Monetary Policy Report

June 2026

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 focuses 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 comprising 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 insights 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 May 2026, unless otherwise stated.

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

This report is available on the Bank of Mauritius website at https://www.bom.mu/publications-statistics/publications/monetary-policy-report.

Monetary Policy Report June 2026

ISSN 1694-3740

Table of Contents

List of Acronyms

AI	Artificial Intelligence
BML	Broad Money Liabilities
BoE	Bank of England
BoM	Bank of Mauritius
bps	Basis points
CIEA	Composite Indicator of Economic Activity
ECB	European Central Bank
FAO	Food and Agriculture Organisation
FX	Foreign Exchange
GBC	Global Business Company
GDP	Gross Domestic Product
GOIR	Gross Official International Reserves
IFC	International Financial Centre
IMF	International Monetary Fund
MERI	Mauritius Exchange Rate Index
MoU	Memorandum of Understanding
M-o-m	Month-on-month
MPC	Monetary Policy Committee
OECD	Organisation for Economic Co-operation and Development
PLR	Prime Lending Rate
PMI	Purchasing Managers' Index
Q-o-q	Quarter-on-quarter
QPM	Quarterly Projection Model
SDR	Savings Deposit Rate
US Fed	US Federal Reserve
WEO	World Economic Outlook
Y-o-y	Year-on-year

Executive Summary and Monetary Policy Decision

The macroeconomic assessment presented in this report points to a more challenging policy environment for Mauritius in 2026. The escalation of the conflict in the Middle East since the end of February 2026 has generated a significant external shock through higher energy prices, elevated freight and input costs, supply-chain disruptions and exchange rate pressures. These developments have strengthened imported inflation and increased the risk that initially external price pressures could transmit more broadly to domestic prices. Against this backdrop, the Monetary Policy Committee (MPC), at its May 2026 meeting, unanimously decided to raise the Key Rate by 25 basis points (bps) to 4.75 per cent.

The decision was calibrated to preserve price stability, reinforce monetary policy credibility, and help anchor inflation expectations over the medium-term. The Bank's Monetary Policy Framework remains centered on flexible inflation targeting, with an inflation target range of 2–5 per cent and the objective of achieving the mid-point of 3.5 per cent over the medium-term. In the current environment, the MPC judged that a timely and measured adjustment in the monetary policy stance was warranted to limit the risk of second-round effects, while taking into account the moderation in the growth outlook.

Global economy

Global economic conditions have become more uncertain since the February 2026 MPC meeting. The escalation of the Middle East conflict, including disruption around the Strait of Hormuz, led to a sharp increase in international oil prices, with Brent crude trading close to USD100 per barrel in April and May 2026, compared with around USD69 per barrel in February. Given that nearly one-fifth of global oil supplies transit through the Strait, the shock has had material implications for energy-importing economies. Higher oil prices have been accompanied by elevated freight, fertiliser and shipping costs, broadening the external cost shock beyond energy.

The outlook for global growth has weakened. In its April 2026 World Economic Outlook (WEO), the International Monetary Fund (IMF) projected global growth at 3.1 per cent in 2026[1], below the January projection, while alternative scenarios pointed to more adverse outcomes in the event of a prolonged conflict. Other international institutions, including the Organisation for Economic Co-operation and Development (OECD) and the World Bank, also revised down global growth prospects.

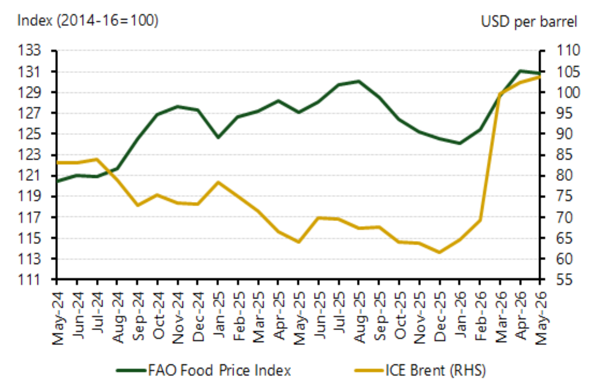
Activity across major economies remains uneven, with the US supported by fiscal spending, exports and investment in Artificial Intelligence (AI) infrastructure, while the euro area and the UK face weaker activity, elevated energy costs and tighter financial conditions. Emerging market economies have remained relatively resilient, but continue to face headwinds from higher commodity prices and tighter global financial conditions.

Global inflationary pressures have re-intensified. The IMF revised its global inflation projection for 2026[2] upward to 4.4 per cent, from 3.8 per cent in January. Inflation has increased in several advanced and emerging economies, mainly reflecting higher energy, food and other input costs. Major central banks have responded cautiously to the renewed inflation-growth trade-off. The US Federal Reserve and (US Fed) the Bank of England (BoE) kept policy rates unchanged, while the European Central Bank (ECB) raised its policy rate in June 2026. Global

[1] *The IMF, in its July 2026 WEO Update, projected global growth at 3.0 per cent in 2026.*

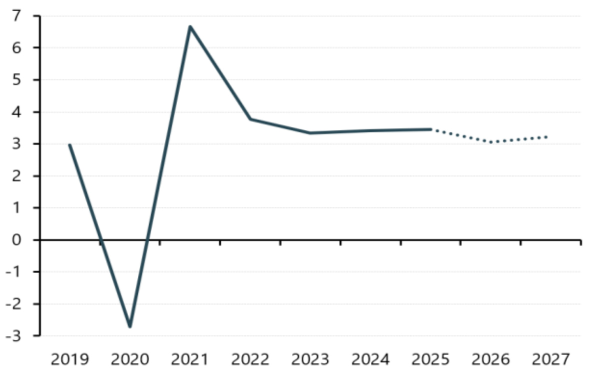
[2] *The IMF, in its July 2026 WEO Update, forecast global inflation at 4.7 per cent in 2026.*

