Minutes of the 79th Monetary Policy Committee Meeting held on 12 August 2026

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The 79th meeting of the Monetary Policy Committee (MPC) was held on Wednesday 12 August 2026 at 09:15 hours at the Bank of Mauritius (Bank). The following members attended the meeting:

Internal Members

- Dr Priscilla Muthoora 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
- Dr Jeevita Matadeen

1. The MPC met to assess recent global and domestic economic and financial developments and to determine the monetary policy stance consistent with the Bank's mandate of maintaining price stability while promoting orderly and balanced economic development. It considered the latest information on inflation, economic activity, financial conditions, the external sector, as well as assessed the risks to the inflation and growth outlooks.

2. **After careful deliberations, all members present unanimously agreed to leave the Key Rate unchanged at 4.75 per cent per annum.**

3. The decision rested on four judgements:

   i. Economic activity has moderated but remains resilient;

ii. The inflation projection has been revised down but remains at the upper bound of the target range;

iii. Underlying inflation, in particular, Core inflation, and inflation expectations remain elevated; and

iv. Global uncertainty continues to create upside risks to inflation and downside risks to growth.

Therefore, leaving the Key Rate unchanged allows the May 2026 increase in the Key Rate to continue working through the economy while preserving the flexibility to adjust it in the near future, if and as the need arises.

4. Uncertainty in the global economy remained elevated, mainly due to the conflict between the United States and Iran. While sentiment briefly improved in June following the memorandum of understanding between the two countries, this quickly reversed in July when hostilities resumed. As a small and open economy dependent on imported goods and energy, Mauritius is exposed to external shocks through global fuel prices, freight costs, insurance premia and exchange rate changes, as these may pass-through to domestic inflation and affect growth prospects. Monetary policy should therefore remain cautious, forward-looking and data dependent.

Global Developments

5. Global economic activity remained resilient but increasingly uneven across countries and sectors. Investment in artificial intelligence, digital infrastructure and selected manufacturing goods continued to support activity, particularly in the United States, China and advanced Asian economies, although the earlier boost from front-loading of orders has faded. The J.P. Morgan Global Composite Output Index rose from 52.0 in June to 52.6 in July, indicating modest expansion led by services while manufacturing momentum softened. This points to gradual moderation in global growth rather than an abrupt slowdown.

6. The IMF's July 2026 World Economic Outlook Update projects global growth at 3.0 per cent in 2026, down from 3.5 per cent in 2025 and marginally below its April projection, before recovering to 3.4 per cent in 2027. The revision reflects geopolitical tensions, trade policy uncertainty and higher

transport costs, which more than offset technology-led investment. Performance remained uneven: growth in the United States stood at 2.1 per cent, year-on-year (y-o-y) in the second quarter of 2026. The euro area expanded more modestly at 1.0 per cent (y-o-y). Most of global growth momentum in the first quarter of 2026 came from China and India at growth of 5.0 per cent and 8.0 per cent (y-o-y), respectively.

7. International energy markets remained volatile. Brent crude oil price fell from an average of US$103.7 per barrel in May to around US$72 per barrel in early July, shortly after the June memorandum of understanding was signed. However, the resumption of hostilities and attacks on shipping in July resulted in a sharp rebound to close to US$100 per barrel. This somewhat eased to US$90 per barrel on 31 July. Higher OPEC+ production and moderate demand could contain prices, but MPC members judged the risks to be clearly on the upside.

8. Freight and insurance costs also remained elevated, reflecting vessel re-routing, security risks along major maritime corridors and earlier front-loading of imports. The Freightos Baltic Index rose to US$4,013 per forty-foot equivalent unit in early July, before easing to US$3,620 by end-July, still well above historical norms. With global trade growth expected to moderate from 5.0 per cent in 2025 to 3.5 per cent in 2026, renewed disruption cannot be ruled out and remains an important upside risk to imported inflation.

9. Global inflation risks remained elevated. Price pressures moderated in several advanced economies but stayed above target in most jurisdictions: headline inflation in the United States declined from 4.2 per cent in May to 3.5 per cent in June, while inflation stood at 2.8 per cent and 2.6 per cent in the euro area and the United Kingdom, respectively. The FAO Food Price Index rose to 131.1 in July, as increases in prices of cereals, oils and sugar offset declines in meat and dairy prices. The IMF projects global inflation 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.

10. The international monetary policy environment has consequently become more cautious. Of the 279 policy decisions recorded worldwide since end-February 2026, 204 left rates unchanged. The Federal Reserve held the federal funds rate at 3.50-3.75 per cent in June and July and the Bank of England held the Bank Rate at 3.75 per cent, while the European Central Bank raised its key rates by 25 basis points in June, before holding the policy rate at 2.25 per cent in July.

