

Minutes of the 78th Monetary Policy Committee Meeting held on 20 May 2026

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The 78th meeting of the Monetary Policy Committee (MPC) was held on Wednesday 20 May 2026 at 09:15 hours at the Bank of Mauritius (Bank). The following members attended the meeting:

- Dr Priscilla Muthoor Thakoor (Governor and Chairperson)
- Mr. Rajeev Hasnah (First Deputy Governor)
- Mr. Ramsamy Chinniah (Second Deputy Governor)

External Members

- Ms. Sharmila Banymadhub-Chakowa
- Dr Myriam Blin
- Ms. Martine Ip Min Wan
- Dr Jameel Khadaroo (via teleconference)

Apologies

- Dr Jeevita Matadeen

1. The Monetary Policy Committee (MPC) convened to assess prevailing domestic and global economic and financial developments and determine the appropriate monetary policy stance.

2. **Following extensive deliberations, the seven members present unanimously agreed to increase the Key Rate by 25 basis points.**

3. In reaching this decision, the Committee carefully assessed the evolving external environment, particularly the heightened geopolitical uncertainty arising from the recent escalation in tensions, including the conflict involving the United States and Iran, and its implications for small and highly open economies such as Mauritius. The MPC observed that the Mauritian economy remains exposed to external shocks. Members noted that rising international fuel prices, elevated freight and transportation costs, and exchange rate pressures could transmit rapidly to the domestic economy through imported inflation channels, given the country's relatively high pass-through and high propensity to import. At the same time, the Committee recognised that growing uncertainty surrounding the global outlook, together with emerging signs of moderation in domestic economic activity, warranted a measured and forward-looking policy response.

4. Inflationary pressures in Mauritius have already begun to build up. Although headline inflation remained unchanged at 4.2 per cent between March and April 2026, year-on-year (y-o-y) inflation accelerated to 3.6 per cent in April, from 2.7 per cent in March, reflecting notable price increases in domestic fuel and other food products. Fuel inflation is expected to remain elevated in the coming months, with potential spillover effects on transport services and other energy intensive sectors through higher operating and input costs. Food inflation, a big component of the inflation basket in Mauritius, is expected to face upside pressures, particularly if energy prices stay elevated and global supply conditions remain strained. Core inflation measures (see Note at the end) which show underlying trends in inflation when stripped of volatile fuel and food prices, have remained stubbornly high. These are expected to remain high, reflecting the risk of pronounced second-round effects of higher electricity and oil prices on domestic prices of non-food and non-oil items like services.

5. A deep analysis of drivers of inflation in Mauritius clearly shows that these upward pressures on inflation may become more pronounced, going forward. Against this backdrop of elevated uncertainty, the Committee took cognizance of the fact that the economic environment prevailing in May 2026 differs materially from that assessed at the previous MPC meeting in

February 2026. Bank staff updated inflation projections under a range of scenarios incorporating alternative oil price assumptions. **Under the baseline scenario - assuming an average oil price of US\$90 per barrel, a resolution of the conflict, and the full reopening of the Strait of Hormuz by the end of the first half of 2026 - average headline inflation for 2026 is projected to rise to around 5.5 per cent.** This represents a significant upward revision from the previous forecast of 3.6 per cent and places inflation above the upper bound of the Bank's target range of 2-5 per cent. Under more adverse scenarios, inflationary pressures could intensify further, remain elevated for longer, and give rise to stronger second-round effects.

6. **Economic activity in Mauritius is expected to moderate during 2026, with real GDP growth now projected at 2.8 per cent, compared with the 3.3-3.5 per cent range considered by the MPC at its February 2026 meeting.** This downward revision in growth projection reflects the anticipated adverse effects of higher fuel and electricity costs on economic activity and household purchasing power, alongside softer tourist arrivals. Overall, however, the economy is projected to remain resilient.

7. Having carefully weighed the evolving balance of risks, the MPC concluded that the upside risks to inflation constitute more of a threat to macroeconomic stability than the downside risks to growth. As a result, a timely and measured adjustment to the monetary policy stance was warranted to preserve price stability, contain the risk of inflationary pressures becoming more entrenched, and safeguard macroeconomic stability over the medium term. The MPC discussed the impact of a rate hike on borrowing and debt-servicing costs but also noted that allowing inflation to rise unaddressed would erode the purchasing power of households. Furthermore, delaying the increase to the policy rate in the face of mounting inflationary pressures could also impact purchasing power, cause real returns on savings to be negative and require potentially more aggressive policy tightening in the future.

