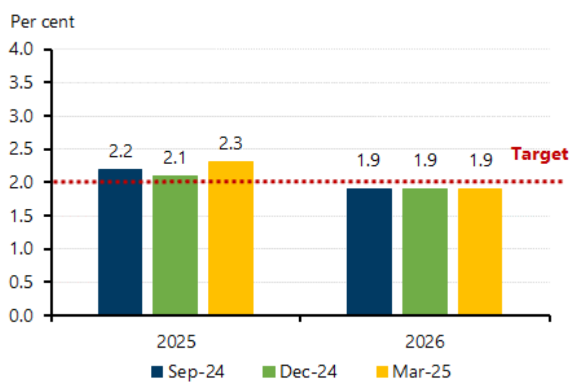
Note: Data for 2025 pertain to the first four months of the year, while previous data refer to six-month periods.

Inflation forecast: US Fed[1]



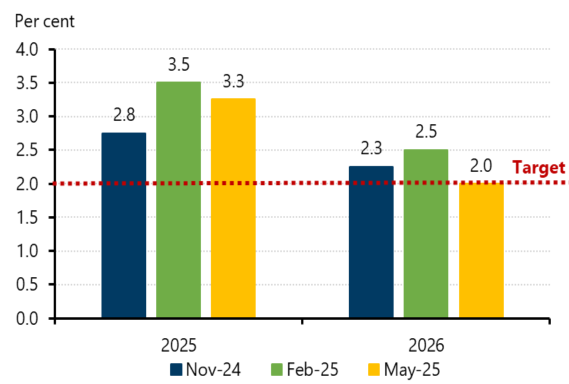
[1] PCE inflation.

Inflation forecast: European Central Bank[2]

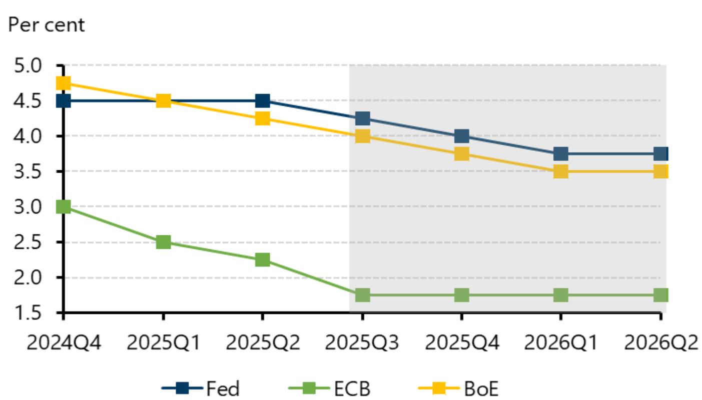


[2] HICP inflation.

Inflation forecast: Bank of England



Expected policy rate path



Sources: Central banks' websites and Refinitiv polls as at May 2025.

The US Fed held interest rate steady at its meeting in May 2025, citing that uncertainty about the economic outlook has increased and that the risks of higher unemployment and higher inflation have risen. The European Central Bank (ECB) lowered its policy rate by 25 basis points (bps) in April 2025, reflecting the ECB's updated assessment of the inflation and growth outlook. The Bank of England (BoE) cut its Bank rate by 25 bps at its May 2025 meeting as disinflation progressed and tight policy helped anchor inflation expectations. While the Fed and ECB have revised upward their inflation forecasts for 2025, the BoE has downgraded its forecast at its May 2025 meeting.

According to the May 2025 Refinitiv polls, the US Fed is expected to start lowering interest rates as from 2025Q3, with a total of 75 bps cut until 2026Q1. The ECB, on its part, is expected to cut interest rates by an additional 50 bps in 2025Q3 and to remain steady until 2026Q2. The BoE is expected to continue its monetary easing cycle, with an additional 75 bps cut by 2026Q2.

2. Domestic Economic Developments

The domestic economic growth momentum eased in 2025Q1, with contractions in the 'Construction' and 'Accommodation and food service activities' sectors. The labour market has remained buoyant. Domestic inflation maintained a downward trajectory in April 2025, supported by subdued international commodity prices and statistical base effects. The current account deficit widened in 2024, reflecting a higher trade deficit partly offset by a rise in the surplus in the services account stemming from robust tourism earnings.

2.1 Economic activity

In its March 2025 national accounts release, Statistics Mauritius revised down GDP growth rate for 2024 to 4.7 per cent, from the previous estimate of 5.1 per cent, and thereafter raised it to 4.9 per cent in the June 2025 release. The '*Construction*' and '*Accommodation and food service activities*' sectors were the most affected by the revisions, reflecting updates on construction projects and tourist arrivals, respectively.

Latest year-on-year (y-o-y) quarterly data pointed to a slowdown in growth to 4.2 per cent in 2025Q1, from 5.2 per cent, both in the previous quarter and 2024Q1 (Chart 2.1). On the production side, the momentum in the services sector was sustained and continued to support economic activity (Chart 2.2). On the demand side, consumption expenditure remained the main driver of growth.

Chart 2.1: Real GDP growth

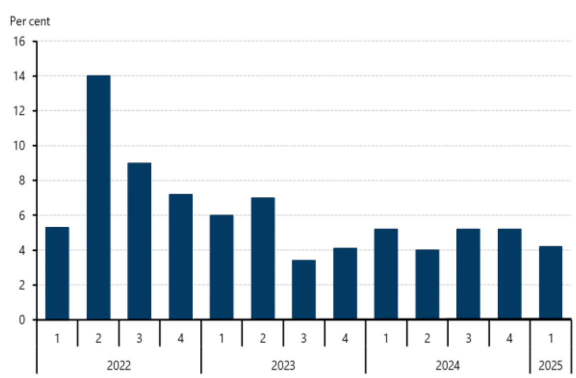
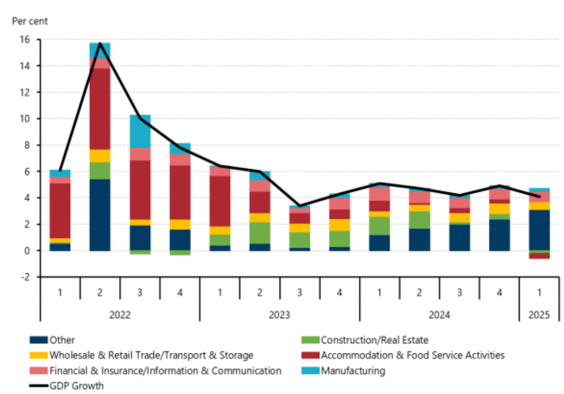


Chart 2.2: Sectoral contribution to growth



Source: Statistics Mauritius.

While the construction sector grew by 6.3 per cent in 2024Q4 compared to 2.0 per cent in 2024Q3, reflecting the public sector's investment push prior to the general elections, it posted a contraction of 4.3 per cent in 2025Q1. The *'Financial and insurance activities'*, *'Information and communication'*, and *'Transportation and storage'* sectors recorded growth ranging between 4.2 per cent and 5.2 per cent in 2025Q1. In parallel, higher activity was recorded in the '*Wholesale and retail trade*' sector, with growth of 3.1 per cent. '*Manufacturing*' expanded at a higher rate of 1.8 per cent compared to 1.4 per cent in 2024Q4, supported by lower contraction in *'sugar'* and marginal expansion of 0.1 per cent in *'textile'*.

The '*Agriculture, forestry and fishing*' and '*Public administration and defence*' sectors grew markedly by 21.9 per cent and 15.5 per cent, respectively, in 2025Q1, with both sectors contributing around 1 percentage point each to growth. The '*Accommodation and food service activities*' sector contracted by 4.4 per cent in 2025Q1.

Mauritius welcomed 658,909 tourists during the first half of 2025, a growth of 2.1 per cent relative to the same period in 2024 (Panel Chart 3). Arrivals from Europe edged down by 0.1 per cent, with France and Germany, the main source markets for Mauritius, recording the highest decline in arrivals. This decrease was offset by a notable increase in arrivals from India. According to tourism sector operators, the decline from European markets could primarily be due to the challenging economic situation prevailing in Europe, the decrease in number of flights, as well as high air ticket prices. The average length of stay was slightly lower, at 11.3 nights in 2025H1, compared to 11.6 nights in 2024H1, albeit remaining above pre-pandemic levels. Tourism earnings totalled Rs40.4 billion for the period January to May 2025, higher by 4.0 per cent compared to the same period last year. Large hotels have reported satisfactory bookings for 2025Q3, auguring well for tourist arrivals. For 2025, Statistics Mauritius expects around the same number of tourist arrivals as in 2024.

Panel Chart 3: Tourism indicators

Source: Statistics Mauritius.

On the demand side, growth in 2025Q1 was supported by sustained expansion of 4.7 per cent in consumption expenditure, led by growth of 2.5 per cent in household spending and 14.2 per cent in government spending. On the downside, investment expenditure, measured by Gross Fixed Capital

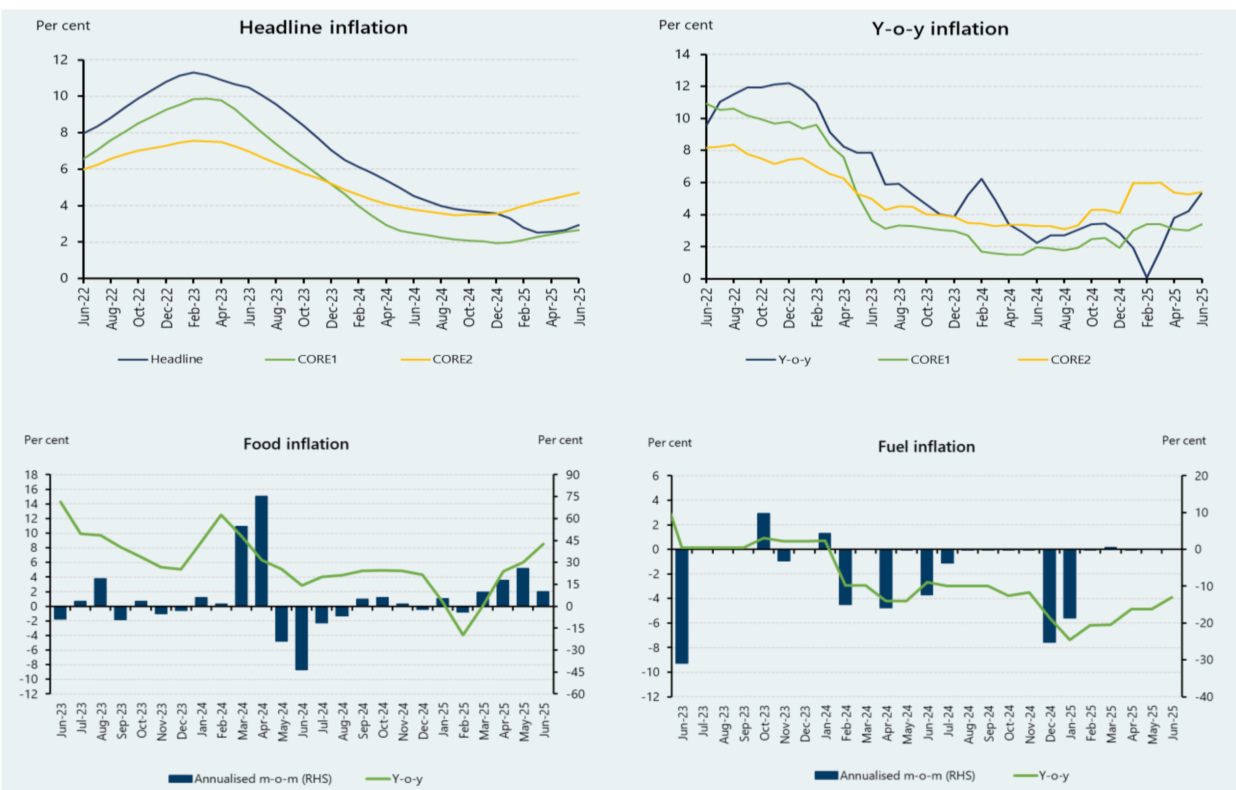
Formation, contracted by 7.1 per cent due to negative growth in both '*Building and construction work*' and '*Machinery and equipment*'. Apart from Passenger car, which grew by 2.0 per cent, all their sub-components recorded negative performances.

On the external front, net exports of goods and services dragged down growth in 2025Q1. Exports of goods and services expanded by 2.2 per cent, with higher exports of goods offsetting the contraction in the exports of services due to the relatively subdued performance of the tourism industry during the first quarter. Imports of goods and services rose by 7.3 per cent over the same period, reflecting higher domestic consumption amidst rising household income.

2.2 Price developments

Headline inflation in Mauritius subsided to 2.5 per cent in March 2025 – well within the medium-term target range of 2-5 per cent – from 3.6 per cent in December 2024. Subsequently, headline inflation edged up to 2.9 per cent in June 2025, largely reflecting the impact of budgetary measures implemented to increase Government revenue and reduce the fiscal deficit. Y-o-y inflation declined from 2.9 per cent in December 2024 to a low of 0.1 per cent in February 2025 – partly reflecting base effects from the surge in food prices that occurred a year ago due to adverse weather conditions – before rising to 5.4 per cent in June 2025 (Panel Chart 4).

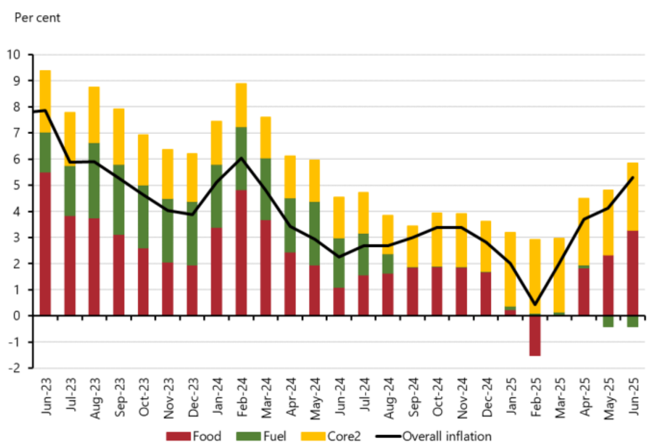
Panel Chart 4: Headline and y-o-y inflation



Sources: Statistics Mauritius and Bank of Mauritius calculations.