Global oil and food prices



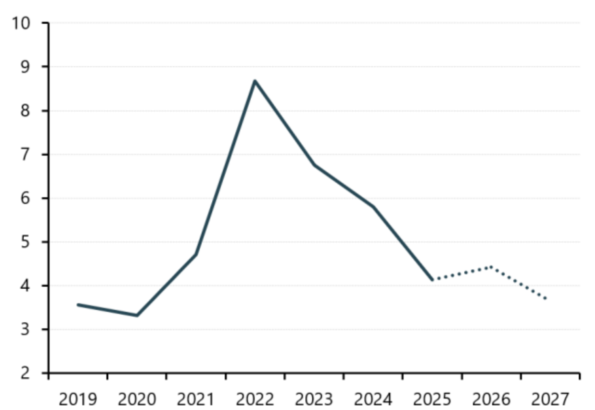
Sources: FAO and Refinitiv.

Global growth (%)



**Dashed line indicates forecast.*
Source: IMF.

Global inflation (%)



**Dashed line indicates forecast.*
Source: IMF.

financial markets have remained volatile, reflecting uncertainty about geopolitical developments, inflation persistence, policy rate paths and safe-haven demand for the US dollar.

Domestic economy

Domestic economic activity remained resilient in 2025, with real Gross Domestic Product (GDP) estimated to have expanded by 3.2 per cent, supported by tourism, financial services and household consumption. However, the external shock has weakened the near-term growth outlook. The Bank revised its 2026 real GDP growth forecast to 2.8 per cent, from the 3.3–3.5 per cent range presented at the February 2026 MPC meeting. The downward revision mainly reflects the expected impact of higher fuel and electricity costs and weaker external demand. Services activity is expected to remain the main anchor of growth, particularly financial services, wholesale and retail trade, tourism, and information and communication.

High-frequency indicators nevertheless suggest that economic activity continued to expand in the early part of 2026. Tourist arrivals increased by 3.2 per cent year-on-year (y-o-y) during January-May, while gross tourism earnings rose strongly during the first four months of the year. The trade deficit narrowed in 2026Q1, supported by lower imports. Labour market conditions also improved, with the unemployment rate declining to 5.4 per cent in 2025Q4, its lowest level in more than two decades. Employment and labour force participation increased, while the number of vacancies remained elevated, indicating sustained labour demand. Foreign labour continued to help ease capacity constraints in key sectors, including manufacturing, construction, wholesale and retail trade, and hotels and restaurants.

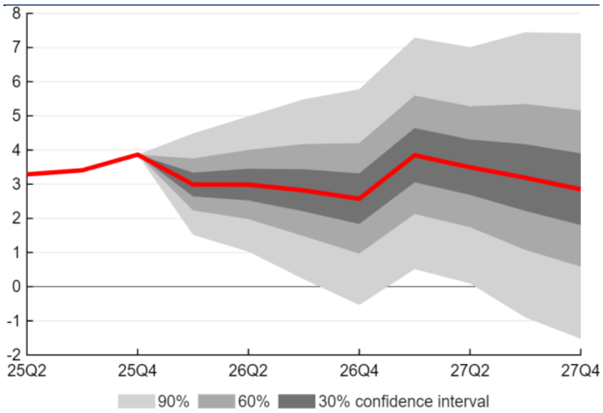
Financial conditions remained broadly supportive, although some tightening is expected following the May policy decision. Broad money growth eased to 8.7 per cent in March 2026, while private sector credit remained robust, with bank loans increasing by 11.7 per cent in the year to April. Household and corporate lending both contributed to credit growth. Liquidity in the banking system remained ample and continued to be managed through BoM Bills, notes, standing facilities and Foreign Exchange (FX) operations. The increase in the Key Rate is expected to pass through gradually to deposit and lending rates, raising borrowing costs in interest-sensitive segments while supporting interest rate differentials.

Price developments

Inflationary pressures have intensified since the February 2026 MPC meeting. Headline inflation stood at 4.2 per cent in May 2026, unchanged since March but above the 3.7 per cent recorded in December 2025. On a y-o-y basis, inflation increased to 4.3 per cent in May, from 2.7 per cent in March, reflecting higher energy costs, electricity tariffs, transport prices, prepared food prices and household-related costs. Measures of underlying inflation remained elevated, with CORE1 inflation at 6.6 per cent and CORE2 inflation at 6.1 per cent in May. These developments indicate that price pressures are no longer confined to the first-round effects of the energy shock and are increasingly reflecting broader domestic cost dynamics.