Domestic Economic Activity

11. Domestic economic activity moderated in the first quarter of 2026 but remained resilient. Real GDP grew by 2.0 per cent (y-o-y), compared with 3.4 per cent a year earlier, reflecting softer domestic demand and a narrower sectoral base of growth.

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

13. Growth was also supported by good performance of the tourism sector. Tourist arrivals increased by 2.1 per cent y-o-y to 804,633 between January and July 2026, while tourism earnings reached Rs55.9 billion in the first semester, 18 per cent higher than a year earlier. Renewed geopolitical tensions, weaker growth in key source markets and higher transport costs nevertheless constitute potential headwinds for this sector.

14. 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.

15. On the expenditure side, final consumption expenditure contracted for the first time since the COVID-19 pandemic, mainly because of lower government consumption, while household consumption expanded only modestly amid elevated uncertainty. Investment recovered after five consecutive quarters of contraction, supported by spending on machinery and equipment, although building and construction remained weak. Net exports contributed positively, underpinned by resilient services exports, while merchandise exports contracted for a fourth consecutive quarter. Softer demand should reduce some demand-driven inflationary pressure, although it also points to more moderate growth.

16. The Committee took note that ongoing fiscal consolidation efforts to rebuild policy buffers and expand fiscal space could ease demand-side pressure and weigh on growth in the near term.

17. Labour market conditions remained favourable. The economy generated 6,100 additional jobs and the unemployment rate declined to 5.7 per cent in the first quarter of 2026, from 6.0 per cent a year earlier, which is close to historical lows. Shortages in labour-intensive sectors continued

to be met by foreign workers. Nominal wage growth accelerated to 5.6 per cent following the Pay Research Bureau salary revisions and the annual cost-of-living adjustment. Should wage increases continue to outstrip productivity gains, inflation pressures coming from the labour market side could materialise.

18. Credit and financial conditions remained supportive. Bank lending increased by 7.8 per cent in the year to June 2026. Household credit accounted for a relatively larger share of this increase at 11.2 per cent, compared to corporate lending at 5.0 per cent. Lending standards were broadly unchanged in the second quarter. Stress tests performed by the Bank on solvency and liquidity confirmed that the banking sector in Mauritius remains well capitalised overall, highly liquid and resilient to adverse shocks. The Bank will continue to monitor household indebtedness and sector-specific vulnerabilities.

19. **The Bank maintained its baseline projection for real GDP growth at 2.8 per cent in 2026, unchanged from the May MPC meeting.** Growth should remain moderate because of external headwinds and softer demand conditions. Members assessed those risks to the growth outlook continued to remain tilted to the downside.

Domestic Inflation

20. The inflation trajectory has been slightly lower than anticipated at the May meeting. Headline inflation eased to 4.0 per cent in July 2026, from 4.1 per cent in June, although y-o-y inflation increased to 4.4 per cent, from 3.7 per cent in June, reflecting the recent pass-through of taxes on demerit goods. Members cautioned against reading the small decline in headline inflation as evidence that inflation risks had disappeared.

21. The composition of inflation is instructive. Food inflation declined to 3.4 per cent y-o-y in July 2026, from 3.6 per cent in December 2025, reflecting lower prices for fresh vegetables and selected staples. Fuel inflation hovered at 7.9 per cent in July 2026 on a y-o-y basis, from -2.5 per cent in December 2025, reflecting upward adjustment in domestic petroleum prices in April. Underlying inflation also remained elevated on an annual average basis, with CORE1 and CORE2 inflation at 5.1 per cent and 6.2 per cent, respectively, in July 2026, relative to 4.1 per cent and 6.4 per cent in December 2025. With higher input costs and wages affecting production costs, the CORE

components could continue to stay high as firms sought to restore margins through upward price adjustments.

22. Inflation expectations warrant close attention. The Bank's June 2026 Inflation Expectations Survey showed 83 per cent of respondents expecting inflation to exceed 4 per cent by December 2026. Mean expectations one year ahead rose to 4.9 per cent, from 4.1 per cent a year earlier, while five-year-ahead expectations stood at 4.7 per cent, well above the medium-term mid-point inflation target of 3.5 per cent. Expectations matter because they influence wage- and price-setting decisions and can transform a temporary shock into a persistent one, even when that shock originates abroad. Keeping expectations well anchored, and communicating the Bank's commitment to price stability clearly, therefore, forms an integral part of the policy response alongside the Key Rate itself.