Y-o-y food inflation picked up in June 2025 after moving into negative territory in February 2025 as base effects and the impact of budgetary measures kicked in. Annualised month-on-month (m-o-m) dynamics, which were increasingly positive until May 2025, declined in June, suggesting that food inflation could eventually contribute less to future overall inflation. Fuel remained deflationary due to reductions in the prices of domestic petroleum products, namely mogas and diesel oil during 2024 (Chart 2.3).

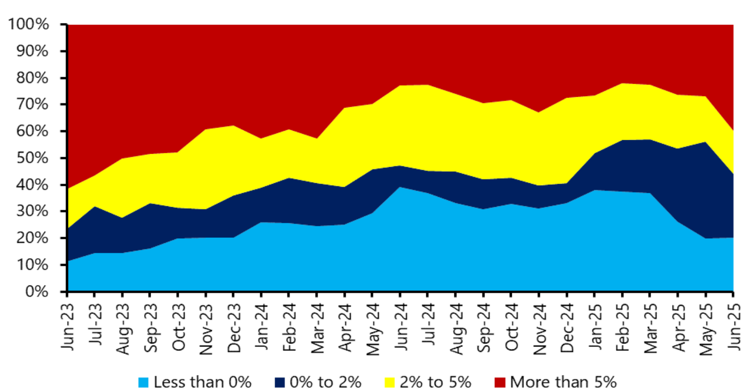
Chart 2.3: Y-o-y inflation decomposition



Sources: Statistics Mauritius and Bank of Mauritius calculations.

Further analysis of the CPI basket reveals that the share of pro-inflationary items has increased (Chart 2.4). The proportion of CPI items contributing to above-target inflation rates of more than 5 per cent rose from 26.6 per cent in January 2025 to around 40 per cent in June 2025. Meanwhile, the proportion of items exhibiting below target inflation rates (less than 2 per cent) declined to about 44.7 per cent in June 2025, from around 52 per cent in January 2025. The proportion of items contributing to between 2-5 per cent inflation rates was down from 21.4 per cent to 15.9 per cent over the same period.

Chart 2.4: Breakdown of CPI basket by inflation rate



Sources: Statistics Mauritius and Bank of Mauritius calculations.

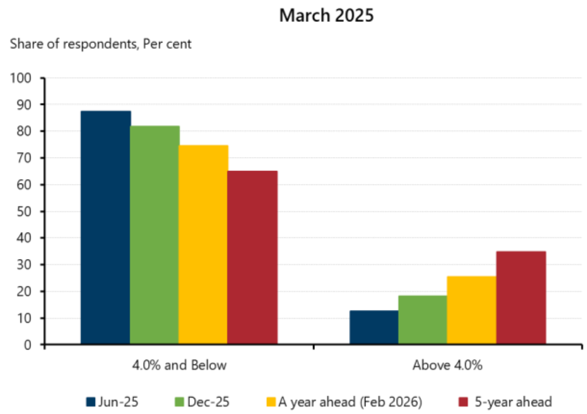
A comparison of other measures of headline inflation shows that both imported and domestically-generated inflation as well as goods and services inflation have been slowly rising (Panel Chart 5). Domestically-generated inflation is relatively elevated compared to the imported counterpart, partly reflecting sticky services inflation.

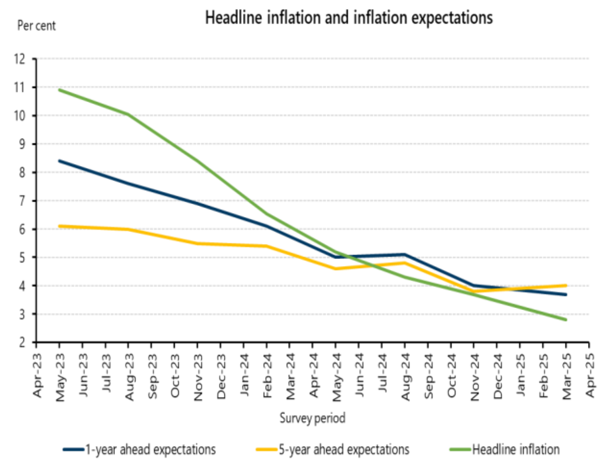
Panel Chart 5: Other measures of inflation

Sources: Statistics Mauritius and Bank of Mauritius calculations.

The survey of inflation expectations conducted in March 2025 indicated that inflation remained within the Bank's target range. Short-term inflation expectations continued to exhibit a downward bias. Compared to the previous survey conducted in November 2024, inflation expectations for June 2025 were revised down by 60 bps to 3.4 per cent and for one-year ahead, were down by 30 bps to 3.7 per cent. The five-year ahead inflation expectations were also at around 4.0 per cent compared to 3.8 per cent in the previous survey (Chart 2.5).

Chart 2.5: Inflation Expectations Survey





Source: Bank of Mauritius.

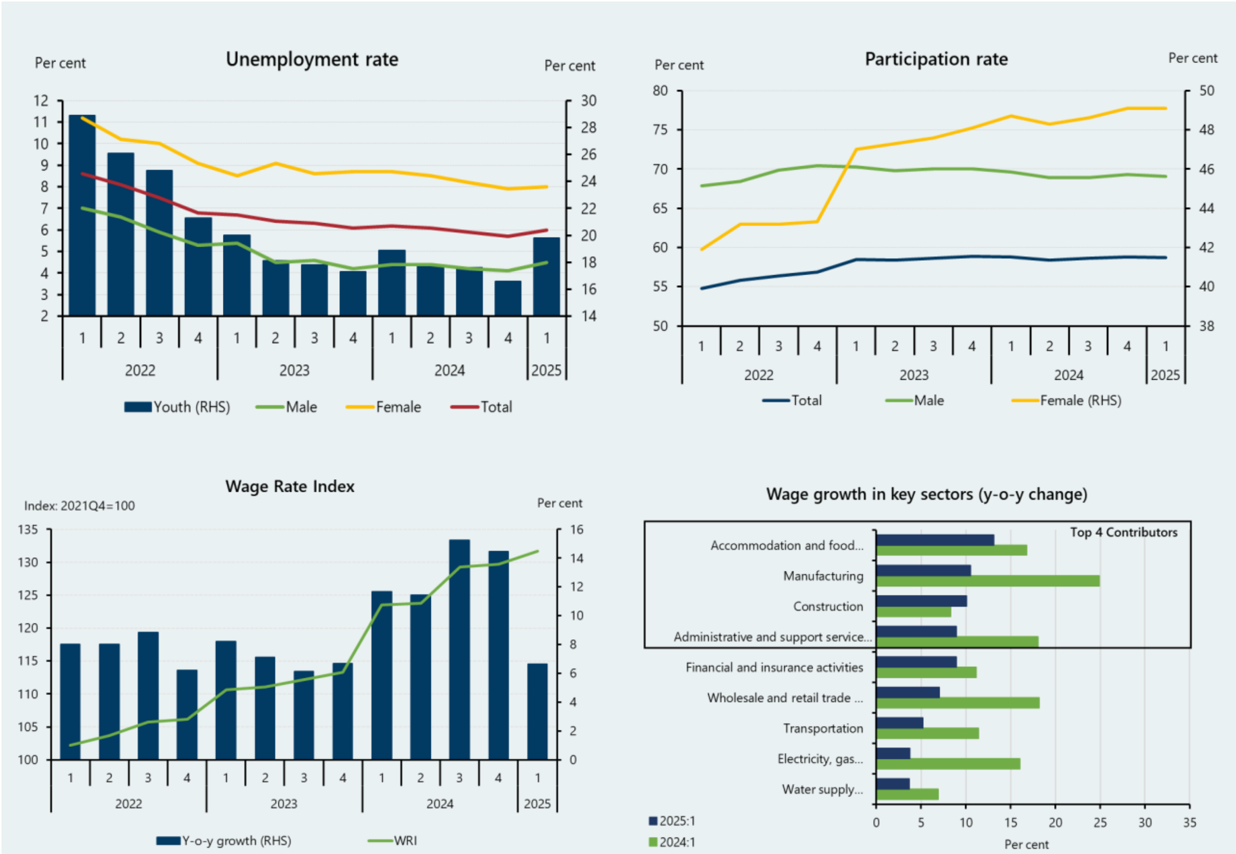
2.3 Labour market developments

Labour market conditions remained stable in 2025Q1. The unemployment rate increased from 5.7 per cent in 2024Q4 to 6.0 per cent in 2025Q1. Employment rose by 1,000 compared to 2024Q1, while the labour force dropped by 100, thereby leading to a decrease in the number of unemployed by 1,100. The female and youth unemployment rates stood at 8.0 per cent and 19.8 per cent, respectively (Panel Chart 6).

The Wage Rate Index (WRI), which provides an indication of the cost of labour in the economy, remained on an uptrend in 2025Q1, supported by the cost-of-living allowances provided to targeted employees. The WRI increased from 129.7 in 2024Q4 to 131.7 in 2025Q1. In y-o-y terms, wage pressures moderated, as evidenced by a lower wage growth of 6.6 per cent compared to double-digit growth stemming from upward revisions to the national minimum wage, wage relativity adjustments, interim PRB allowances as well as payment of the 14th month salary bonus, recorded in 2024.

Wage growth has been relatively broad-based, with main sectors facing increases in the range of 5-14 per cent. In y-o-y terms, the WRI rose by around 13 per cent in the '*Agriculture, forestry and fishing*' and '*Accommodation and food service activities*' sectors. Wages in the private sector and public sector increased by 8.3 per cent and 3.7 per cent, respectively, over the same period. Real wage growth also moderated to 5.4 per cent in 2025Q1, from 10.3 per cent in 2024Q4 on account of lower nominal wage increases and stable inflation. Without concomitant increases in productivity, the rise in labour cost has been a major challenge that companies across all sectors had to deal with.

Panel Chart 6: Labour market indicators



Source: Statistics Mauritius.

2.4 The external sector

The current account deficit widened to Rs48.8 billion in 2024 (7.0 per cent of GDP), from Rs32.6 billion in 2023 (5.0 per cent of GDP), primarily due to a higher trade deficit. The strong performance of the tourism sector that contributed to the surplus in the services account helped to offset, to some extent, the rise in the trade deficit.

The goods account deficit worsened to Rs184.7 billion in 2024, from Rs162.9 billion in 2023. Total exports of goods rose by 5.8 per cent to Rs110.0 billion, mostly on account of a significant rise of 45.7 per cent in '*Ship's stores and bunkers*' (SSB) (Panel Chart 7). This segment of activity benefitted from higher demand for bunkering services as a result of the re-routing of ships through the Mauritian port following heightened tensions in the Middle East. Having three of the largest global bunkering companies offering their services in the port also significantly helped the development of this activity, which has favourable prospects given the strategic geographical position of Mauritius.

Panel Chart 7: Goods account developments (2024 vs 2023)

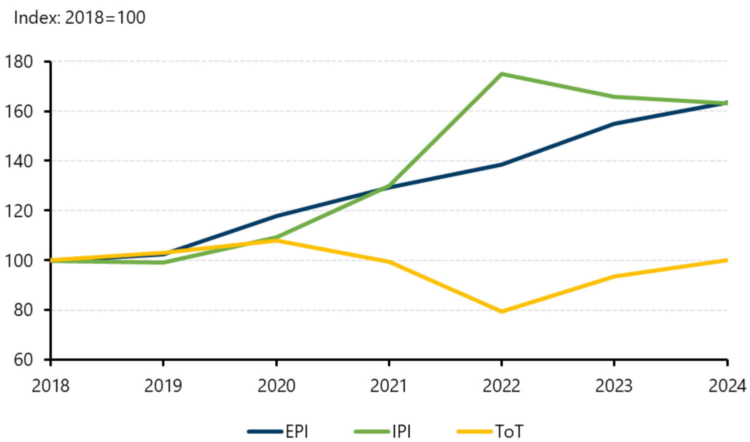
Excluding SSB, exports of goods dropped by 3.7 per cent to Rs80.6 billion, driven mostly by lower exports of '*Articles of apparel & clothing accessories*'. The decline in textile exports is a direct consequence of the delocalisation of companies due to loss of domestic competitiveness. There are opportunities for the industry that has significantly diversified during the past decade, shifted into new sectors such as medical devices and biomedicals, and migrated towards more capital-intensive operations. However, reciprocal US tariffs – whether at 10 per cent or 40 per cent – and uncertainty regarding the renewal of the African Growth and Opportunity Act are major headwinds. These developments could further affect the competitiveness of the country.

In other manufacturing segments, lower demand for '*Pearls, precious & semi-precious stones*' due to competition from lab-grown diamonds has also negatively impacted exports. '*Fish and fish preparations*', which make up about 25 per cent of the export sector, continue to face challenges with regard to fishing quotas and strict regulations from importing countries.

Imports of goods (f.o.b.) rose by 10.5 per cent to Rs294.7 billion, mostly attributable to the significant rise in imports of '*Mineral fuels, lubricants & related products*'. The latter largely reflected the increase in bunkering activity. Imports of '*Machinery and transport equipment*' also increased markedly, driven by higher imports of road vehicles.

