Statement by

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Governor of the Bank of Mauritius,

at the

Post-Monetary Policy Committee Press Conference

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1. Ladies and gentlemen, members of the media, good afternoon.

2. Welcome to this press briefing following the third Monetary Policy Committee (MPC) meeting of the year, which is the Committee's 79th sitting.

3. Following a careful review of recent global and domestic economic and financial developments, the Committee unanimously decided to maintain the Key Rate unchanged at 4.75 per cent per annum.

4. The shifting dynamics of the US-Iran conflict have kept volatility elevated across energy, commodity and financial markets. As a result, the outlook for inflation and growth remains highly uncertain.

5. Global growth remains moderate and uneven, while inflation remains exposed to commodity-price shocks, supply-chain disruptions and transport costs.

6. Domestically, economic activity moderated in the first quarter of 2026 but remained resilient, supported by key services sectors, particularly tourism and financial services.

7. The inflation trajectory was slightly lower than anticipated at the May 2026 MPC meeting. However, underlying price pressures, fuel costs and inflation expectations remain elevated, requiring continued vigilance.

8. The Committee considered that maintaining the Key Rate unchanged is appropriate at this juncture. This decision balances moderating but resilient domestic activity against persistent upside risks to inflation, while preserving financial stability amid heightened global uncertainty.

9. The MPC will maintain a cautious, data-dependent stance, allowing earlier policy measures to continue working through the economy while retaining the flexibility to assess incoming data and respond if the balance of risks changes.

10. Let me now elaborate on the main drivers behind today's MPC decision.

Global Economy

11. I will begin with an overview of recent global economic developments.

12. Since the previous MPC meeting, global economic activity has remained broadly resilient, but the outlook has become increasingly uneven and uncertain. Renewed geopolitical tensions in the Middle East following a temporary ceasefire, increasing risks around key maritime routes, volatile energy prices and elevated freight costs continue to shape the external environment.

13. Global growth is expected to remain moderate. In its July World Economic Outlook Update, the IMF projects growth to slow from 3.5 per cent in 2025 to 3.0 per cent in 2026, before recovering to 3.4 per cent in 2027. This growth trajectory assumes a gradual easing of current disruptions. Investment in technology, artificial intelligence and digital infrastructure is expected to continue supporting activity in several major economies.

14. Inflation risks remain elevated globally, driven mainly by higher energy and transport costs, persistent services inflation and the possibility of renewed commodity-price shocks. The IMF's July World Economic Outlook Update indicates that global disinflation trend, which began in early 2024, has stalled. Global headline inflation is projected to rise from 4.1 per cent in 2025 to 4.7 per cent in 2026, before easing to 3.9 per cent in 2027.

15. While there is limited evidence so far of broad-based second-round effects, the persistence of price pressures underscores the need for monetary authorities to remain vigilant, particularly in economies exposed to imported inflation and external price shocks.

16. Monetary easing cycles have largely paused since the beginning of the Middle East conflict, and policy decisions continue to be guided by incoming data on inflation, activity and financial conditions. The international policy environment therefore remains one in which central banks are seeking to balance the need to contain price pressures with the risk of weaker growth.

Domestic Economic Activity

17. In Mauritius, economic activity moderated in the first quarter of 2026, with real GDP growth easing to 2.0 per cent from 3.4 per cent in the corresponding quarter of 2025. Notwithstanding this moderation, overall activity remained resilient, supported mainly by the continued strength of key services sectors.

18. Tourism continued to underpin domestic activity, with higher arrivals and stronger earnings supporting accommodation and food services, transport and other related activities. Tourist arrivals increased by 2.1 per cent y-o-y to 804,633 between January to July 2026 while tourism earnings rose to Rs55.9 billion in the first semester of 2026. This represents an increase of 18 per cent relative to the first semester of 2025.

19. Financial and insurance activities remained a major source of resilience too, contributing strongly to value added, services exports and foreign exchange inflows and consolidating the role of the Mauritius International Financial Centre as an important pillar of economic stability.

20. Together, these sectors helped to cushion the impact of softer domestic demand and offset headwinds in manufacturing, particularly textiles, and the continued weakness in construction.

21. Labour market conditions remained favourable. The unemployment rate declined to 5.7 per cent in 2026Q1, close to historical lows. Foreign workers continued to help ease labour shortages and capacity constraints in labour-intensive sectors, particularly manufacturing and construction. Nonetheless, youth unemployment remained elevated, indicating persistent skills mismatches and pockets of labour market slack.

22. Credit to the private sector remained robust, while lending standards were broadly unchanged. Credit demand, particularly from households, remained supportive of economic activity and the banking system continued to operate with adequate buffers to absorb shocks.

23. The Bank of Mauritius nevertheless continues to monitor closely risks arising from higher global interest rates, exchange rate pressures, imported inflation, household indebtedness and sector-specific vulnerabilities. Macroprudential surveillance will remain focused on preserving the resilience of banks and non-bank financial institutions, and safeguarding confidence in the financial system.

Inflation

24. Domestic headline inflation eased slightly to 4.0 per cent in July 2026, from 4.1 per cent in June. On a year-on-year basis, inflation rose to 4.4 per cent in July, reflecting the pass-through of recent increases in the prices of demerit goods.

25. Underlying inflation remained elevated, with CORE1 and CORE2 inflation at 5.1 per cent and 6.2 per cent, respectively. These readings point to persistent domestically-generated price pressures, alongside continued high fuel and services inflation.

26. Inflation expectations shifted upwards, with one-year-ahead expectations rising to 4.9 per cent in the June 2026 survey. This signals the need to guard against the risk that temporary price shocks become embedded in expectations.