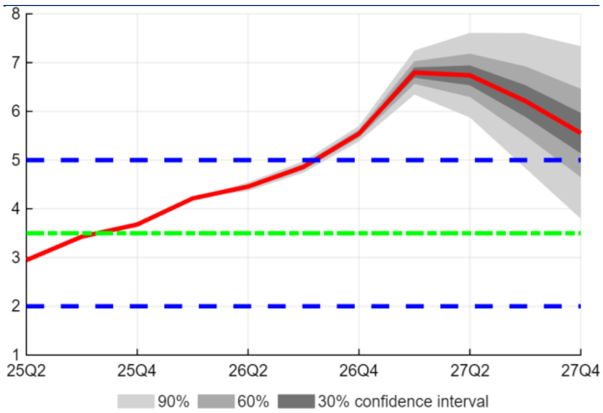
Food and fuel inflation have become more prominent drivers of headline inflation. Food inflation increased to 0.9 per cent y-o-y in May, while fuel inflation reached 8.9 per cent after having remained negative throughout 2025. These developments reflected higher global oil prices, transport costs, fertiliser prices and broader supply-chain pressures. CORE2 inflation made the largest contribution to headline inflation, followed by fuel and food. Wage growth has remained contained so far, suggesting that second-round wage pressures have been limited, but the Bank will continue to monitor wage- and price-setting behaviour closely.

Real GDP growth forecast (%)



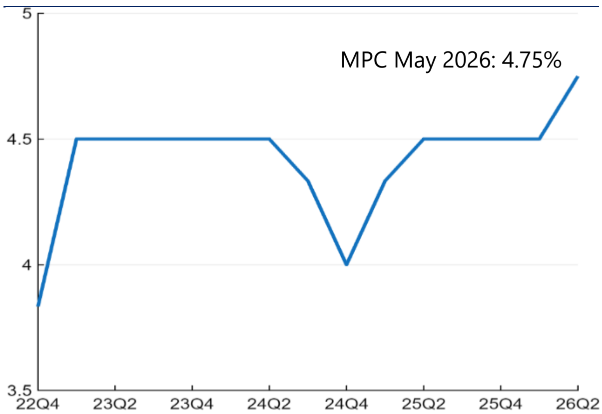
Source: BoM.

Headline inflation forecast (%)



Note: The fan chart depicts the uncertainty surrounding the baseline forecast. The central projection represents the most likely path, while the shaded bands show the probability distribution of possible outcomes.
Source: BoM.

Key Rate (%)



Source: BoM.

Outlook

The Bank's baseline forecast is conditioned on the assumption that the Middle East conflict is resolved by 2026Q2, that the Strait of Hormuz reopens, and that Brent crude oil averages USD90 per barrel in 2026. Under this baseline, real GDP growth is projected to moderate to 2.8 per cent in 2026. The output gap is expected to narrow as domestic demand softens and real monetary conditions become less supportive. Private consumption is projected to contribute less to growth, as higher energy and food prices weigh on household purchasing power. Private investment is expected to remain cautious amid uncertainty around global demand, energy prices, trade policy and financing conditions. The current account deficit is projected to narrow to around 6.7 per cent of GDP, supported by stronger primary income inflows despite pressure from the goods deficit and transport costs.

The inflation outlook has shifted materially higher. Headline inflation is projected to average around 5.5 per cent in 2026, above the Bank's 2–5 per cent target range, before easing gradually as the direct effects of the energy shock fade and base effects become more favourable. Energy prices are expected to dominate near-term inflation developments, while food inflation and core inflation are also projected to remain elevated. Real marginal cost pressures are expected to increase in 2026, mainly reflecting global commodity prices, exchange rate effects and imported inflation. Core inflation is projected to decline only gradually, consistent with the stickiness of services prices and higher near-term inflation expectations.

Risks to the outlook

Risks to growth remain tilted to the downside. Uncertainty remains around implementation of the US-Iran Memorandum of Understanding (MoU) and around maritime security and sanctions. Tourism could be affected by higher airfares, weaker confidence and softer demand in key source markets. Investment could remain subdued if firms delay capital spending until there is greater clarity on external conditions. Fiscal space could also be constrained if revenues fall short of expectations or expenditure pressures rise. These risks are partly mitigated by resilient services activity, firm labour market conditions, diversified sources of FX earnings, continued financial inflows through the Mauritius International Financial Centre (IFC) and the level of international reserves.

Risks to inflation are assessed to be skewed to the upside and remain more material than risks to growth. Persistently high oil prices, elevated freight costs, higher imported food and fertiliser prices, exchange rate pressures and stronger wage demands could keep inflation above target for longer. Inflation expectations remain a key channel through which temporary shocks could become more persistent. While medium-term expectations remain broadly anchored, a de-anchoring would increase the cost of returning inflation to target and could require a more restrictive monetary policy stance. Conversely, inflation could ease faster than projected if global energy prices normalise more quickly, food prices soften, the rupee appreciates or domestic demand weakens more than assumed.

Monetary policy decision

The MPC assessed that the macroeconomic environment had become more challenging since the February 2026 meeting. The balance of risks was characterised by downside risks to growth and more pronounced upside risks to inflation. Against this background, the Committee decided to raise the Key Rate by 25 bps to 4.75 per cent at its May 2026 meeting. The decision represented a measured adjustment in the monetary policy stance, aimed at reinforcing policy credibility, containing second-round inflationary pressures and supporting the return of inflation towards the target range over the medium-term.

In reaching its decision, the MPC carefully considered the implications of the heightened geopolitical uncertainty for a small and highly open economy such as Mauritius. Higher international fuel prices, elevated freight and transportation costs and exchange rate pressures could transmit rapidly to domestic prices through imported inflation channels, given the economy's high import content and relatively strong pass-through from external prices to the consumer basket.

The Committee judged that a timely increase in the policy rate was warranted to prevent the recent rise in inflation from becoming embedded in wage- and price-setting behaviour, and to support the convergence of inflation towards the 3.5 per cent mid-point of the target range over the medium-term.