The terms of trade index improved by 7.1 per cent y-o-y to 100.2 in 2024 as export prices rose by 5.4 per cent, while import prices declined by 1.6 per cent (Chart 2.6). The Export Price Index (EPI) increased mainly on account of higher prices of '*Food and live animals*' (+6.5%) and '*Miscellaneous manufactured articles*' (+5.0%). The fall in the Import Price Index (IPI) reflected lower import prices of '*Mineral fuels, lubricants and related products*' (-5.1%) and '*Food and live animals*' (-2.0%). Adjusted for exchange rates, the EPI rose by 2.6 per cent, while the IPI dropped by 4.2 per cent in 2024 as the rupee depreciated by 2.7 per cent vis-à-vis major currencies.

Chart 2.6: Terms of Trade



Source: Statistics Mauritius.

Removing price effects from the nominal trade data shows that, in volume terms[1], excluding *'Ship's stores and bunkers'*, the exports of goods declined by 8.6 per cent, reflecting mostly lower export volume of '*Articles of apparels and clothing accessories'* (Table 1). Concurrently, import volume rose by 15.5 per cent, driven by imports of *'Mineral fuels, lubricants and related products'* (Table 2).

Table 1: Percentage change in the price and volume of exports, 2023 and 2024

	Weight	Exports (Rs million)		% change		
		2023	2024	Value	Price	Volume
Overall	**10,000**	**83,753**	**80,615**	**- 3.7**	**+ 5.4**	**- 8.6**
Food and live animals	**4,055**	**33,931**	**35,174**	**+ 3.7**	**+ 6.5**	**- 1.8**
o/w Fish & fish preparations	2,617	16,158	16,849	+ 4.3	+ 2.6	+ 3.3
Cane sugars	898	10,452	10,202	- 2.4	+ 3.3	- 3.7
Chemicals and related products, n.e.s	**554**	**4,115**	**4,449**	**+ 8.1**	**+ 5.5**	**+ 2.8**
Manufactured goods classified chiefly by material	**866**	**11,267**	**9,699**	**- 13.9**	**+ 1.2**	**- 15.0**
o/w Textile yarn, fabrics, made-up articles	866	5,234	6,448	+ 23.2	+ 1.2	+ 22.1
Miscellaneous manufactured articles	**4,525**	**25,842**	**23,712**	**- 8.2**	**+ 5.0**	**- 12.4**
o/w Articles of apparel and clothing accessories	3,869	15,581	13,682	- 12.2	+ 4.7	- 15.4

[1] *Exports and imports have been deflated by the EPI and IPI to obtain volume of exports and imports, respectively.*

Table 2: Percentage change in the price and volume of imports, 2023 and 2024

	Weight	Imports (Rs million)		% change		
		2023	2024	Value	Price	Volume
Overall	**10,000**	**283,871**	**317,802**	**+ 12.0**	**- 1.6**	**+ 15.5**
Food and live animals	**2,169**	**54,332**	**57,894**	**+ 6.6**	**- 2.0**	**+ 7.8**
Mineral fuels, lubricants and related products	**3,766**	**58,065**	**72,388**	**+ 24.7**	**- 5.1**	**+ 25.0**
o/w Refined petroleum products	3,218	50,567	63,980	+ 26.5	- 6.5	+ 28.5
Chemicals and related products, n.e.s	**717**	**24,349**	**27,657**	**+ 13.6**	**+ 6.1**	**+ 10.4**
Manufactured goods classified chiefly by material	**852**	**37,911**	**39,933**	**+ 5.3**	**+ 2.0**	**+ 2.6**
Machinery and transport equipment	**1,515**	**66,933**	**75,173**	**+ 12.3**	**+ 3.7**	**+ 9.2**
o/w Road vehicles	875	25,395	31,226	+ 23.0	+ 5.0	+ 19.6

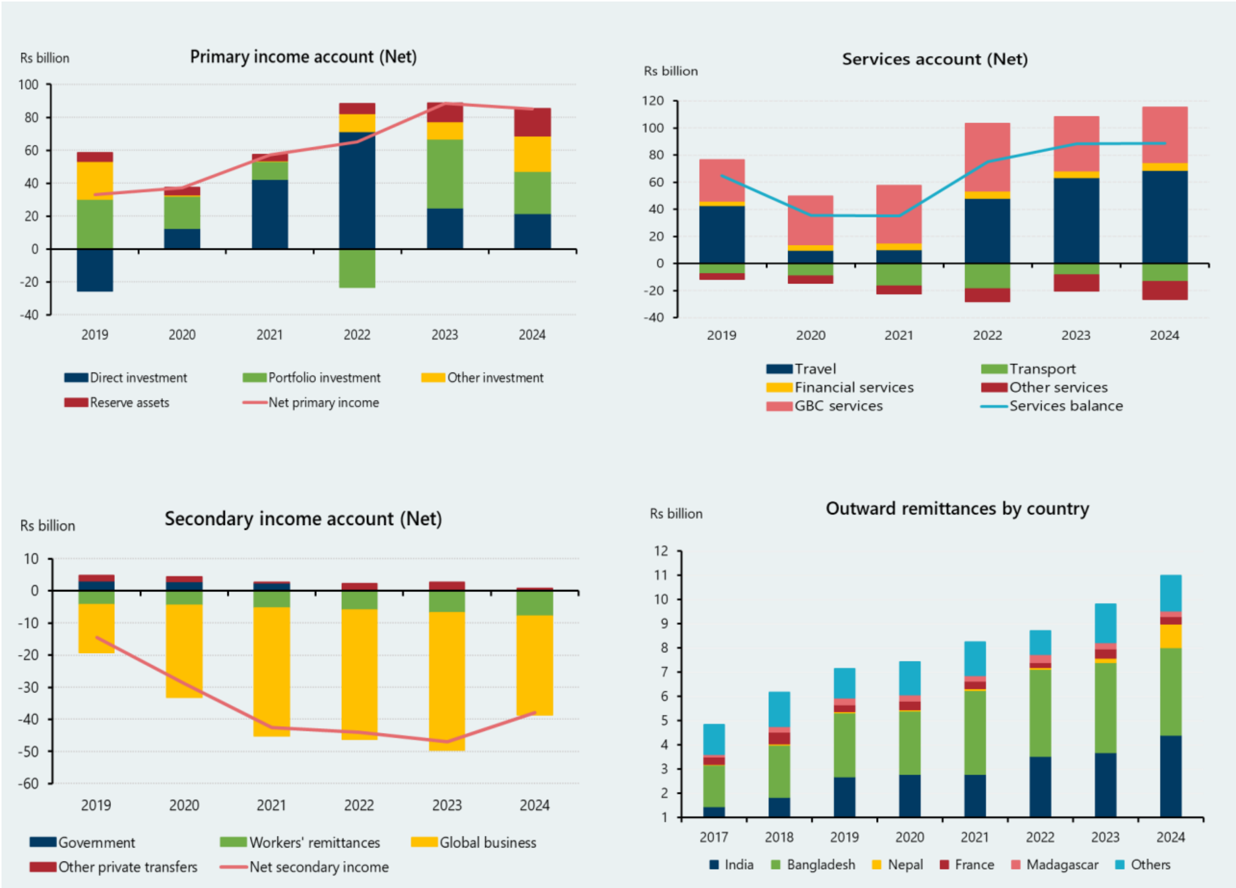
Sources: Statistics Mauritius and Bank of Mauritius calculations.

The services account, inclusive of global business company (GBC) services exports, recorded a slightly higher surplus of Rs88.9 billion in 2024, from Rs88.3 billion in 2023. Services imports rose mostly due to freight paid on imports of goods, which increased by Rs5.6 billion, and payments of Rs1.6 billion in maintenance and repair services. The dynamism in the tourism sector translated into gross tourism earnings growth of 8.8 per cent while passenger fare receipts increased by Rs1.4 billion. The imputed GBC services exports were estimated at Rs40.8 billion in 2024, while exports of financial services rose by 7.5 per cent to Rs10.7 billion.

Inclusive of GBC flows, the surplus in the primary income account reached Rs84.9 billion in 2024, benefitting from continued growth in residents' foreign assets and high global interest rates (Panel Chart 8). This surplus arose almost equally from GBC and non-GBC transactions, which amounted to Rs41.5 billion and Rs43.4 billion, respectively. The net income surplus of the non-GBC sector mainly reflected net income earned by commercial banks and interest income earned on reserve assets of the country, which rose to Rs16.5 billion, from Rs11.5 billion a year ago. The secondary income account, consisting mostly of taxes paid to foreign governments by the GBCs and outward workers' remittances, recorded a lower deficit of Rs37.9 billion in 2024.

Outward workers' remittances have been on an upward trend, reaching Rs11.0 billion in 2024, from Rs4.9 billion in 2017, reflecting the sharp rise in foreign workers employed in different sectors of the economy. The top two recipient countries remained India and Bangladesh, with around 70 per cent of total outward remittances. The Indian and Bangladeshi workers remitted Rs4.4 billion and Rs3.7 billion to their respective countries in 2024. These foreign workers were primarily employed in the manufacturing and construction sectors. Over the recent years, outward remittances to Nepal rose significantly from Rs86 million in 2022 to around Rs1.0 billion in 2024, making Nepal the third largest recipient country for outward remittances, followed by France and Madagascar.

Panel Chart 8: Services and financial accounts developments



The financial account of the balance of payments recorded net inflows to the tune of Rs46.4 billion in 2024 compared to Rs28.9 billion in 2023, mainly driven by net portfolio investment inflows on account of repatriation of banks' foreign debt securities investments and increases in GBCs' portfolio investment liabilities.

The direct investment account registered net outflows of Rs44.5 billion, mostly reflecting GBCs' equity investments abroad. The other investment account recorded net outflows of Rs4.8 billion, largely reflecting further accumulation of foreign assets by banks in terms of foreign currency deposits abroad and loans to non-residents. General Government received net disbursements of external loans amounting to Rs10.4 billion while the central bank effected net repayment of external borrowings amounting to Rs18.4 billion during the year.

The country recorded an overall balance of payments surplus of Rs50.6 billion in 2024 as against a deficit of Rs31.3 billion in 2023. Mauritius, as an International Financial Centre (IFC) of repute, attracts major cross-border flows that translate into significant holdings of foreign assets by resident entities comprising government and the broader public sector, the private sector and households. Box 1 elaborates on the stock of external assets and liabilities of the country, that is, the country's International Investment Position, as at end-December 2024.

Box 1: Quarterly International Investment Position of Mauritius

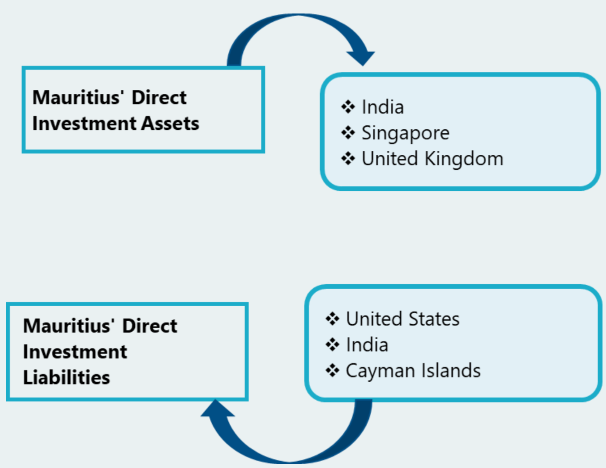
The Bank of Mauritius compiles the International Investment Position (IIP) of Mauritius line with international standards and conventions, as laid down in the sixth edition of the IMF's manual on Balance of Payments and International Investment Position. Changes in the IIP between two points in time are measured as follows:

$$IIP_t - IIP_{t-1} = \text{Balance of Payments Financial Account Transactions} + \text{Revaluations} + \text{Other Changes in Volume}$$

The net IIP of Mauritius, which is the difference between the country's external assets and liabilities, serves as an important indicator of the country's financial condition and creditworthiness. With a positive net IIP of US$46 billion as at end-December 2024, representing 314 per cent of GDP, Mauritius remained a net creditor to the rest of the world.

Total foreign assets of residents amounted to US$567 billion as at end-December 2024, largely reflecting their stock of direct investments held abroad. The main investment destination countries of residents' direct investment assets were India, Singapore and the United Kingdom.

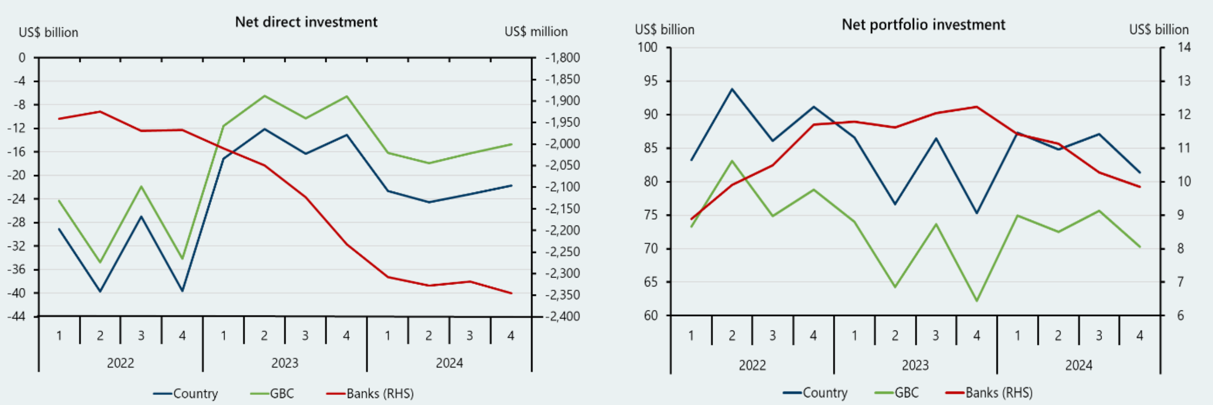
The stock of residents' external liabilities stood at US$521 billion as at end-December 2024, primarily reflecting non-residents' foreign direct investment in Mauritius. In terms of geographical origin, the bulk of these direct investment liabilities originated from the United States, India and Cayman Islands.