Money Market

27. The Bank continued to conduct open market operations to regulate liquidity conditions and strengthen monetary policy transmission. Since January 2026, excess rupee liquidity has been absorbed through the issuance of short-term Bank of Mauritius Bills (Rs112.5 billion) and Two-Year Bank of Mauritius Notes (Rs10 billion), complemented by foreign exchange operations (US$65 million) and the use of standing facilities (daily average of Rs29.3 billion).

28. These operations helped keep short-term money market rates within the interest rate corridor, although the overnight interbank rate remained close to the lower bound of the corridor, reflecting structural surplus liquidity in the banking system.

29. Following the May 2026 decision to raise the Key Rate by 25 basis points to 4.75 per cent per annum, market and retail interest rates adjusted broadly in line with the monetary policy stance. Banks' savings deposit rates and prime lending rates increased, while weighted average lending rates on new rupee loans also edged higher.

30. The Bank will continue to use its liquidity management framework to support an orderly money market, reinforce the signalling role of the Key Rate and ensure that changes in the policy stance are transmitted effectively to financing conditions in the economy.

External Sector Developments

31. The domestic foreign exchange market remained broadly resilient amid heightened global financial market volatility, with activity reflecting underlying demand and supply conditions. Total foreign exchange turnover reached US$9.1 billion between January and July 2026, with banks' purchases mainly from the financial and accommodation sectors and sales largely to the wholesale and retail trade sector. Since the May 2026 MPC meeting, the Bank has sold US$25 million to the market, bringing total interventions for the year to US$65 million.

32. The dynamics of the rupee exchange rate since the beginning of the year reflected both foreign exchange market conditions and international currency movements. Between January and July 2026, the rupee depreciated by 1.3 per cent and 0.3 per cent against the US dollar and euro, respectively. The rupee appreciated by 1.3 per cent against the Pound sterling.

33. The external position improved markedly in the first quarter of 2026, with the current account deficit narrowing to 0.6 per cent of GDP from 3.7 per cent a year earlier, supported by a smaller goods deficit and stronger services receipts. Tourism, financial and professional services are expected to sustain the services surplus and help to narrow the 2026 projected current account deficit to 5.3 per cent of GDP.

34. Gross Official International Reserves stood at US$9.7 billion at end-July 2026, equivalent to 13.7 months of imports excluding GBC services imports and 10.0 months including GBC services imports. These reserves continue to provide a strong buffer against external shocks, particularly given the economy's exposure to elevated geopolitical tensions.

Outlook and risks

35. I will now turn to the outlook for growth and inflation, and the risks surrounding this outlook.

36. The Bank's baseline projection is for real GDP growth of 2.8 per cent in 2026, unchanged from the May 2026 forecast but lower than the 3.2 per cent recorded in 2025. Growth is expected to remain

moderate, reflecting external headwinds, weaker domestic absorption, fiscal consolidation and cautious private investment.

37. Headline inflation is projected at around 5 per cent in 2026, close to the upper bound of the Bank's 2-5 per cent target range and below the May projection of 5.5 per cent. The downward revision mainly reflects realised inflation data and the incorporation of budgetary measures, including additional subsidies on selected staple goods.

38. The balance of risks to inflation remains firmly tilted to the upside. Renewed escalation of geopolitical tensions in a pessimistic scenario could trigger further increases in global oil and food prices, while disruptions to key maritime routes could keep freight and insurance costs elevated. Given Mauritius' high import dependence, such shocks would be transmitted rapidly to prices. Exchange rate pressures could further amplify imported inflation, particularly if global financial conditions tighten or if safe-haven demand strengthens the US dollar.

39. Domestic price pressures also warrant close monitoring. Higher input costs, wage pressures, and rising inflation expectations could broaden price adjustments and raise the risk that temporary supply shocks become embedded in wage- and price-setting behaviour. While a durable easing of geopolitical tensions and lower commodity prices would reduce inflationary pressures, the current risk profile calls for vigilance to preserve confidence and keep expectations anchored.

40. Risks to growth are skewed to the downside and remain closely linked to external shocks. While public infrastructure projects could provide a boost to growth, a further escalation of geopolitical tensions in a pessimistic scenario could weaken global demand, disrupt supply chains and weigh on confidence. For Mauritius, these shocks could dampen consumption, raise firms' operating costs, moderate tourism, exports and foreign investment, and delay private investment. Domestically, fiscal consolidation, softer household spending, slower construction activity and structural challenges in manufacturing could further weigh on growth.

41. Nevertheless, the economy retains important buffers. Resilient tourism activity, continued inflows through the Mauritius International Financial Centre, adequate international reserves and the strength of the financial services sector should help cushion the impact of external shocks. The extent of any slowdown will therefore depend on the duration and intensity of global disruptions, the resilience of key services exports and the pace at which domestic reforms support productivity, investment and confidence.

42. Taking these factors into account, the Committee determined that the downside risks to growth are broadly balanced by the upside risks to inflation. On the one hand, weaker global demand and softer domestic absorption could weigh on economic activity. On the other hand, elevated imported price pressures, exchange rate risks, stronger wage and cost pass-through could increase inflation. Additionally, higher inflation expectations could keep inflation close to the upper bound of the target range for longer.

Concluding Remarks

43. An unchanged policy stance is therefore deemed appropriate at this juncture. It allows the previous increase in the Key Rate and recent budgetary measures to work through the economy, while preserving policy flexibility to respond if the balance of risks shifts.

44. This cautious stance is consistent with the approach of many central banks globally and provides the MPC with the flexibility to assess incoming data and evolving risks to inflation and growth. Monetary policy will remain data-dependent, with the MPC continuing to closely monitor external and domestic developments.

45. The MPC 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.

46. Thank you for your attention.

47. With that, I shall be pleased to take any questions you may have on monetary policy.

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