The Committee also took into account the moderation in the domestic growth outlook. While growth is expected to slow, domestic economic activity is likely to remain supported by services, relatively firm labour market conditions, and a liquid, sound and well-capitalised banking sector. These conditions were assessed as providing sufficient resilience for the economy to absorb a moderate tightening in monetary policy.

After weighing the balance of risks, the MPC considered that the costs of delayed policy action could be significant. If inflationary pressures were allowed to become entrenched, they could erode household purchasing power, weaken confidence, distort economic decision-making and require a larger policy adjustment at a later stage. Acting in a timely and proportionate manner was therefore considered necessary to preserve price stability and safeguard macroeconomic stability over the medium-term.

The MPC reaffirmed that monetary policy will remain forward-looking and data-dependent. The Committee will continue to monitor closely developments in international energy and food prices, freight costs, the exchange rate, wage settlements, inflation expectations, credit conditions and indicators of domestic demand.

The Committee stands ready to take further action, as appropriate, to ensure that inflation expectations remain anchored and that inflation returns to the target range within a reasonable horizon, while limiting unnecessary volatility in economic activity.

Box I: Why must central banks act early on inflation?

The post-COVID-19 inflation surge, amplified by Russia's invasion of Ukraine in 2022, offers important lessons for Mauritius, given its high dependence on imported food, energy and intermediate goods.

As economies reopened in 2021, many central banks initially viewed higher inflation as transitory. This assessment proved too optimistic as supply constraints persisted and the Russia-Ukraine conflict sharply raised global food and energy prices.

Inflation subsequently reached multi-decade highs in several economies, while core inflation strengthened as second-round effects became embedded. Restoring price stability required forceful tightening: in 2022, the US Fed, the ECB and the BoE raised policy rates by 425, 250 and 325 bps, respectively.

The rapid tightening of global monetary conditions generated economic and financial strains, kept interest rates elevated for longer and raised government borrowing costs. The IMF estimates that each year of delay in responding to an inflation shock raises the eventual output cost of returning inflation to target by about 1–2 percentage points of GDP[3].

For Mauritius, the key lesson is that delayed action can make the eventual adjustment more disruptive, requiring tighter financial conditions and a larger output cost.

In 2022, the BoM raised the policy rate by 265 bps, a more measured tightening than in several advanced economies although domestic inflation was higher (Chart I). Interest rate differentials with the US turned strongly in favour of US denominated assets and the rupee exchange rate remained under significant depreciating pressure against the US dollar. The domestic experience shows the cost of delay: headline inflation peaked at 11.3 per cent in February 2023, while nominal and real wage

growth exceeded 10 per cent by 2024, reflecting wage-price dynamics in key sectors (Charts II and III).

The present shock differs from the 2022 episode. Supply-chain bottlenecks are less acute, global growth is weaker and major central banks are operating from a higher interest-rate base. However, for a small, open and import-dependent economy, the transmission from energy, freight and import prices to domestic inflation remains significant.

The case for early action rests on limiting the persistence of inflation rather than responding only to current price increases. Delayed policy adjustment can allow temporary shocks to feed into expectations, wages and price-setting behaviour, raising the eventual cost of restoring price stability.

[3] P. Benigno and G. B. Eggertsson, '*The Consequences of Falling Behind the Curve: Inflation Shocks and Monetary Policy*', IMF Working Paper WP/24/42, March 2024.

- Underlying pressures are firming. Core, services and domestically-generated inflation point to broader price pressures beyond the initial external shock (Charts IV–VII).

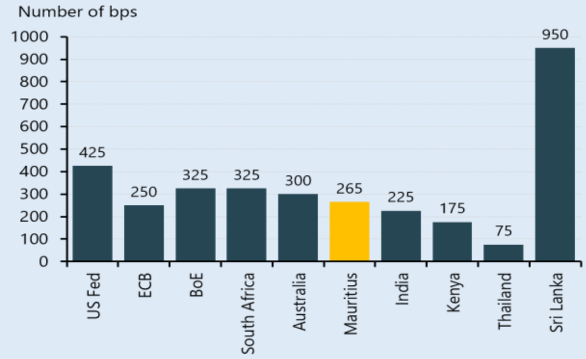
- Expectations require vigilance. The March 2026 Inflation Expectations Survey indicates higher near-term expectations (Chart VIII). Preventing these from spilling over to medium-term expectations is central to limiting inflation persistence.

- Delay can be more costly. When the banking system is sound and growth remains positive, a measured adjustment is likely to be less disruptive than a larger correction if inflation becomes entrenched.

- Credibility strengthens transmission. A timely and proportionate response reinforces confidence that monetary policy remains aligned with the price stability mandate.

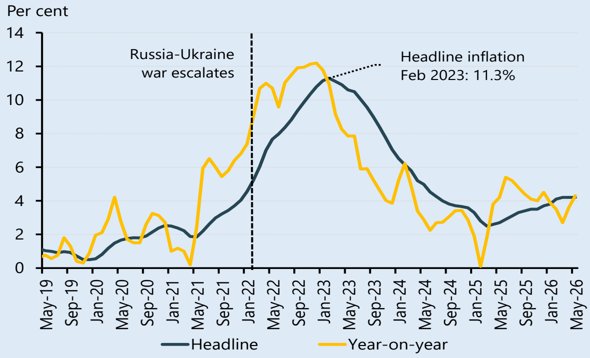
The policy lesson is therefore clear: early action helps contain second-round effects, preserve credibility and reduce the risk that a temporary external shock requires a sharper adjustment later. The approach remains calibrated, recognising the need to safeguard price stability while avoiding unnecessary strain on economic activity.