Global Developments

8. There are signs of global inflation picking up already. Recent increases in international energy prices have contributed to a renewed build-up of inflationary pressures globally and introduced fresh upside risks to inflation trajectories across major economies. Oil market conditions remain particularly sensitive to geopolitical developments, with market participants cautioning that any prolonged disruption to the Strait of Hormuz, a critical global maritime chokepoint, could exert substantial upward pressure on global energy prices. Global shipping conditions have begun to face significant strains with constrained shipping capacity and elevated pressures on freight costs. Global food prices increased for a third consecutive month in April 2026, largely driven by higher energy prices. The Food and Agriculture Organisation (FAO) Food Price Index averaged 130.7 in April 2026, representing a month-on-month increase of 1.6 per cent, with price gains recorded across key commodity groups, particularly vegetable oils, meat and cereals. Rising crude oil and natural gas prices, alongside increased costs associated with fertilisers, farm operations, processing, and global transportation, have contributed to a rapid pass-through to food prices.

9. Inflationary pressures intensified across several advanced and emerging economies in March 2026, primarily reflecting the energy price shock triggered by the outbreak of the Middle East conflict. In the US, consumer price inflation rose from 3.3 per cent in March 2026 to 3.8 per cent in April while in the euro area, inflation picked up from 2.6 per cent in March to 3.0 per cent in April.

10. Among emerging market economies, inflation in India increased to 3.5 per cent, reaching its highest level in one year, although remaining within the central bank's tolerance band of 2-6 per cent. This reflected first-round energy price effects stemming from the Middle East crisis, given India's significant dependence on oil imports. Meanwhile, inflation in South Africa rose to 4.0 per cent in April.

11. Concurrently, the IMF revised upward its global inflation forecast for 2026 to 4.4 per cent, compared with 3.8 per cent projected in January 2026.

12. On the global growth side, the outlook has weakened, with downside risks becoming increasingly pronounced. In its April 2026 World Economic Outlook (WEO), the IMF projected global growth at 3.1 per cent for 2026 under its reference scenario, representing a downward revision of 0.2 percentage point relative to the January 2026 WEO Update. This reassessment reflects the anticipated adverse effects of the ongoing conflict on commodity markets, inflation expectations, and global financial conditions.

13. As geopolitical tensions persist and global crude oil inventories continue to decline, the likelihood of more pronounced price adjustments - and, in some jurisdictions, physical supply disruptions - has increased. The persistence and magnitude of the inflationary shock also heighten the risk of weaker global demand. Against this backdrop, the IMF has cautioned that under more severe conflict scenarios, global growth in 2026 could weaken further, while inflationary pressures may intensify beyond the assumptions embedded in its reference scenario.

14. Financial markets have also experienced heightened volatility amid growing uncertainty regarding the duration of the conflict and its broader economic implications. Investor sentiment has become increasingly cautious, although equity markets in the United States have remained relatively supported by resilient corporate earnings and continued optimism surrounding developments in artificial intelligence. Meanwhile, global bond yields have remained elevated, while exchange rate movements across several emerging market and small open economies have increasingly reflected shifts in global risk sentiment.

15. Since the onset of the conflict in late February 2026, the global monetary policy stance has shifted from a phase of gradual easing towards a more cautious stance. Major central banks, including the US Federal Reserve, the European Central Bank, and the Bank of England, have

maintained policy rates unchanged at their recent meetings. Nevertheless, the ongoing conflict has intensified the policy trade-offs confronting monetary authorities, as renewed inflationary pressures coincide with a weaker growth outlook. This environment has reinforced a more cautious and data-dependent approach to monetary policy decision-making. Financial markets are, in turn, increasingly pricing in the possibility of further policy tightening, including a potential increase in interest rates by the US Federal Reserve and a cumulative 50 basis points increase by the European Central Bank by the end of 2026.