23. **The Bank projects headline inflation at around 5.0 per cent in 2026, at the upper bound of the 2-5 per cent inflation target range and 0.5 percentage point below the 5.5 per cent projected at the May MPC meeting.** The revision reflects two factors. First, realised inflation has been lower than anticipated, owing largely to the normalisation of fresh vegetable prices. Second, the projection now incorporates Budget 2026-27 measures on food subsidies which were not factored in during the May projections.

24. The improvement in the inflation forecast rests on narrow foundations, relying significantly on a single volatile component of the Consumer Price Index, while the inflation outlook for the year depends on assumptions about commodity prices, shipping costs and geopolitical developments that remain highly uncertain. These factors need to be balanced with moderating domestic demand and the continuing transmission of the May increase in the policy rate. Vigilance therefore remains necessary.

Money Market and Monetary Policy Transmission

25. The Bank continued to manage excess rupee liquidity actively to reinforce the signalling role of the Key Rate and strengthen monetary policy transmission. Since January 2026, it absorbed liquidity through Rs112.5 billion of short-term Bank of Mauritius Bills and Rs10 billion of Two-Year Bank of Mauritius Notes, complemented by standing facilities averaging Rs29.3 billion a day. The

outstanding stock of Bank of Mauritius securities, excluding overnight deposits, stood at Rs99.3 billion at end-July, some 60 per cent in maturities of up to one year.

26. These operations helped keep short-term money market rates within the interest rate corridor and ensuring orderly market conditions. Activity in the overnight interbank market strengthened after the May decision, with average daily transactions rising to Rs425.3 million, from Rs308 million. The overnight interbank rate adjusted to 3.50 per cent immediately after the decision, before easing to 3.40 per cent by end-July, remaining close to the lower bound of the corridor due to structural surplus liquidity. This justifies continued active liquidity management by the Bank.

27. Following the 25-basis-point increase in the Key Rate to 4.75 per cent in May 2026, market and retail interest rates adjusted broadly in line with the tighter stance. Yields on Bank of Mauritius Bills rose initially, before easing at the auction of 30 July 2026. The Savings Deposit Rate range increased from 2.95-3.40 per cent to 3.15-3.65 per cent, and the Prime Lending Rate range from 6.65-9.00 per cent to 6.90-9.00 per cent, while weighted average lending rates on new rupee loans also edged higher. Monetary policy works with lags, and the effect on household and business decisions, demand and ultimately inflation takes longer to emerge. The Bank is closely monitoring monetary operations to ensure that transmission is proceeding in the expected direction.

External Sector Developments

28. The domestic foreign exchange market remained broadly resilient despite heightened global financial market volatility. Turnover amounted to US$3.2 billion between 20 May and 31 July 2026, bringing cumulative turnover for the year to US$9.1 billion. Banks' purchases of foreign currency came mainly from the financial and accommodation sectors, while sales were concentrated in wholesale and retail trade, reflecting dependence on imported goods, intermediate inputs and energy.

29. Between January and July 2026, the rupee depreciated by 1.3 per cent against both the US dollar and the Pound sterling, while appreciating by 0.3 per cent against the euro. Over the period 20 May to 31 July, it appreciated against all three currencies. Exchange rate movements matter for inflation because imported goods account for a significant share of domestic consumption and production costs. The exchange rate must nevertheless retain the ability to adjust to market conditions. The Bank sold US$25 million since the last MPC meeting, bringing total intervention

between January and July 2026 to US$65 million. Members took note that such operations address temporary market imbalances rather than target any particular level of the exchange rate.

30. The country's external position improved in the first quarter of 2026. The current account deficit narrowed to 0.6 per cent of GDP, from 3.7 per cent a year earlier, supported by stronger services receipts, in particular gross tourism earnings, and a smaller merchandise trade deficit, as imports of goods fell more than exports. It was nonetheless observed that the volume of goods exports fell by 10.1 per cent while that of goods imports fell by 5.3 per cent. The Bank revised its baseline projection for the 2026 current account deficit to 5.3 per cent of GDP, from 6.7 per cent reported at the May 2026 MPC meeting to incorporate stronger-than-expected growth in services exports as well as latest developments on oil prices that lowered the projected trade deficit.

31. Gross Official International Reserves stood at US$9.7 billion at end-July 2026, equivalent to 13.7 months of imports (excluding Global Business Company (GBC) services imports) and 10.0 months (including GBC services imports). Members considered this an important buffer against external shocks. They nevertheless indicated that while external reserves provide insurance against shocks, they could not on their own replace the need for prudent macroeconomic policy.