Chart I: Policy rate increases in 2022



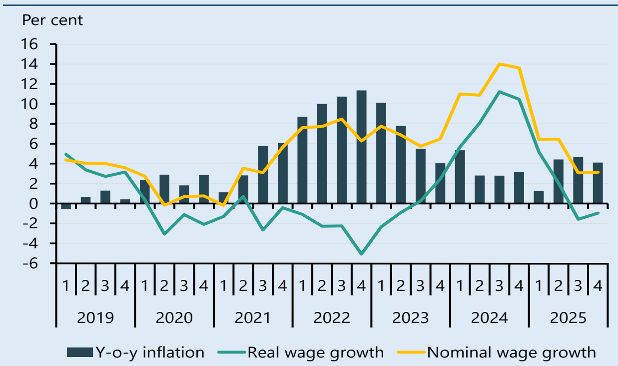
Sources: Refinitiv and central banks' websites.

Chart II: Inflation



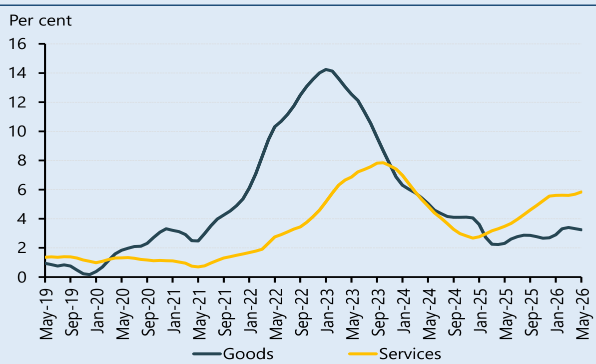
Source: Statistics Mauritius.

Chart III: Wage growth



Sources: Statistics Mauritius and BoM.

Chart IV: Goods and services inflation



Source: BoM.

Chart V: Domestically-generated and imported inflation

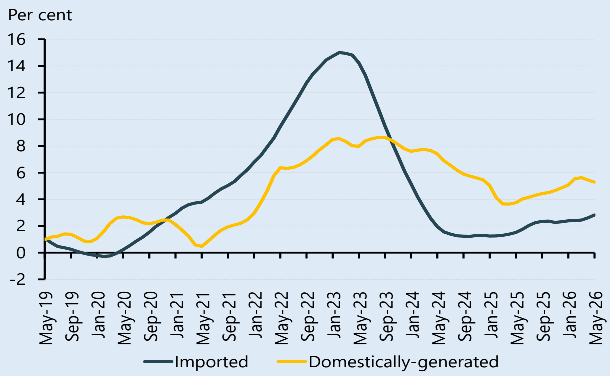


Chart VI: Contribution to CORE2 inflation

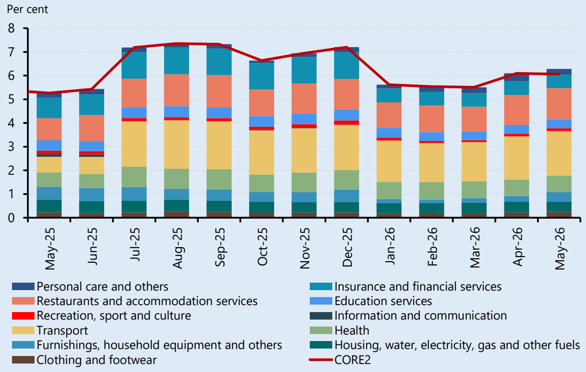


Chart VII: Annualised m-o-m inflation

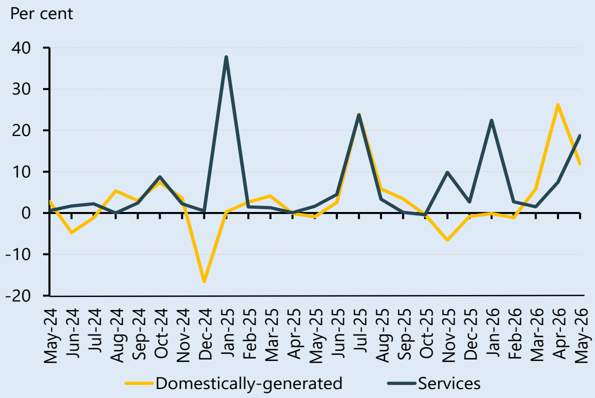
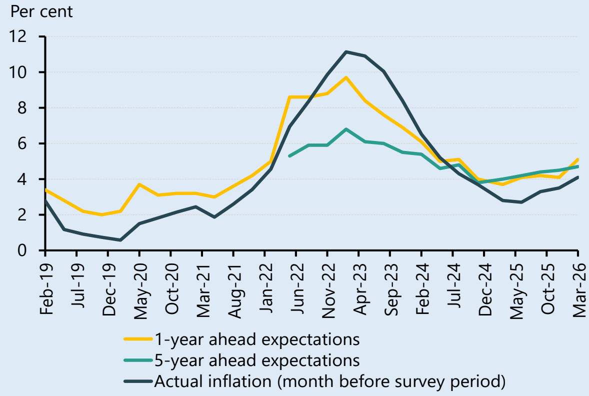


Chart VIII: Inflation expectations



Source: BoM.