The GBC sector, an important pillar of the Mauritius IFC, registered a net foreign asset position of US$33 billion as at end-December 2024. GBCs' claims on non-residents, which amounted to US$537.9 billion as at end-September 2024, fell to US$524.6 billion as at end-December 2024 while their liabilities to non-residents dropped from US$503.3 billion to US$491.4 billion over the same period.

The net foreign asset position of non-GBCs amounted to US$12.9 billion as at end-December 2024 (Chart I). Among the non-GBC sector, the net IIP of banks and non-bank deposit taking institutions rose from US$11.1 billion as at end-September 2024 to US$11.9 billion as at end-December 2024. This was largely driven by increases in banks' stock of external assets in terms of foreign currency deposits held abroad and loans to non-residents, which more than offset the rise in their stock of foreign liabilities in terms of currency and deposits and loans from non-residents. The central bank's reserve assets stood at US$8.5 billion as at end-December 2024.

Chart I: Net Direct and Portfolio Investment Positions



2.5 External vulnerabilities

Gross Official International Reserves (GOIR) as at end-April 2025 remained broadly adequate as a buffer against external shocks. The GOIR stood at Rs392.1 billion (US$8.6 billion) compared to Rs337.9 billion (US$7.2 billion) as at end-April 2024 (Chart 2.7). Based on the imports of goods (f.o.b.) and services for calendar year 2024, the GOIR represented 12.2 months of imports. The ratio of reserves to imports exceeded 100 per cent as at end-December 2024 while the ratio of reserves to gross external debt remained well above 100 per cent. The GOIR-to-ARA[2] ratio stood at 103.2 per cent in December 2024, within the desired range of 100 to 150 per cent.

External vulnerability metrics indicate a moderate risk profile of the current level of gross external debt. As a ratio to GDP, gross external debt declined to 33.7 per cent as at end-December 2024, from 34.4 per cent as at end-December 2023 (Panel Chart 9). External debt servicing as a percentage of exports of goods and services was on a downward trajectory during 2024 and stood at 3.1 per cent as at end-December, reflecting improved debt sustainability.

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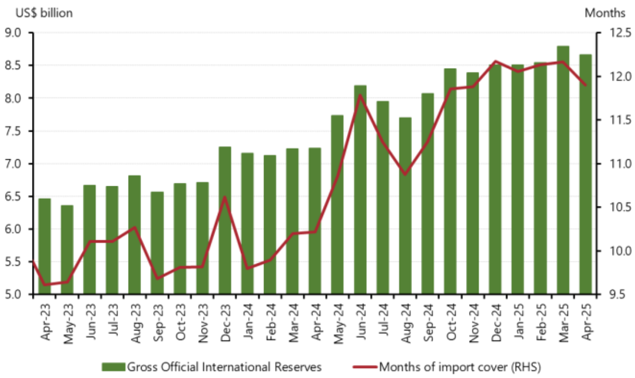
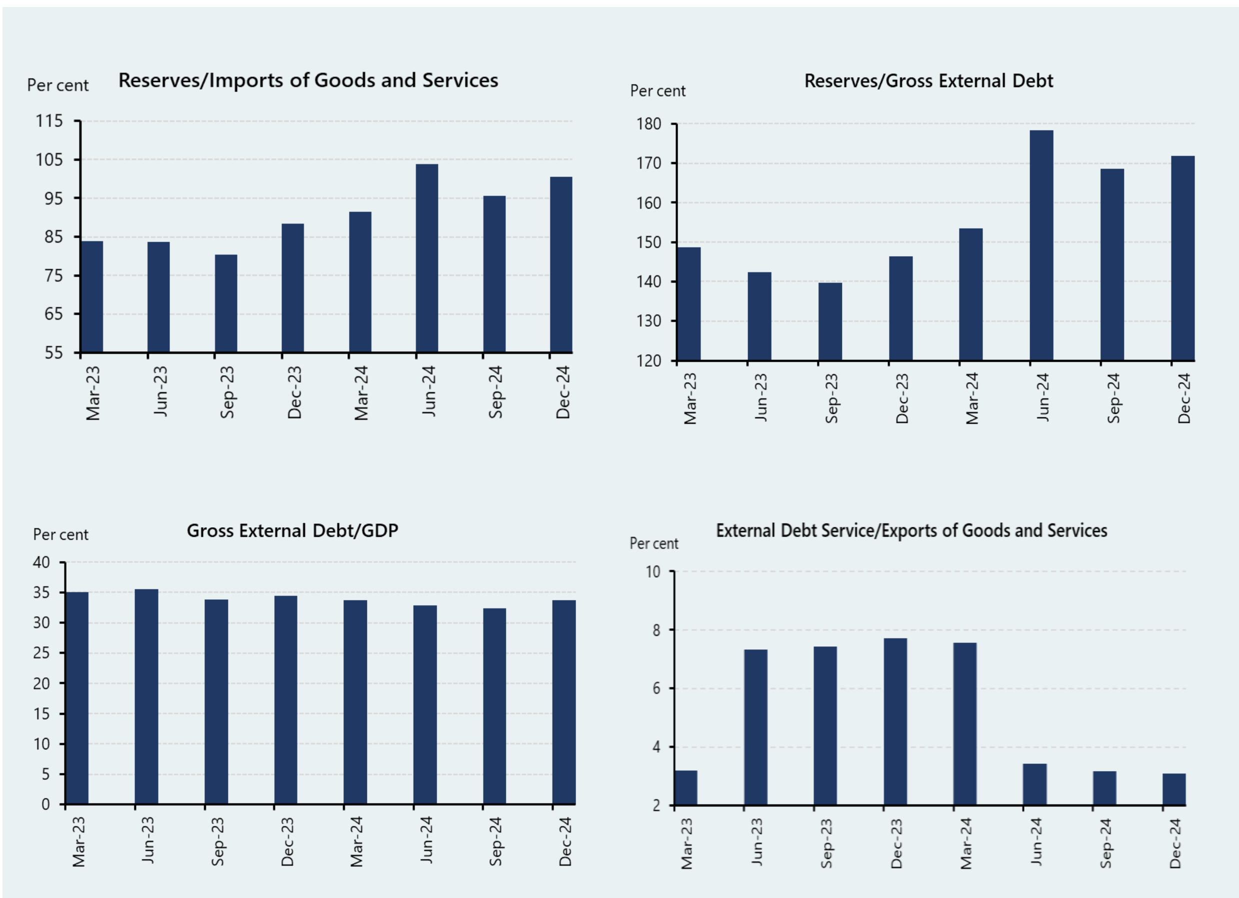
[2] *Assessing Reserve Adequacy (ARA) is a framework developed by the IMF to assess the adequacy of a country's international reserves. It helps to ascertain if a country's reserves are sufficient to meet its potential balance of payments needs, like financing imports and servicing debt.*

Chart 2.7: Gross Official International Reserves



Panel Chart 9: External vulnerability metrics



Note: Gross external debt outstanding as at end of period excludes global business companies' and other deposit taking institutions' debts.

2.6 Monetary developments

In y-o-y terms, the monetary base grew by 7.1 per cent in April 2025 compared to 3.1 per cent in December 2024. The expansion in the monetary base reflects, to a large extent, the build-up in deposits of commercial banks held at the Bank (Panel Chart 10).

Since August 2024, Broad Money Liabilities (BML) growth has been in the double digits, slowing from 12.7 per cent in December 2024 to 11.3 per cent in April 2025, mostly on account of lower growth in deposits of the household and Other Financial Corporation sectors. Rupee deposits remained the major driver of growth in BML, with a contribution of 7.5 pp in April 2025. Increases in basic retirement pensions and other support measures by the Government underpinned the growth in rupee deposits. The broad money multiplier, defined as the ratio of BML to monetary base, edged up from 5.3 in December 2024 to 5.4 in April 2025. The velocity of money, which measures the rate at which money is exchanged in the economy, remained at 0.7 over the same period.

Y-o-y growth in bank loans to the private sector strengthened from 11.9 per cent in December 2024 to 12.2 per cent in April 2025. Loans disbursed to the corporate sector expanded by 12.9 per cent in April 2025 compared to 13.0 per cent in December 2024. In nominal terms, loans extended to corporates stood at around Rs197 billion as at end-April 2025, driven by the '*Wholesale and retail trade*' and '*Manufacturing*' sectors, and contributed 6.6 pp to total loan growth.

Loans availed by households increased by 11.4 per cent y-o-y in April 2025, compared to 10.6 per cent in December 2024. The household sector contributed 5.6 pp to the y-o-y growth in bank loans to the private sector. Households continued to invest heavily in housing, helping to maintain an average contribution to total loan growth of above 5 pp. The authorities and banks have implemented a number of targeted incentives for individuals contracting housing loans, which have supported ongoing resilience in the household credit segment. Loans disbursed to households amounted to Rs184.9 billion as at end-April 2025, around 3.5 per cent higher compared to December 2024.

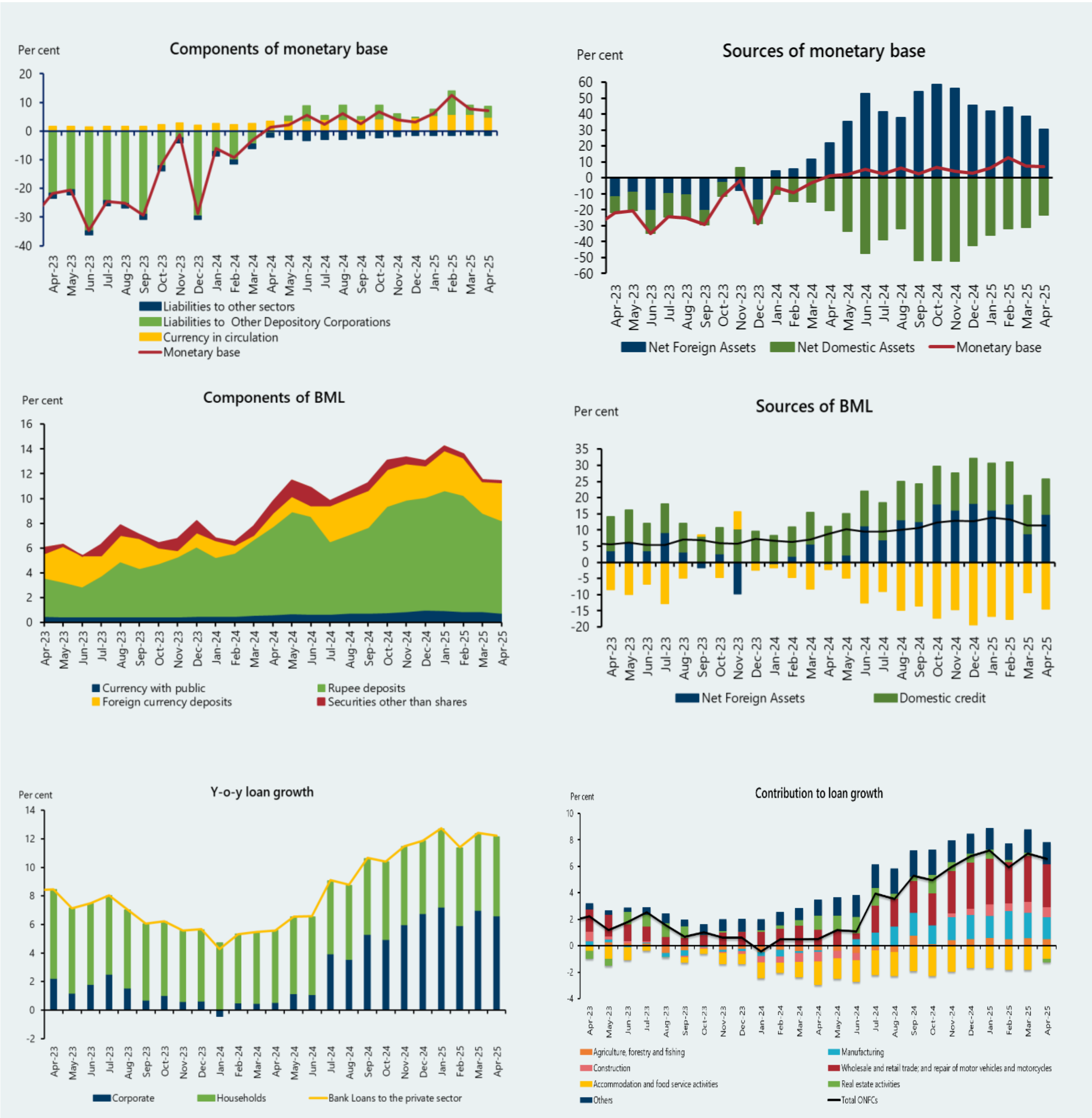
The Bank's Survey on Credit Conditions[3] revealed that credit standards for the approval of both corporate and household loans have remained broadly unchanged in 2025Q1 compared to the previous quarter. Credit standards are driven by expectations on the level of general economic activity, conditions in the wholesale funding market, as well as competitive pressures and market share objectives of financial institutions. Although financial institutions reported an increase in demand for loans from the corporate sector in 2025Q1, loans approved have declined, partly reflecting lags in loan approval. The household segment also registered a decline in loan approval.

The terms and conditions for availing new loans, both for corporates and households, in 2025Q1 have also remained unchanged, with collateral requirements and margin on average loans remaining the same. Going

[3] *The Bank conducts a quarterly Survey on Credit Conditions among banks, Non-bank deposit taking institutions and leasing companies to understand the developments in credit expansion and obtain qualitative information on the factors behind the demand and supply of credit in Mauritius.*

forward, financial institutions expect credit standards and credit demand from both corporates and households to be broadly the same, citing expectations on general economic activity, general level of interest rates and competitive pressures as major drivers.

Panel Chart 10: Monetary developments



Empirical evidence often supports the hypothesis that credit stimulates aggregate demand and overall economic activity through higher consumer spending and investment. While data for Mauritius suggest a positive relationship between credit growth and GDP growth over time, these dynamics appear to have changed in the aftermath of the Covid pandemic, as shown in Box 2.