Risk Assessment to Inflation and Growth Outlooks

32. The economy entered the second half of 2026 with important strengths but also significant vulnerabilities. Services exports, the banking system and international reserves provide buffers, and softer domestic demand is easing some pressure on prices. Against these stand elevated underlying inflation, higher inflation expectations, import dependence and an uncertain global environment. The outlook depends heavily on developments outside Mauritius: the Middle East conflict, global energy and food prices, shipping routes, global financial conditions and demand in the country's main trading partners.

33. Risks to inflation remain firmly tilted to the upside. A renewed escalation of geopolitical tensions, further disruption to the Strait of Hormuz or the Bab el-Mandeb Strait, or a sustained increase in international oil prices could potentially further raise the prices of imported goods, transport costs and domestic fuel prices. Given the country's relatively high import dependence, such increases could pass quickly into domestic prices, and exchange-rate pressures could amplify them if global financial conditions tightened. These risks are compounded by the limited capacity of

existing buffers in the domestic fuel pricing mechanism to absorb further increases in international oil prices. Domestically, higher input costs, wage pressures and firmer inflation expectations could broaden price increases and make inflation more persistent.

34. Inflation could also fall faster than assumed. A durable easing of geopolitical tensions, lower commodity prices, normalisation of shipping activity, moderating domestic demand, fiscal consolidation and food subsidies would all work in that direction. Members weighed both possibilities and judged the upside risks to be more significant.

35. Risks to growth are skewed to the downside. A worsening external environment could disrupt supply chains, raise firms' costs and reduce confidence, while higher fuel and transport costs would weigh on household purchasing power, business profitability and investment. Slower growth in Europe and Asia could affect tourism, exports and foreign direct investment. Domestically, fiscal consolidation, softer household spending, weak construction and structural difficulties in manufacturing could also weigh on economic activity. Public infrastructure projects, resilient services exports, strong reserves and a sound banking sector provide offsetting support.

36. The Committee reviewed alternative scenarios prepared by Bank staff around the duration and severity of the Middle East conflict. The baseline scenario assumes a gradual de-escalation of the conflict and a normalisation of shipping activity through the main trade routes during the second half of the year. A more adverse scenario, in which disruption to shipping activity is prolonged and international oil prices remain higher for longer, would raise inflation and slow growth relative to the baseline. A more favourable scenario, in which a durable settlement restores energy supplies and trade flows, would ease imported cost pressures and support somewhat stronger economic activity.

MPC Decision

37. Members discussed that, due to uncertainty about which scenario would materialise, it was best to remain prudent and data-dependent. This approach would also help preserve policy space and the capacity to act decisively in the near future, should the situation warrant it. This cautious stance is consistent with that of many central banks globally.

38. Keeping the Key Rate unchanged preserves room to respond in either direction, as new information becomes available.

39. **The Committee unanimously agreed that maintaining the Key Rate at 4.75 per cent per annum was appropriate.** Members discussed that the transmission of the May 2026 rate increase on the economy warrants continued monitoring, since monetary policy operates with long and variable lags.

40. The banking system continued to operate with adequate capital and liquidity, and credit continued to fund productive activity, following the May rate hike of 25 basis points.

41. The Committee emphasised that an unchanged Key Rate is not a signal that the monetary tightening cycle has concluded. The decision was conditional on the information available at the meeting. Should new information change the medium-term outlook and the balance of risks to inflation and growth, the MPC shall convene again and take appropriate actions.

42. The MPC shall be paying attention to core inflation, especially services inflation, wage dynamics, inflation expectations, exchange rate developments, international energy and freight prices, as well as developments in the Middle East, amongst others. On economic activity, members shall monitor demand-side developments, including household spending, investment, and net exports as well as sectoral developments, namely construction, manufacturing, tourism and financial services, amongst others.

43. The MPC stands ready to meet between its regular meetings and to act if that balance of risks changes materially based on new information. Maintaining price stability and keeping inflation expectations well anchored to preserve credibility will remain central to its deliberations.

44. The next MPC meeting is scheduled for 11 November 2026.

Notes:

1. Headline inflation is calculated using the annual average method, comparing the average level of prices over twelve months with the corresponding previous twelve-month period.

2. Year-on-year inflation is the percentage change in the Consumer Price Index for a given month relative to the same month a year earlier.

3. CORE1 inflation excludes food, beverages and tobacco components and mortgage interest on housing loans from headline inflation.

4. CORE2 inflation excludes food, beverages and tobacco, mortgage interest on housing loans, electricity, gas, other fuels and administratively controlled items from headline inflation.

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