1. Global Economic Environment

Global economic activity remains uneven, and heightened geopolitical tensions following the escalation of the Middle East conflict in late February 2026 have further clouded the outlook. The conflict has disrupted energy markets and supply chains, intensified global inflationary pressures, and weighed on growth prospects.

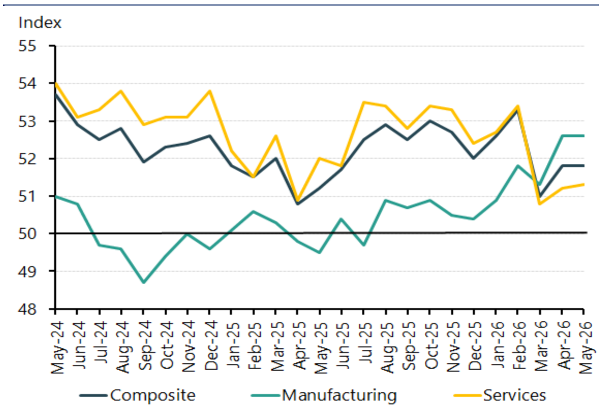
Recent global developments

Global growth remained resilient in 2025, with output expanding by 3.4 per cent. Since then, uncertainty has increased markedly following the recent conflict, particularly the closure of the Strait of Hormuz, which has disrupted supply chains and pushed petroleum prices sharply higher. These developments are expected to weigh on confidence, demand and global activity, although a clear slowdown has not yet become evident in the incoming data.

Leading indicators, including the Purchasing Managers' Index (PMI), still point to continued global expansion. The J.P. Morgan Global Composite Output Index rose to 51.8 in April and May, from 51.0 in March (Charts 1.1 and 1.2). However, this strength may partly reflect temporary factors, including frontloading of orders and inventory accumulation ahead of potential supply disruptions. The data therefore remain consistent with ongoing growth for now, but they may be overstating underlying momentum and could mask softer final demand, increasing the likelihood of a slowdown once inventory cycles normalise.

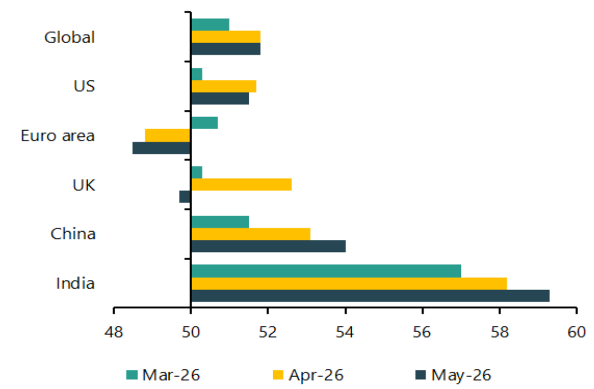
In its April 2026 WEO, the IMF presented three macroeconomic scenarios of increasing severity. Under the reference scenario, global growth is projected at 3.1 per cent in 2026, 0.2 percentage point lower than the January 2026 forecast, reflecting the conflict's adverse effects on energy markets, inflation expectations and financial conditions. A prolonged conflict and persistent

Chart 1.1: Global PMI



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

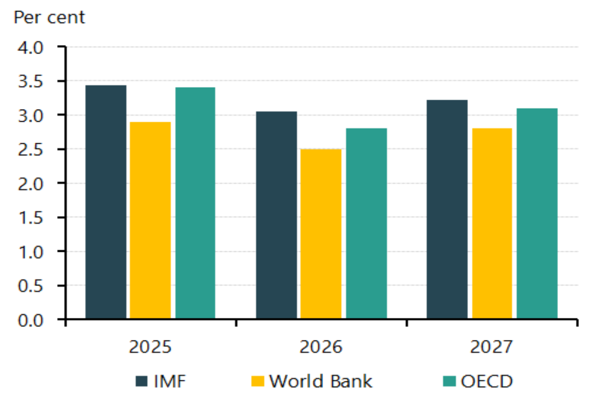
Chart 1.2: Composite PMI



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

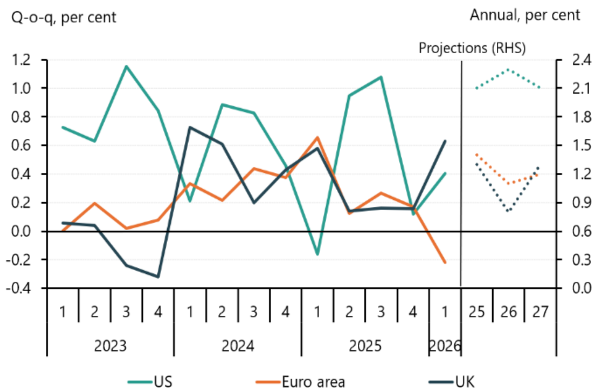
commodity price shocks could slow global growth to 2.5 per cent and, in a more severe case, 2.0 per cent in 2026. The OECD June 2026 Economic Outlook similarly projects global growth moderating to 2.8 per cent in 2026, with only a modest recovery to 3.1 per cent in 2027. The World Bank June 2026 Global Economic Prospects also forecast global growth to be lower at 2.5 per cent in 2026, before improving to 2.8 per cent in 2027 (Chart 1.3).

Chart 1.3: Global growth forecasts



Sources: IMF, World Bank and OECD.

Chart 1.4: Growth in advanced economies



Projections are from IMF WEO April 2026.
Sources: OECD and IMF.