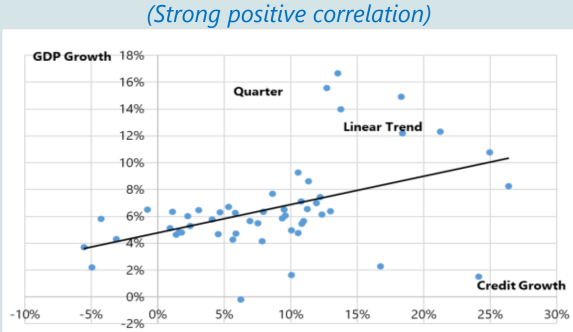
Box 2: Impact of Credit on GDP Growth

In Mauritius, a strong and positive relationship between credit growth and GDP growth was found prior to the Covid crisis. This relationship, however, broke down in the case of corporate credit in the Covid aftermath as the economy was shut down for more than a year, leading to a period of severely scaled down production, before full re-opening in the last quarter of 2021. Post-Covid, a negative relationship therefore emerged between corporate credit and GDP growth. This could be partly due to deleveraging by some corporates as they sought to rebuild their balance sheets and partly due to the availability of alternative sources of funding. Thus, the contraction in corporate credit during 2021 and 2022 occurred alongside the economic recovery. In contrast, the positive relationship between household credit growth and GDP growth became even stronger post-Covid. Bank credit to households has been expanding by more than 10 per cent since March 2022, and household credit has been the major contributor to total credit growth since November 2021.

Pre-Covid Era (2007Q1-2019Q4)

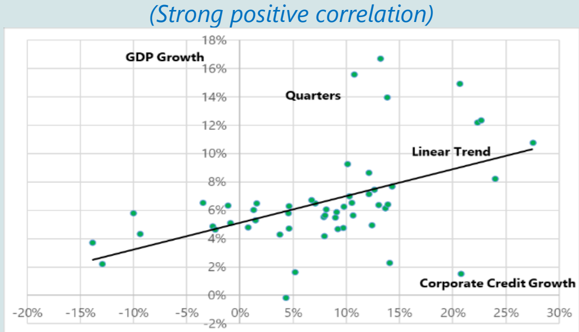
GDP and Total Credit Growth

(Strong positive correlation)



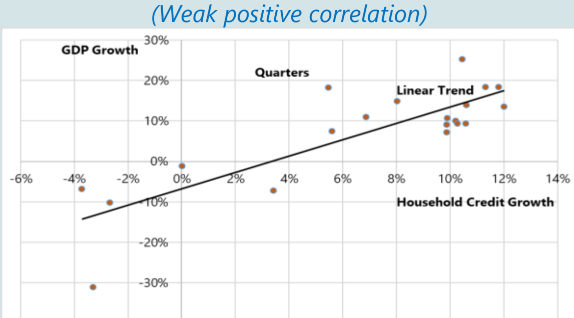
GDP and Corporate Credit Growth

(Strong positive correlation)



GDP and Household Credit Growth

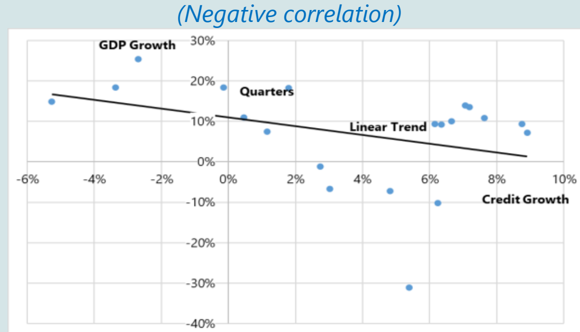
(Weak positive correlation)



Post-Covid Era (2020Q1-2024Q4)

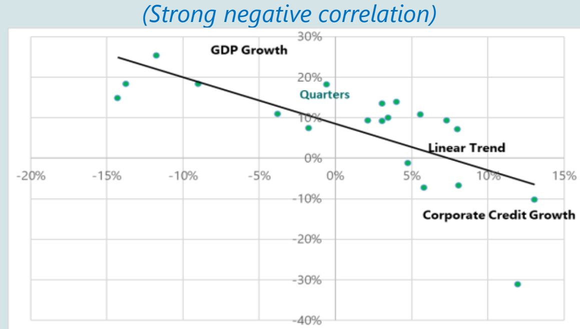
GDP and Total Credit Growth

(Negative correlation)



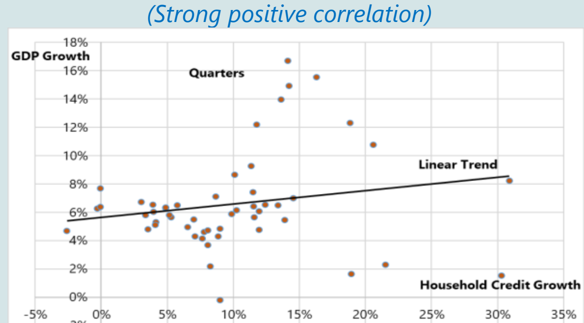
GDP and Corporate Credit Growth

(Strong negative correlation)



GDP and Household Credit Growth

(Strong positive correlation)



3. Financial Markets Developments

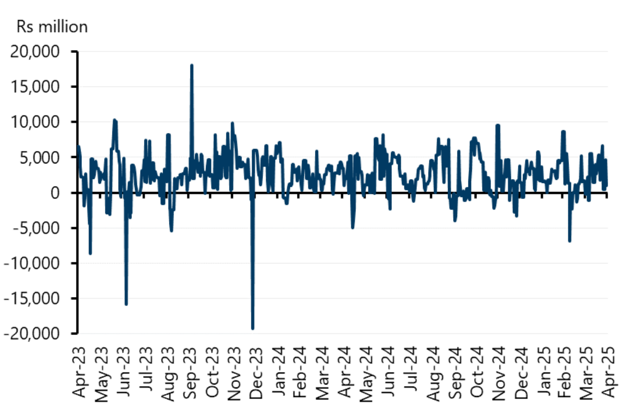
The Bank conducted open market operations to implement the monetary policy stance of the MPC. The Bank, thus, continued to issue its own securities and allowed banks to deposit their excess liquidity in the Overnight Deposits Facility, which substantially expanded the Bank's balance sheet. As a result, short-term money market interest rates have increased since the beginning of the year. These upward adjustments to yields have contributed to bring back interest rate differentials into positive territory.

3.1 Monetary policy operations

The Bank's open market operations (OMOs) are conducted within an interest rate targeting framework whereby the Bank adjusts the supply of reserve money to clear the demand for reserve money at a certain level and interest rate. The Bank has issued its own securities for an aggregate amount of Rs30.2 billion (including 7-Day BoM Bills of Rs11 billion) since the beginning of the year up to 30 April 2025. These included BOM Bills for an aggregate amount of Rs13.2 billion issued in the 91-Day, 182-Day and 364-Day tenors and BOM Notes of 2-year maturity issued for a total amount of Rs6 billion. An additional amount of Rs2.3 billion was absorbed through FX interventions.

As part of its regular operations, the Bank absorbed an average of Rs18.8 billion through its Overnight Deposits Facility during the same period, while Government net issuances, including Treasury Certificates issued on tap, contributed to reduce excess liquidity by around Rs13.2 billion. Altogether, operations in the money market effectively contained the rupee excess at a daily average of Rs2.3 billion during the period under review (Chart 3.1).

Chart 3.1: Rupee excess reserves



The Bank substantially expanded its balance sheet to implement monetary policy. As at end-April 2025, the outstanding amount of BoM securities issued to manage the excess liquidity stood at Rs124.6 billion, of which 51 per cent would mature within a period of one year (Table 3).

Table 3: Outstanding BoM instruments

Rs million

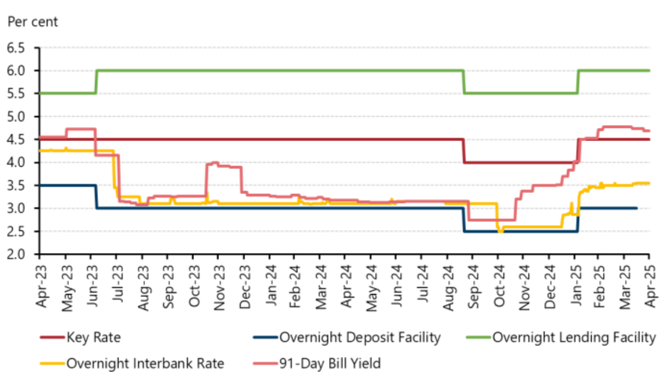
	As at 28 Jun 2024	As at 31 Dec 2024	As at 4 Feb 2025 (Last MPC meeting)	As at 30 Apr 2025
BoM Bills	55,942.50	50,183.9	53,090.0	28,129.6
Overnight Deposits	30,103.0	15,160.0	17,929.0	34,714.0
BoM Notes	37,200.0	35,700.0	41,700.0	38,200.0
5-Year Emerald Jubilee Bonds	7,533.2	7,466.2	7,456.5	7,382.3
55^{th} Independence Anniversary Instruments	4,357.4	4,333.6	4,329.8	993.5
Bank of Mauritius Bonds (Long Term)	15,150.0	15,150.0	15,150.0	15,150.0
Total	**150,286.0**	**127,993.7**	**139,655.3**	**124,569.3**

Note: Figures may not add up to total due to rounding.

3.2 Short-term money market interest rates

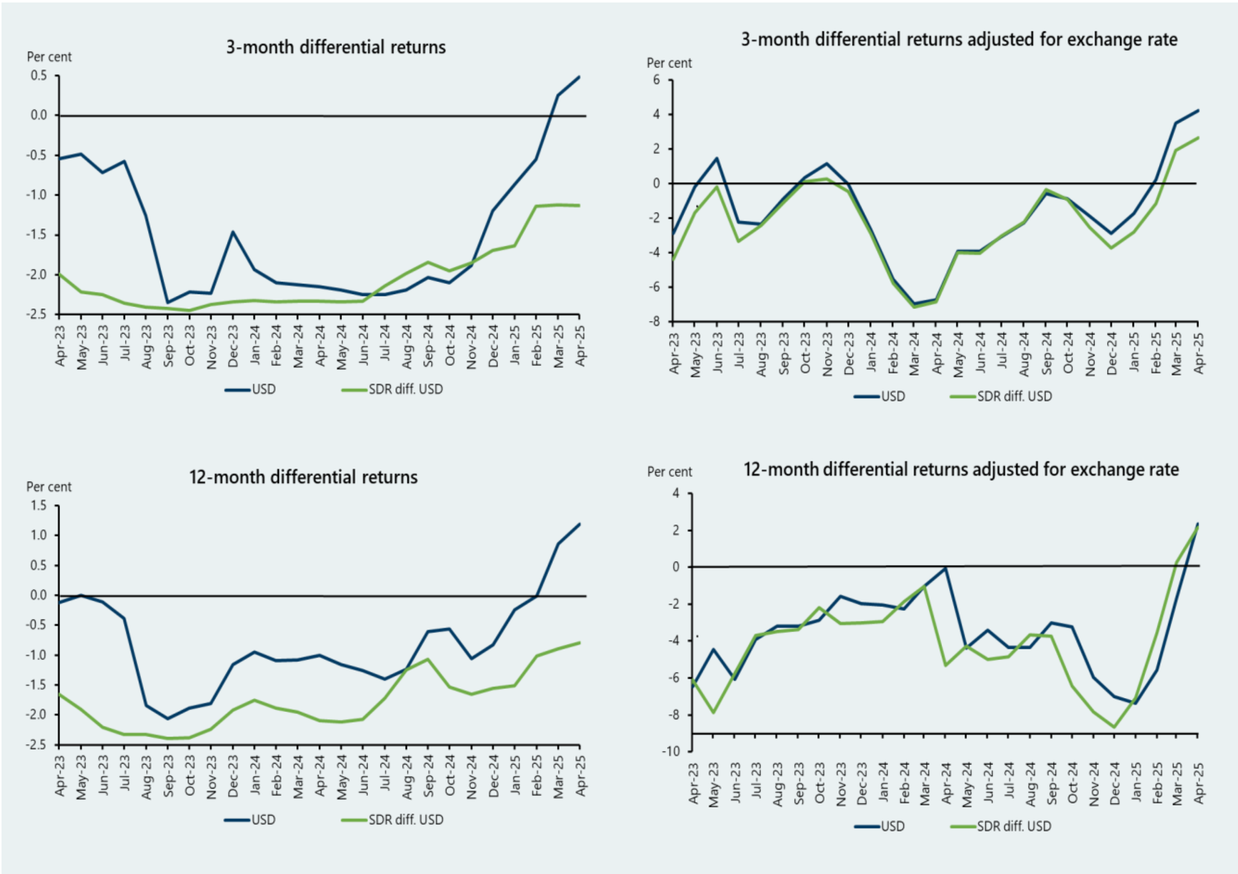
The impact of these OMOs was an increase in interbank interest rates which were significantly deviating from the Key Rate of 4.50 per cent and short-term yields. The weighted average Overnight Interbank Rate, which stood at 2.76 per cent in January 2025, gradually rose to 3.53 per cent in April 2025 (Chart 3.2). Yields on 91-Day Bills went up by 96 bps to exceed 4.50 per cent in April 2025 while yields on 182-Day and 364-Day Bills came up above 5 per cent, rising by 106 bps and 104 bps, respectively, before declining marginally in April.

Chart 3.2: Overnight interbank and policy rate



Interest rate differentials for the 3-month and 12-month maturities vis-à-vis US dollar-denominated assets have moved back into positive territory (Panel Chart 11). Upward adjustments to yields following the increase in the policy rate at the February 2025 MPC meeting and the Bank's OMOs have contributed to reverse the negative interest rate differential with the US dollar. The resulting positive differentials were even higher when adjusted for exchange rate movements, supported by appreciation of the rupee against the US dollar.