Domestic Economic Activity

16. Domestic economic activity has continued to be broadly supported by sustained performance across key sectors of the economy. Nevertheless, amid softer external demand and heightened global uncertainty, economic growth is expected to moderate in 2026. War-related pressures are anticipated to weigh on several sectors, including Accommodation and Food Service Activities, Manufacturing, Agriculture, and Construction, primarily through rising input costs and disruptions to supply chains. **Reflecting these developments, the Bank has revised downward its baseline growth forecast for 2026 to 2.8 per cent, compared with the 3.3-3.5 per cent range presented at the February 2026 MPC meeting.**

17. The tourism sector has, thus far, demonstrated notable resilience to external shocks and an ability to adapt through alternative travel routes to Mauritius. Tourist arrivals increased by 4.0 per cent year-on-year to 464,208 during the first four months of 2026, while tourism earnings recorded robust growth of 28 per cent year-on-year to Rs30.2 billion in the first quarter of 2026. Notwithstanding this encouraging performance, emerging downside risks have become more apparent. In particular, the 8 per cent decline in air arrivals recorded in April, together with higher airfares and softer global consumer confidence linked to the Middle East conflict, points to growing headwinds for the sector and the possibility of spillover effects on broader economic activity.

18. The unemployment rate declined to a historic low of 5.4 per cent in the fourth quarter of 2025, supported by stronger labour force participation among young people and women. Despite these positive developments, nominal wage growth remained relatively subdued, while real wages contracted during the final two quarters of 2025, suggesting that cost-of-living pressures continued to weigh on household purchasing power.

19. Private sector credit growth remained supportive of domestic economic activity. Credit to the private sector expanded by 11.5 per cent in March 2026, underpinned by household credit growth of 12.0 per cent and corporate credit growth of 11.1 per cent. At the same time, asset quality remained resilient, with risks in the corporate sector contained and household debt serviceability indicators continuing to exceed their long-term averages. The latest stress test results indicate that the banking sector remains sound, liquid, and well-capitalised overall.

Domestic Inflation

20. Inflationary developments at the domestic level reflect the spillover effects of the Middle East crisis and the transmission of higher global energy prices to the domestic economy. Both measures of inflation, y-o-y inflation and headline inflation, are already showing signs of price pressures building up. In particular, increases in the prices of petroleum products, bread, and several other goods contributed to a rise in y-o-y inflation, which accelerated to 3.6 per cent in April 2026, up from 2.7 per cent in March. Price increases were especially pronounced in categories such as transport; restaurants and accommodation services; food and non-alcoholic beverages; and housing, water, electricity, gas, and other fuels. Food inflation rose, on a y-o-y basis, to 0.7 per cent in April, from 0.3 per cent in March. The acceleration reflects higher costs across food production, processing, transport and distribution, with spillovers observed across both domestically-produced and imported food items. Y-o-y fuel inflation turned positive in April, rising from -0.6 per cent in March to 3.4 per cent, largely reflecting recent upward adjustments in gasoline and diesel prices.

21. Headline inflation remained unchanged at 4.2 per cent in April, broadly reflecting the smoothing effect of the 12-month averaging methodology. Nevertheless, it is up from the level recorded in December 2025, when it stood at 3.7 per cent. A decomposition of headline inflation into its various components suggests that this upward tendency may accelerate, going forward.

22. A key component is the core measure of inflation (see Note at the end), which signals underlying trends in inflation when price and fuel effects are removed. The evolution of core inflation continues to indicate sustained price momentum within the domestic economy. On a y-o-y basis, CORE1 inflation increased to 5.5 per cent, while CORE2 inflation rose further to 6.1 per cent, signalling broad-based underlying inflationary pressures which are expected to persist for some time. These inflationary measures which reflect domestic conditions have remained stubborn, as of late, and are expected to gather momentum, going forward, with the pass-through of higher cost pressures stemming from higher fuel and electricity prices.

23. Domestically-generated inflation remained an important source of price pressures, reflecting services-related costs. The combined effects of higher international energy prices and elevated freight and logistics costs may generate additional cost pressures and feed into domestically-generated inflation. These developments underscore the extent to which external shocks continue to transmit to domestic inflation dynamics.

24. Findings from the Bank's Inflation Expectations Survey conducted in March 2026 suggest that short-term inflation expectations have edged upward, driven largely by anticipated increases in fuel prices and other supply-related costs. Despite this near-term adjustment, medium-term inflation expectations remained generally well anchored within the Bank's target range, reflecting continued confidence in the monetary policy framework.