Global trade

Global trade prospects have weakened markedly. The IMF projects trade volume growth to slow to 2.8 per cent in 2026 amid disruptions to global seaborne trade and fading tariff-related front-loading that took place in 2025. The closure of the Strait of Hormuz has significantly constrained shipping capacity, resulting in longer transit times and higher freight costs. Compounding these disruptions, the introduction of broad-based tariff measures by major economies – most notably the US – has added further barriers to cross-border trade flows, raising the effective cost of imports and dampening global trade momentum.

Growth in major economies

Growth remained uneven across major economies. In the US, output expanded by 0.4 per cent in 2026Q1, supported by higher government spending, stronger exports and continued investment in AI infrastructure. Growth is projected at 2.3 per cent in 2026, underpinned by fiscal support and the lagged effects of earlier monetary policy easing. However, higher trade barriers introduced since April 2025 continue to weigh on economic activity (Chart 1.4).

By contrast, activity in the euro area contracted by 0.2 per cent in 2026Q1, reflecting industrial weakness, structural constraints and spillovers from the war in the Middle East. Output is expected to slow further in 2026, weighed down by elevated energy prices and a loss of competitiveness associated with the real appreciation of the euro. In the UK, economic activity remained subdued, with growth projected to ease to 0.8 per cent in 2026 amid the combined effects of geopolitical tensions and restrictive monetary policy.

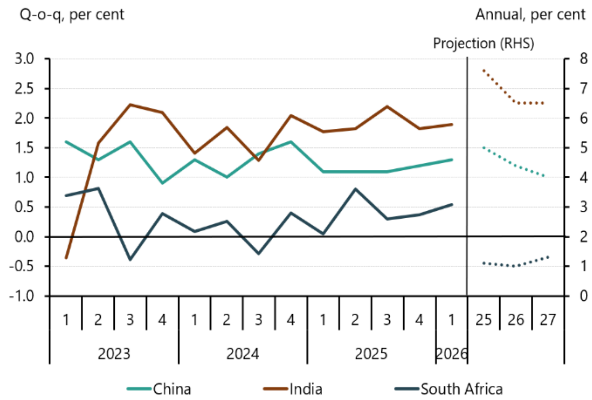
Emerging market economies have shown relative resilience, although performance has varied across regions. China's economy expanded modestly in early 2026, supported by industrial output and exports, but growth is expected to moderate to 4.4 per cent over the year as structural adjustments continue. In India, activity softened slightly, with growth projected at 6.5 per cent for fiscal year 2026-27, supported by easing trade restrictions and positive carryover effects. South Africa's growth outlook remains subdued, with projections revised down to 1.0 per cent in 2026 amid persistent external headwinds (Chart 1.5).

Risks to the global growth outlook remain tilted to the downside. Further geopolitical escalation could disrupt supply chains, heighten commodity price volatility and intensify inflationary pressures. High public debt in many economies and tighter financial conditions may further weigh on growth. On the upside, stronger-than-expected productivity gains, particularly from AI-related technologies, could support global activity.

Commodity prices and freight costs

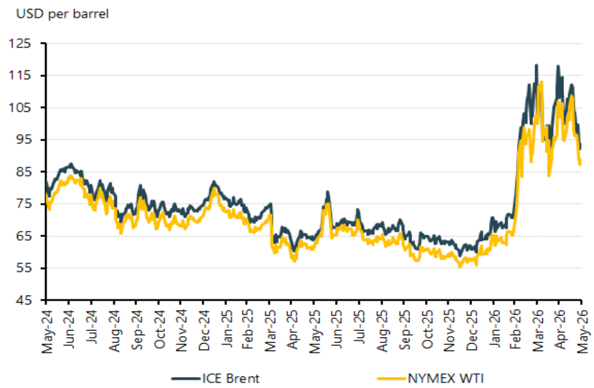
Commodity prices have risen sharply in response to supply disruptions and elevated transport costs. From the start of the conflict up to early June, crude oil prices have averaged USD102 per barrel (Chart 1.6). While prices are about 52 per cent higher than before the crisis, they have been restrained to some extent by a combination of demand losses from China, Asia and Africa, large-scale drawdowns from strategic reserves, as well as alternative export routes that have helped to partly cushion the impact of the closure of the Strait of Hormuz. Oil exports via the Strait have also recently increased, but flows remained only about 25 per cent of pre-war levels (Chart 1.7).

Chart 1.5: Growth in emerging economies



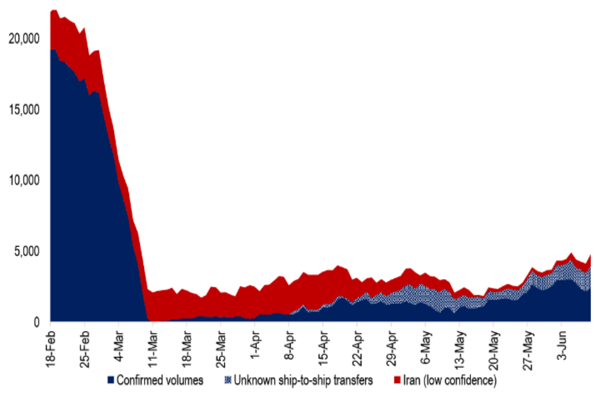
Projections are from IMF WEO April 2026.
Sources: OECD and IMF.