Panel Chart 11: Interest rate differential



3.3 Retail interest rates

Banks have adjusted both their Savings Deposit Rate (SDR) and the Prime Lending Rate (PLR) in line with the changes in the policy rate. The SDR rose from a range of 2.45-2.90 per cent in December 2024 to a range of 2.95-3.40 per cent in April 2025, while the PLR increased from a range of 6.25-9.00 per cent to a range of 6.65-9.00 per cent over the same period. The SDR remained in level terms more than 100 bps below the Key Rate. The weighted average rupee lending rate on banks' total outstanding loans was up from 6.46 per cent in December 2024 to 6.89 per cent in April 2025. In the same vein, the weighted average rupee deposit rate on banks' total outstanding deposits rose from 2.17 per cent to 2.54 per cent. Consequently, the average interest rate spread of banks, based on their overall deposit and loan portfolio, widened from 4.29 per cent to 4.35 per cent (Chart 3.3).

Rates on new loans also shifted upward. The overall weighted average rupee lending rate increased to 6.73 per cent in April 2025, from 6.15 per cent in December 2024. The interest rate on new corporate loans increased from 6.21 per cent to 6.78 per cent over the same period, mainly driven by 'Wholesale and retail trade', 'Real estate activities', 'Construction' and 'Manufacturing' sectors. While the rate on new loans to households went up from 6.73 per cent to 7.39 per cent, the interest rate on housing loans was up 59 bps to 5.90 per cent (Table 4).

Chart 3.3: Policy rate and weighted average interest rates on outstanding rupee deposits and loans

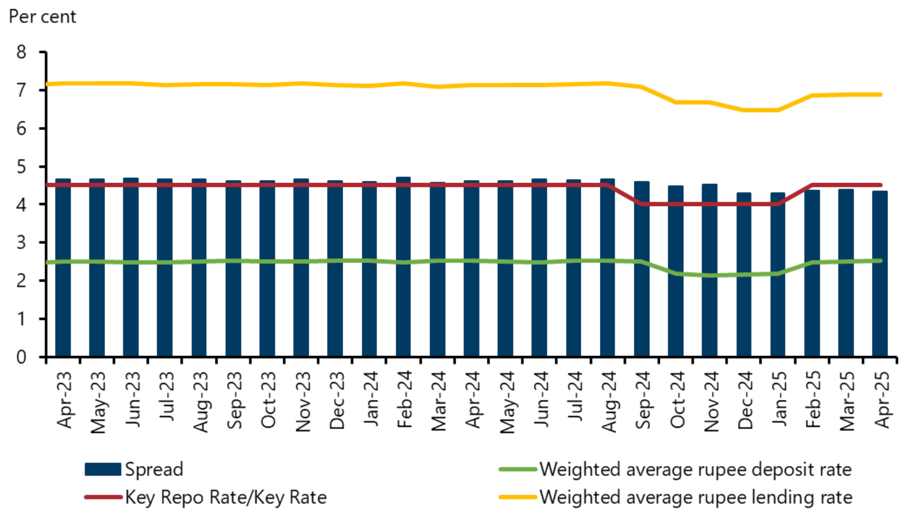


Table 4: Weighted average interest rate on new rupee loans disbursed during the month for selected sectors

Per cent per annum

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
1. Other Non-financial Corporations	**7.10**	**6.98**	**6.29**	**6.33**	**6.06**	**6.21**	**5.89**	**6.83**	**6.94**	**6.78**
A - Agriculture, forestry and fishing	6.79	6.81	4.26	4.09	4.82	4.31	4.66	5.83	6.12	5.25
C - Manufacturing	7.07	7.55	7.02	6.83	6.20	6.42	6.49	6.86	6.99	6.80
F - Construction	8.26	7.99	8.09	7.51	7.39	7.43	4.92	8.20	7.81	7.71
G - Wholesale and retail trade; and repair of motor vehicles and motorcycles	6.80	6.14	6.48	6.09	5.71	5.72	5.91	6.46	6.64	6.48
H - Transportation and storage	7.78	6.89	8.12	6.86	7.14	6.30	6.53	7.07	8.14	7.60
I - Accommodation and food service activities	6.37	7.24	7.23	6.45	6.07	6.47	6.70	6.46	6.99	6.44
J - Information and communication	5.24	7.49	5.03	7.57	7.24	7.36	7.61	7.79	8.05	5.23
L - Real estate activities	7.05	7.99	7.31	6.48	6.31	6.54	6.78	7.18	7.43	7.39
P - Education	8.32	8.32	7.59	7.35	6.91	8.04	8.67	8.06	8.86	7.79
2. Households	**7.30**	**7.19**	**6.92**	**6.76**	**6.60**	**6.73**	**6.55**	**7.19**	**7.27**	**7.39**
Of which: Housing	6.00	5.82	5.68	5.34	5.26	5.31	5.23	5.71	5.87	5.90
Overall weighted interest rate on new loans	6.89	6.88	6.32	6.18	6.09	6.15	5.91	6.74	6.85	6.73

[1] *Loans include finance leases and overdrafts disbursed during the month.*

3.4 Foreign exchange market conditions

Movements in the rupee exchange rate since the beginning of the year have reflected a number of factors: the evolution of major currencies on the international market, domestic FX demand and supply conditions, favourable interest rate differentials brought about by the increase in yields, as well as measures taken by the Bank to remove distortions on the domestic foreign exchange market and increase the supply of forex (Box 3).

Box 3: Significant Improvement in the Domestic Foreign Exchange Market

Since November 2024, the Bank has implemented several measures aimed at eliminating distortions in the domestic foreign exchange market that have been prevailing for some time, improving market liquidity and mitigating pressures on the rupee exchange rate, as outlined below:

(i) The Bank issued instructions to banks to ensure that all dealings in FX, including swaps and other derivatives, be conducted through financial institutions duly licensed by the Bank so as to avoid any short-circuiting of the system which could lead to parallel exchange rates. Banks were also requested to enhance due diligence on intercompany buying and selling of foreign currencies, as well as swaps and other derivatives. These measures were targeted at preventing a parallel market, which caused distortions in pricing and drove FX inflows away from the official market.

(ii) Banks were additionally called upon to ensure that forward transactions be priced in a fair manner and in accordance with market fundamentals, as some market participants were imposing excessively high forward premia, which was against market conventions.

(iii) At the February 2025 MPC meeting, the Key Rate was increased by 50 bps in a bid to, amongst others, reverse the negative interest rate differential with the US dollar and mitigate exchange rate pressures. This resulted in the immediate upward shift of the rupee yield curve, rendering rupee-denominated investments more attractive.

The increase in the policy rate at the February 2025 MPC meeting, together with the Bank's open market operations brought about an increase in yields, which in turn have contributed to reverse the negative yield differential between Government of Mauritius Treasury Bills/Bank of Mauritius Bills and US yields in both 3-month and 12-month maturities, thus helping to improve foreign exchange market conditions. The resulting positive differentials were even higher when adjusted for exchange rate movements.

The above measures have resulted in a significant increase in the volume of FX flows in the market, surpassing pre-Covid levels. FX turnover totalled US$4,642 million during the period January to April 2025, compared to US$4,015 and US$4,083 during the corresponding periods in 2024 and 2019, respectively (Chart I). FX purchases by banks and foreign exchange dealers increased by 12.1 per cent to stand at US$2,281 million, while FX sales amounted to US$2,361 million during the first four months of 2025, resulting in net sales of US$80 million.

Substantial increases in flows from the Accommodation and Financial sectors, which together grew by around US$171 million in the first four months of 2025 compared to the same period in the previous year, underpinned the rise in FX purchases from banks (Chart II). Regarding FX sales, it may be highlighted that 60 per cent of these sales, or US$785 million, was directed to the wholesale and retail trade sector, which includes the sales of motor vehicles.

Swap transactions also surged, aggregating US$3.9 billion during the first four months of 2025 compared to US$2.5 billion during the corresponding period of 2024 (Chart III). Swap purchases and sales against the rupee were principally in US dollar.

The rupee exchange rate has been influenced by these positive developments on the domestic market alongside the evolution of major currencies on the international market. Since the beginning of 2025 up to the end of April 2025, the rupee has appreciated by 5.0 per cent against the US dollar. Both on nominal effective (measured by MERI1) and real effective basis, the rupee appreciated by 1.4 per cent in April 2025, compared to January 2025 (Chart IV).

Chart I: FX Purchases and Sales by banks

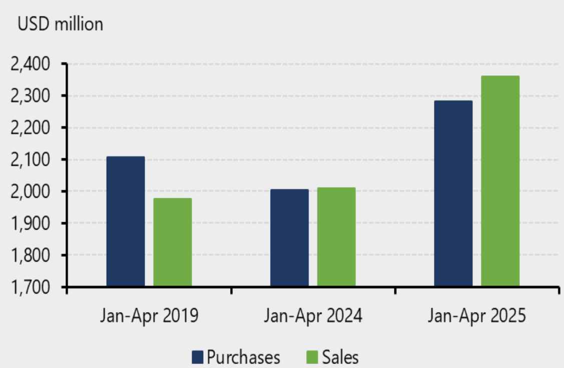


Chart II: FX Purchases and Sales by Sector

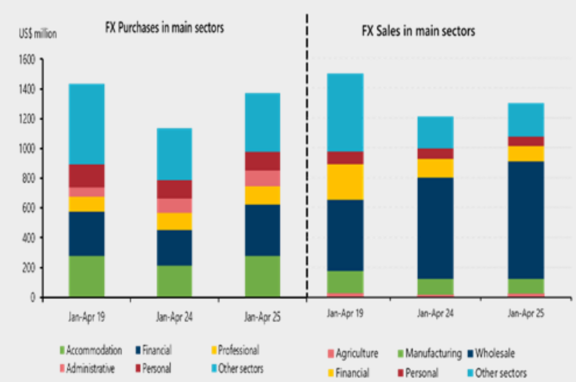


Chart III: FX Swap Transactions

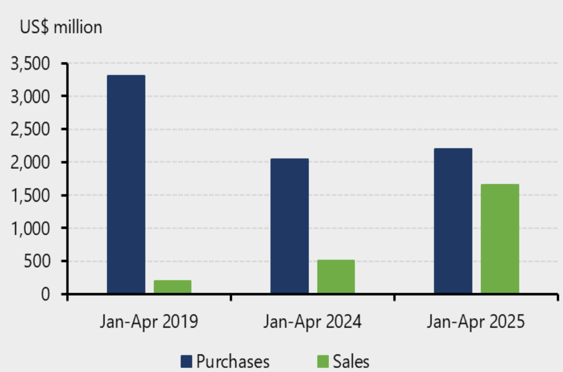
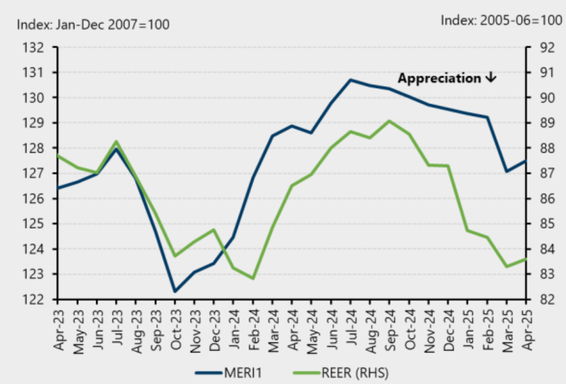
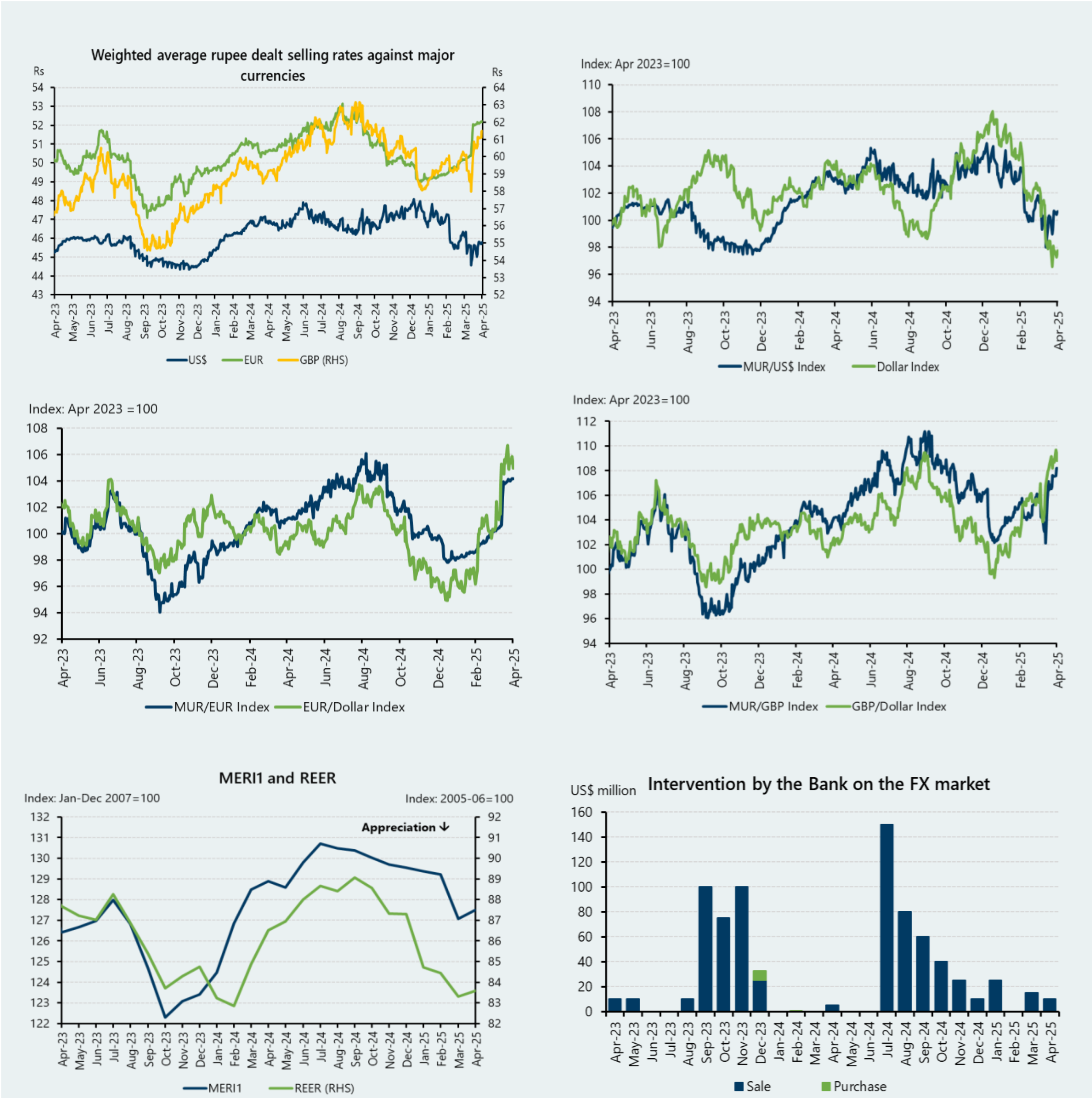