25. Looking ahead, the risks to the inflation outlook in Mauritius remain firmly tilted to the upside. Food and fuel inflation could face upward pressure if energy prices stay elevated and

global supply conditions remain strained. Fuel inflation could potential spill over to transport services, other energy intensive sectors, and services, through higher operating and input costs. **Under the baseline projection, headline inflation is expected to rise to approximately 5.5 per cent on average in 2026, thereby exceeding the Bank's target range of 2-5 per cent.** Inflation is, however, projected to return within the target range during 2027 as the effects of the oil price shock gradually dissipate.

26. The MPC will continue to closely monitor the risk that further increases in global energy and freight costs could progressively feed into domestic prices over the quarters ahead and weaken the anchoring of inflation expectations. In this environment, safeguarding price stability remains essential to preventing temporary supply-side pressures from becoming more persistent and broad-based inflationary dynamics.

Financial Market Operations

27. The Bank continued to deploy open market operations as part of its liquidity management framework to absorb surplus liquidity within the financial system and support the effective transmission of monetary policy. Since the previous MPC meeting, the Bank issued BoM Bills amounting to a total of Rs47.5 billion across the 91-day and 182-day maturities, alongside Two-Year BoM Notes totalling Rs6.0 billion.

28. In parallel, the Bank maintained its use of the overnight deposit facility, thereby enabling commercial banks to place excess end-of-day liquidity with the central bank. Since the last MPC meeting, banks have deposited an average of Rs28.4 billion per day through this facility at an interest rate of 3.00 per cent. As at 12 May 2026, the stock of outstanding BoM securities issued for liquidity management purposes - excluding overnight deposits - stood at Rs91.6 billion.

29. The combined use of BoM Bills and the overnight deposit facility has contributed to moderating surplus rupee liquidity in the banking system, with excess reserves averaging Rs2.4 billion on a daily basis. These operations have continued to support orderly liquidity conditions and the smooth functioning of domestic money markets.

30. As at 14 May 2026, yields on the 91-day, 182-day, and 364-day Bills stood at 3.93 per cent, 4.12 per cent, and 4.41 per cent, respectively. Meanwhile, reduced activity in the interbank market contributed to the overnight interbank rate remaining close to the lower bound of the interest rate corridor, averaging 3.25 per cent.

External Sector Developments

31. The MPC also assessed conditions in the domestic foreign exchange market and reviewed developments in the country's external position. Despite heightened external uncertainty, the domestic foreign exchange market remained orderly and continued to function efficiently. International reserves also remained at comfortable levels, thereby providing an important buffer against external shocks and episodes of heightened market volatility.

32. Since the beginning of 2026, turnover in the foreign exchange market reached US\$5.5 billion, representing an increase of approximately US\$196 million relative to the corresponding period in 2025. Banks' foreign exchange purchases were concentrated primarily in the financial and accommodation sectors, while foreign exchange sales were directed mainly towards the wholesale and retail trade sector. Between January and mid-May 2026, the Bank intervened in the domestic foreign exchange market for a total of US\$40 million, compared with US\$50 million during the corresponding period in 2025.

33. Movements in the exchange rate of the rupee continued to reflect prevailing domestic foreign currency demand and supply conditions, alongside developments in international currency markets. Against the backdrop of heightened volatility in global financial markets, the rupee depreciated since the February MPC meeting, weakening by 2.9 per cent against the US dollar, 1.0 per cent against the euro, and 1.5 per cent against Pound sterling.

34. The current account deficit stood at 7.1 per cent of GDP in 2025 but is projected to narrow moderately to 6.7 per cent of GDP in 2026, supported mainly by an anticipated increase in the surplus recorded under the primary income account. Nonetheless, the deficit on the goods account is expected to widen further, reflecting the effects of higher oil prices and rising freight costs, amid the spillover effects of the ongoing US-Iran war, although stronger bunkering activity may provide some offsetting support.

35. At the end of April 2026, the country's Gross Official International Reserves (GOIR) stood at US\$9.8 billion, a marked increase from the US\$8.7 billion recorded as at end-April 2025. Based on import bill for calendar year 2025, they represented 13.6 months of import cover (excluding GBC services imports) and 10.0 months import cover when GBC services imports are included, providing a buffer against external vulnerabilities.

Balance of Risks

36. The period ahead warrants continued vigilance given the elevated uncertainty surrounding the global environment. The outlook for both inflation and economic activity will depend importantly on the evolution of geopolitical tensions, developments in international energy prices, the scale and persistence of disruptions to shipping routes and global supply chains, as well as the monetary policy stance adopted by major central banks.

37. Should the conflict in the Middle East intensify and persist over an extended period, global economic growth could face additional headwinds while inflationary pressures may re-emerge more forcefully across economies. The risks of global stagflation may increase significantly. A sharp deterioration in global market sentiment could further tighten financial conditions, affect evolution of major currencies, trigger reversals in capital flows, and generate exchange rate pressures across emerging market and small open economies, including Mauritius, with potentially add-on inflationary pressures.

38. Given its small size and high degree of integration with international markets, Mauritius remains particularly vulnerable to imported inflation. Rising fuel costs, higher transportation expenses, increases in food import prices, and exchange rate fluctuations continue to represent significant risks to domestic price stability. In this context, inflation expectations remain central to preserving macroeconomic stability. Delays in policy action could heighten the risk that sustained increases in energy and import-related costs spill over into broader and more persistent inflationary pressures, thereby weakening the anchoring of medium-term inflation expectations.

39. The Bank staff's alternative scenarios assume a more prolonged conflict alongside persistently elevated oil and commodity prices and point to a materially different risk environment for inflation. In these scenarios, domestic price pressures would intensify further with second-round effects materialising. Household purchasing power would weaken more significantly. Additional depreciation pressures could emerge on the rupee, stemming from a combination of external factors and unfavourable interest rate differentials.

40. These scenarios also suggest that, while economic activity would moderate more noticeably, a number of key economic sectors would continue to display resilience.

41. **The MPC debated the policy trade-offs from rising inflation and subdued economic growth.** The Committee considered that delaying policy action in the face of mounting

inflationary pressures could entail greater long-term economic costs. If inflationary pressures become firmly embedded, they could erode household purchasing power, weaken investor confidence, impair economic decision-making, and ultimately necessitate stronger and more aggressive policy tightening measures at a later stage.

MPC Decision

42. In concluding their deliberations, members of the MPC reached a common view that an increase of 25 basis points in the Key Rate represented the most appropriate policy signal response in support of the Bank's mandate to preserve price stability while fostering orderly and balanced economic development.

43. The Committee considered that a timely, measured, and proportionate adjustment to the monetary policy stance would reinforce the credibility of monetary policy and reaffirm the Bank's commitment to containing inflationary pressures. Such action was also viewed as important in sustaining confidence among households, businesses, and investors during a period of heightened global uncertainty.

44. The MPC further assessed that prevailing domestic economic fundamentals remain sufficiently resilient to accommodate a moderate increase in interest rates. The financial sector is also assessed to be resilient, both, solvency-wise and liquidity-wise, to withstand the rate hike. Liquidity and capital adequacy buffers of the banking sector are assessed to remain strong and sound. Credit and financing conditions are expected to remain supportive of productive investment and economic activity.

45. Against this backdrop, the Committee emphasised that the increase in the Key Rate should be viewed as a prudent policy response aimed at strengthening price stability in the face of elevated external uncertainty.

46. Looking ahead, the MPC will maintain close surveillance of developments surrounding the Middle East conflict and closely assess their implications for global energy prices, supply chain disruptions, financial market conditions, and domestic inflation dynamics. Future monetary policy decisions will continue to be guided by incoming data and informed by evolving inflationary developments, domestic economic performance, financial sector conditions, and the broader external environment.

47. The Committee reaffirmed its readiness to convene outside its regular meeting schedule, where warranted, and to implement appropriate policy measures in pursuit of its mandate of maintaining price stability and of promoting orderly and balanced economic development.

48. The next meeting of the MPC is scheduled for 12 August 2026.

Note:

1. The headline inflation rate is calculated by using the annual average method which compares the average level of prices during a twelve-month period with the average level during the corresponding previous twelve-month period.
2. Year-on-year inflation is calculated as the change in the CPI for a given month compared with the same month of the preceding year in percentage terms.
3. CORE1 excludes food, beverages and tobacco components and mortgage interest on housing loan from headline inflation.
4. CORE2 excludes food, beverages and tobacco, mortgage interest on housing loan, electricity, gas, other fuels and items whose prices are controlled from headline inflation.