Chart IV: MERI and REER



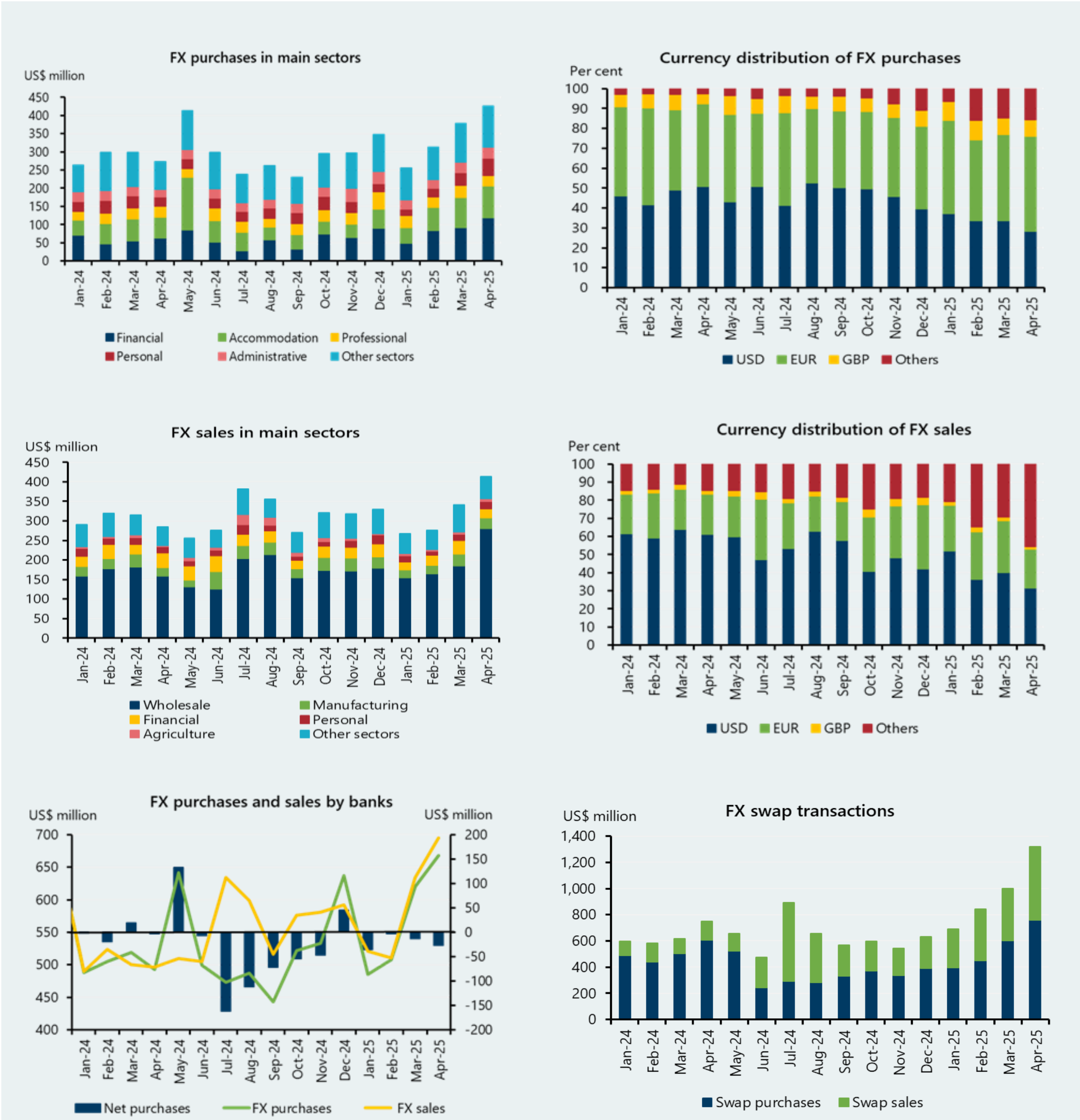
The rupee has appreciated by 5.0 per cent against the US dollar since the beginning of 2025 up to the end of April 2025. This mostly reflected the weakening of the US dollar on the global market amid the trade tensions and ensuing loss of confidence. The Bank intervened by selling US$50 million on the domestic foreign exchange market from January to April 2025 in an attempt to smooth volatility of the rupee. Conversely to the Rs/US dollar rate, the rupee depreciated by 4.6 per cent and 1.7 per cent against the euro and Pound sterling, respectively, between January-April 2025 (Panel Chart 12).

Panel Chart 12: Exchange rate developments



The volume of FX flows has significantly improved, thus reducing the need for FX interventions. FX turnover amounted to US$4,642 million from January to April 2025, representing a rise of 16 per cent compared to the same period in 2024. FX purchases by banks and foreign exchange dealers increased by 12.1 per cent to stand at US$2,281 million while FX sales aggregated US$2,361 million during the first four months of 2025 (Panel Chart 13). Following a sharp contraction in forward transactions in December 2024, the forward volume returned to an average of 11 per cent of total turnover.

Panel Chart 13: FX purchases and sales



Activity in the domestic FX market was buoyed by the traditional economic sectors. FX purchases by banks and foreign exchange dealers were predominantly driven by the '*Financial and insurance activities*' (US$343 million or 25 per cent), '*Accommodation and food service activities'* (US$279 million or 20 per cent), and '*Personal*' sectors (US$124 million or 9 per cent). Concurrently, the highest volumes of FX sales were to customers from the '*Wholesale and retail trade*' (US$785 million or 60 per cent), '*Financial and insurance activities*' (US$105 million or 8 per cent), and '*Manufacturing*' (US$98 million or 8 per cent) sectors. There was a change in the currency composition of FX transactions, with an increase in FX purchases and sales denominated in currencies other than the US dollar.

Swap purchases and sales aggregated US$2.2 billion and US$1.7 billion, respectively, during the first four months of 2025. The majority of swap transactions against the rupee was in the '*Financial and insurance activities*' sector, with purchases of US$783 million (representing 36 per cent of total), and sales of US$1.2 billion (75 per cent of total). Swap purchases and sales against the rupee were principally in US dollar.

4. Growth and Inflation Outlook

The domestic economy is expected to grow at a slower pace in 2025, normalising towards pre-pandemic averages. Risks to the growth outlook are tilted to the downside considering the substantial uncertainty generated by the threat of tariffs. Headline inflation is prognosed to settle at around 4 per cent in 2025, with risks to the inflation outlook tilted to the upside.

4.1 Quarterly Projection Model

The Bank's modelling framework is based on the Forecasting and Policy Analysis System (FPAS) developed by the IMF. The FPAS is a system of tools and related processes designed to support forward-looking monetary policy formulation based on economic data and analysis. The FPAS includes, amongst others, a suite of analytical toolkits, notably a core Quarterly Projection Model (QPM) and several satellite models used for near-term forecasting, that is, forecasting 1 to 2 quarters ahead. The QPM integrates various perspectives on the functioning of the domestic economy into a cohesive medium-term framework. This allows for joint implications to be evaluated and consistent projections for real GDP growth, inflation, the real interest rate, and the real exchange rate to be generated. The model is based on the fundamental principle that the primary role of monetary policy is to anchor inflation and manage inflation expectations. Box 4 provides an overview of the six building blocks of the QPM.

Since data are usually available with lags that can run for more than three months, the Bank uses the near-term forecasts obtained from the satellite models as inputs into the QPM to capture short-term trends and estimate a consistent medium-term scenario. The models used for capturing these aspects of the data are small, time-series models that are easy to estimate and maintain. They provide important insight into the likely path of the economy in the near term but do not offer any insight about the reaction of the economy to economic imbalances or how the economy might respond to economic policies. To complement these near-term forecasts, the Bank has built a Composite Indicator of Economic Activity (CIEA) from monthly data that appear related to economic activity. The CIEA allows an independent assessment of the current state of economic activity, thus serving as a cross-checking mechanism for the other forecasting models (Box 5).

4.2 Domestic growth and inflation projections

The projections made in this highly uncertain environment are conditional on several key assumptions. The baseline scenario assumes a de-escalation in the trade war between the US and China, with tariffs on Chinese goods projected to come down to around 50 per cent while the tariff of 10 per cent for other countries is maintained. The external impact of this scenario is deemed as follows:

a) The Euro area – our major trading partner – to register slightly lower growth than previously expected.

Box 4: Building Blocks of the Quarterly Projection Model

The structure of the QPM has six main blocks, which are explained below.

1. Aggregate demand

The aggregate demand equation determines the behaviour of aggregate output in relation to the monetary policy stance and foreign economic activity. Aggregate demand is represented by the output gap, which is the deviation of actual domestic output from its long-term trend. It is influenced by its own lagged value, deviations of the real interest rate and real exchange rate from their trend levels, and the foreign output gap, indicating the influence of key trading partner countries on the domestic economy, as well as the fiscal impulse as defined below; and real income effects arising from the impact of changes in real wages on consumption spending.

2. Inflation

Inflation is modelled from the Phillips curve and depends on lagged and expected inflation, and real marginal costs, which are approximated by the deviations of output, the real effective exchange rate and real wages from their long-term trends. The higher the real marginal costs are, the higher are inflationary pressures in the economy. Inflation in the model is decomposed into core, food, and fuel components to better capture their specific underlying cost pressures.

3. Exchange rate

The relationship with the rest of the world is captured using an extended version of the uncovered interest rate parity condition where the exchange rate is modelled as a function of the expected exchange rate, interest rate differentials, and a proxy for the country risk premium.

4. Labour market

The QPM features a nominal Wage Phillips curve that encapsulates the relationship between labour market indicators and key macroeconomic variables. This labour market block is designed to capture the impact of labour demand on wage inflation and the response of agents to inflation.

5. Fiscal sector

Inclusion of the fiscal sector in the QPM reflects the impact of fiscal policy actions on inflation and growth, and their interactions with monetary policy. The fiscal impulse considers the impact of medium-term fiscal expansion/consolidation on aggregate demand, as well as that of one-off transfers/expenditures and of Special Funds.

6. Monetary policy

The QPM is closed by a monetary policy reaction function based on a forward-looking Taylor Rule that ties the central bank's reaction function to its policy mandates of maintaining price stability and promoting orderly and balanced economic development. Through a short-term interest rate, the central bank is assumed to broadly respond to deviations of inflation from its target and to the output gap.

Box 5: Composite Indicator of Economic Activity for Mauritius

The Composite Indicator of Economic Activity (CIEA) is an index constructed using high frequency indicators – mostly available on a monthly basis – to gauge the current state and immediate direction of economic activity. These indicators consist of a wide set of leading, coincident and lagging data, including real, monetary, fiscal and external sector data, that are seemingly related with economic activity but are not derived from any of the underlying components of GDP.

The resulting CIEA is nonetheless stochastically linked to GDP and is a single metric to assess economic performance ahead of actual data releases. It is particularly helpful in understanding fluctuations in output, especially in a context where actual measures of economic activity, notably GDP, are not available contemporaneously and/or are published with a lag.

The methodology for constructing the CIEA is an algorithmic selection process for key variables involving the transformation of data, correlation analysis with official GDP figures and prioritising short-selection of economic variables based on parsimony and logical economic intuition. Out-of-sample forecasting GDP is also possible after the CIEA has been constructed and tested for its robustness and accuracy. The CIEA for Mauritius, using the step-by-step approach, comprises seven indicators – tourist arrivals, volume of MACCS transactions, exports of goods, imports of goods, SEM-10, electricity production and credit to the private sector. The main steps involved in constructing the CIEA are portrayed in Chart I.

From Chart II, it can be observed that the estimated CIEA closely tracks turning points in GDP growth. It is estimated that 90 per cent of the dynamics in GDP growth is captured by the CIEA.

Chart I: CIEA Methodology

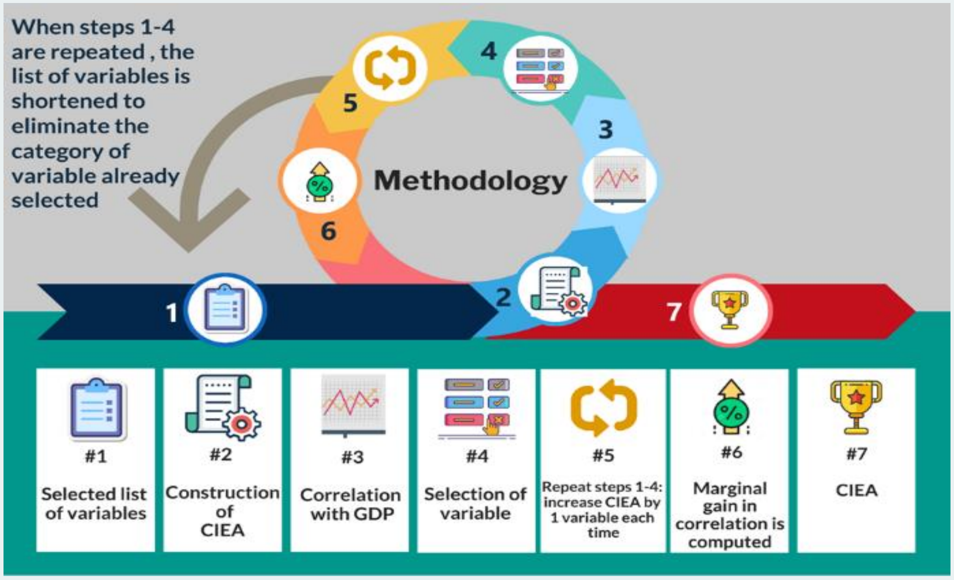


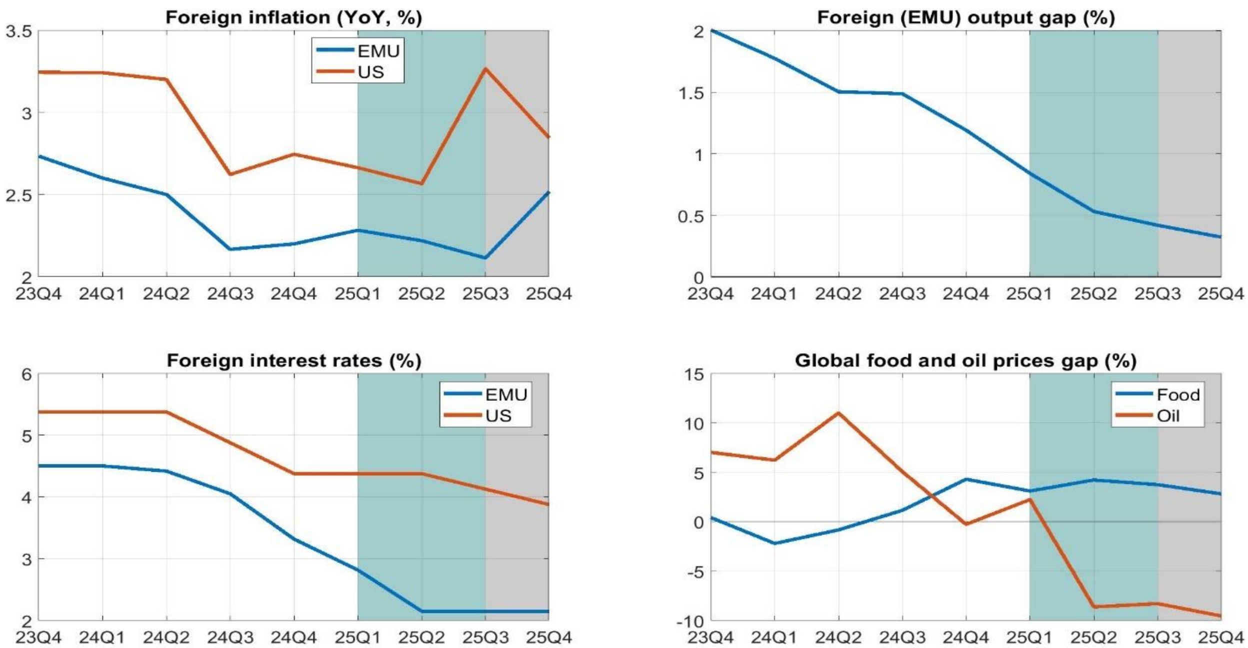
Chart II: CIEA and Actual GDP Growth

b) Inflation in both the US and Euro area to be slightly higher. Inflation in the US has been projected to pick up in 2025 while in the Euro area, inflation is likely to remain above target during 2025.

c) Foreign central banks would pursue their monetary policy easing cycles. The US Fed is expected to cut interest rates by 50 bps in 2025 while the ECB will cut policy rate by an additional 50 bps till end of the year.

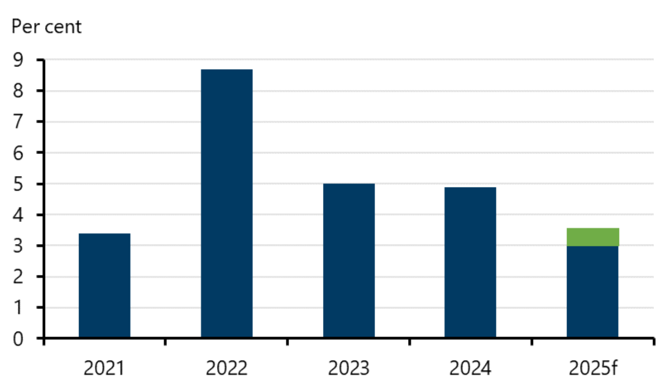
d) Commodity prices are expected to decline - oil prices would continue to decrease in 2025 and average around US$67 a barrel. Food prices would also decline slightly (Panel Chart 14).

Panel Chart 14: External assumptions



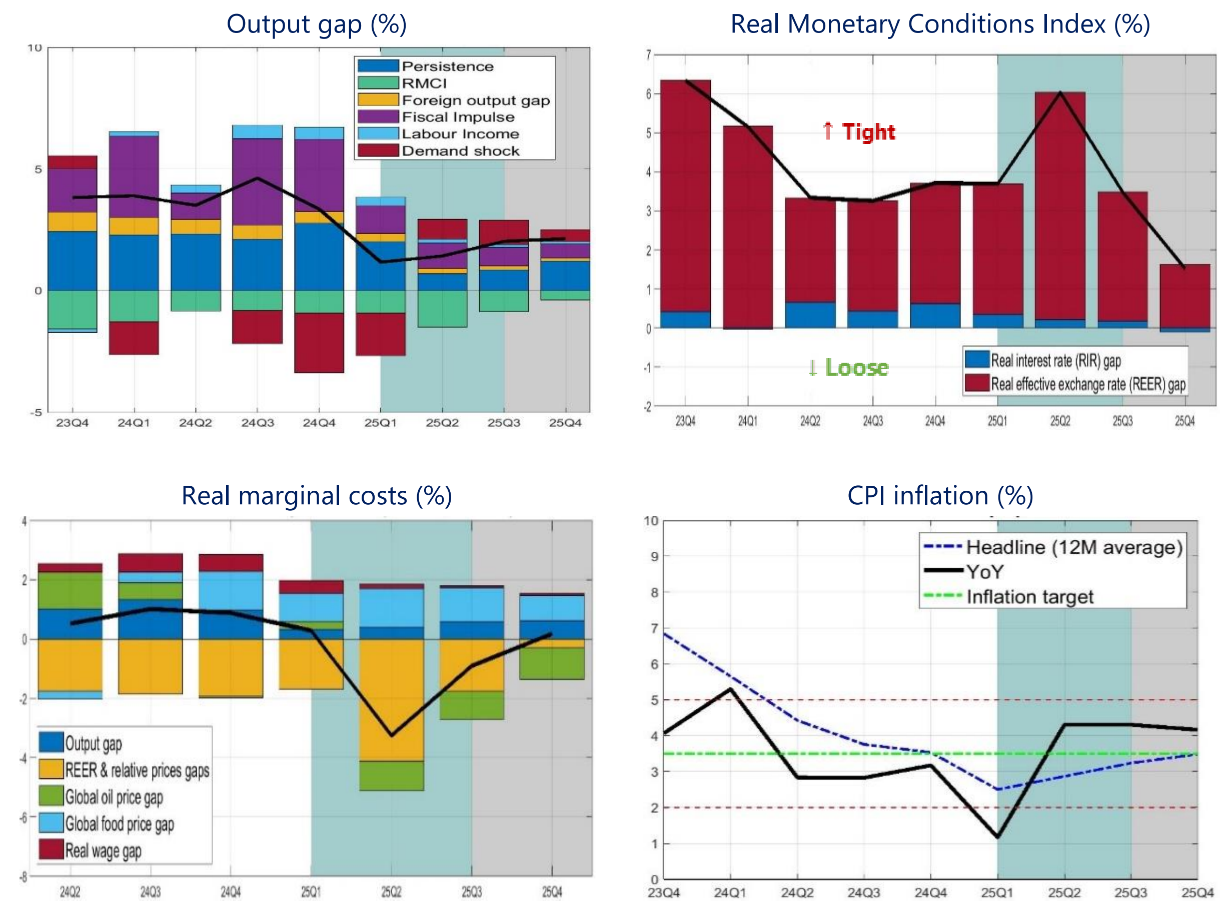
For 2025, the Bank projects a weaker growth performance than forecast at the previous MPC meeting, partly reflecting the recent global trade and tariffs developments. As such, real GDP growth for 2025 is projected to be within the range of 3.0-3.5 per cent, down from an initial forecast range of 3.5-4.0 per cent (Chart 4.1).

Chart 4.1: Real GDP growth



The output gap is expected to be marginally positive and will gradually close over the forecast horizon (Panel Chart 15). The slightly positive output gap in the short term reflects the persistence of previous increases in output and the fiscal impulse which has largely driven growth in recent years. Real monetary conditions, which reflect the real exchange rate appreciation and positive real interest rate gap, may dampen domestic demand, thereby reducing excess aggregate demand pressures.

Panel Chart 15: Growth and inflation projections



Cost pressures in the Mauritian economy, as measured by the real marginal cost, would turn negative in 2025. The appreciation of the real exchange rate and the decline in global oil prices would largely contribute to easing price pressures. With the economy projected to operate close to its potential, excess demand pressures would be mitigated and would not likely push up marginal costs for producers going forward. While oil prices would continue to be deflationary, the other component of the real marginal cost could gradually turn less negative and raise inflationary pressures over the forecast horizon.

Headline inflation is projected at around 4 per cent in 2025, slightly higher than the forecast of 3.5 per cent made at the May 2025 MPC meeting. This primarily reflects the impact of budgetary measures implemented to increase government revenue and reduce the fiscal deficit. Looking ahead, there are opposing forces that shape the inflation outlook. On the downside, global commodity prices may continue to fall as a result of reduced demand, thereby contributing to disinflationary pressures. On the upside, the continuing trade tariffs announcements by the US and retaliation by other countries may lead to higher global inflation due to a direct impact through global value supply chains. As a large proportion of the items in the domestic CPI basket is imported, these developments would affect imported inflation, which would feed into domestic prices. Nonetheless, much uncertainty remains on the size of the impacts.

Timeline of Trade Tariffs Announcements

Date	Actions
04 February	US imposes 10% tariffs on imports from China
10 February	China announces retaliatory tariffs of 10% to 15% on selected US goods
04 March	US imposes 10% tariffs on imports of Canadian oil and energy products and 25% tariffs on remainder of imports from Canada US imposes 25% tariffs on all imports from Mexico US raises new tariffs on all imports from China to 20%
10 March	China retaliates with 15% tariffs on key US farm exports, including soybeans, chicken, wheat, corn, and cotton products, etc
12 March	US imposes 25% tariffs on imports of steel, aluminium, and derivative products EU retaliates by restoring EU's 'rebalancing' tariff packages and imposing additional countermeasures on EUR18 billion worth of US exports Canada imposes 25% tariffs on a list of US goods, including steel and aluminium products
02 April	US President announces 'reciprocal' tariffs, declaring a 10% baseline tax on imports from all countries, as well as higher rates for countries that run trade surpluses with the US US imposes 'reciprocal' tariffs of 34% on China; raising levy to 54%
03 April	25% tariffs on automobiles go into effect In retaliation, Canada imposes 25% levy on vehicles imported from the US
04 April	China retaliates with 34% tariffs on US goods
08 April	US raises tariffs on Chinese products to 104%
10 April	A 90-day pause is announced on 'reciprocal tariffs' announced on 02 April, with nations facing blanket US tariffs of 10% until July, except for China, whose tariffs are raised to 125%, bringing total tariffs to 145%
11 April	China raises tariffs on US goods to 125% and confirms it will no longer respond to new tariff hikes
16 April	US increases tariffs on Chinese products to 245%
29 April	US relaxes the 25% tariffs on automobiles and auto parts that are assembled in US
04 May	US imposes 100% tariffs on foreign-made movies
08 May	US-UK trade deal: US abolishes 25% tariffs on UK steel and aluminium. Duties on car exports are reduced to 10%. UK abolishes tariffs on ethanol for US goods and provide wider market access for US goods
14 May	US-China trade deal: US lowers tariffs on Chinese goods from 145% to 30% and China reduces tariffs on US from 125% to 10%
23 May	US threatens a 50% tariff on all goods sent to the US from the EU, as from 01 June US imposes 25% tariffs for Apple on foreign-made iPhones
26 May	US President pauses tariffs on EU products until 09 July
11 June	US President announces 55% tariffs on China as part of new trade deal
02 July	US-Vietnam trade deal: US lowers tariffs on Vietnamese goods from 46% to 20% Vietnam will charge no tariffs on US products
07 July	US is finalising trade deals with several countries ahead of the 09 July deadline, with new tariff rates expected to become effective on 01 August US announces an extra 10% tariff on the BRICS developing nations US announces 25% tariffs on imports from Japan and South Korea
08 July	Letters sent to several countries on new tariff rates to be charged
09 July	US imposes 50% tariffs on copper and increases tariffs on Brazilian imports from 10% to 50%
12 July	US President threatens 30% tariffs, effective as from 01 August, on the EU and Mexico
15 July	US announcement of 19% tariffs on goods from Indonesia

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