Chart 1.6: Crude oil prices



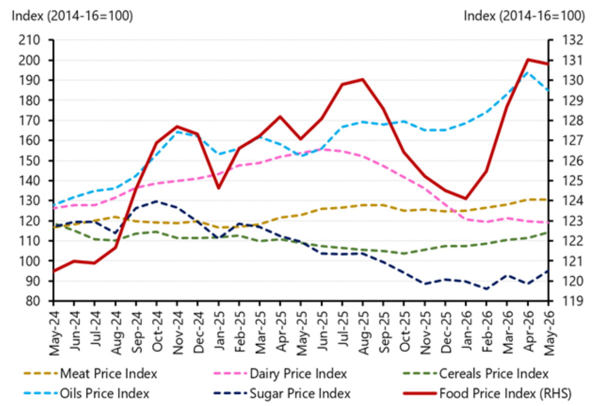
Source: Refinitiv.

Chart 1.7: Oil exports via the Strait of Hormuz



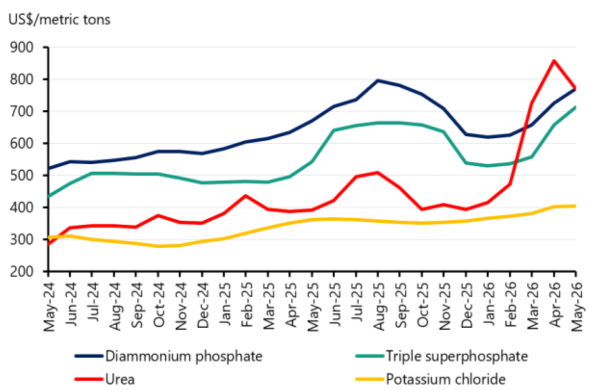
Source: J.P. Morgan Markets.

Chart 1.8: FAO Food Price Index



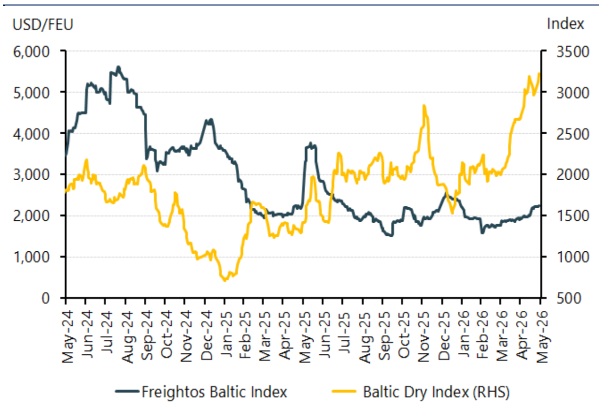
Source: FAO.

Chart 1.9: Fertiliser costs



Source: World Bank.

Chart 1.10: Shipping costs



Source: Refinitiv.

The US Energy Information Administration forecast that crude oil prices would average USD95 per barrel in 2026 based on information available as at 09 June 2026. With the recent news that a ceasefire agreement has been reached between the US and Iran, and that the Strait of Hormuz would reopen to normal traffic, it is likely that the pace at which oil supply normalises will be a key determinant of oil price evolution during the second semester. There is still significant uncertainty as to how supply will adjust to the end of the war: in one scenario, the world could be faced with a supply surge and sharp drop in oil prices as stranded tankers resume their journeys and oil wells quickly reopen across the Gulf; in another scenario, oil prices could stabilise as infrastructure damage may limit full production recovery and shipping frictions in terms of continued high insurance costs and security risks persist.

Global food prices have been on an upward trajectory, driven by higher energy and input costs (Chart 1.8). The Middle East conflict resulted in substantial disruptions in fertiliser production and exports given that a substantial share of global sulphur and urea exports transit through the Strait of Hormuz (Chart 1.9).

Risks to food price inflation remain skewed to the upside, both from uncertainty about future fertiliser supply and the possibility of adverse weather conditions. The potential return of El Niño conditions in the second half of 2026 could reduce crop yields in key agricultural regions across Asia, Africa and Latin America.

Shipping costs have contributed to elevated commodity prices. They rose significantly as the Middle East crisis escalated due to higher fuel costs, war-risk insurance premiums and ongoing supply chain disruptions. The Baltic Dry Index – a broader measure of dry bulk shipping costs reflecting demand for raw materials such as coal, iron ore and grain – has risen by nearly 50 per cent between February and May 2026 as rerouting added vesseldays and tightened bulk carrier availability. The Freightos index, a measure of freight/shipping costs, was also up by 47 per cent with the onset of the war. Freight rates are expected to remain elevated and volatile over the near-term, adding a persistent cost dimension to the global inflationary environment (Chart 1.10).

Inflation developments

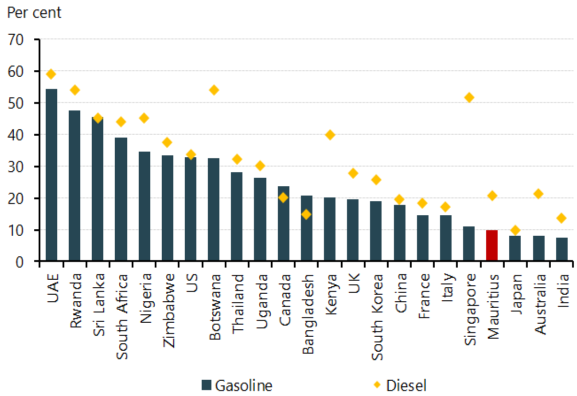
The oil supply shock has led to a resurgence of inflationary pressures through its direct impact on energy prices worldwide. Notable increases in fuel prices were recorded across countries since the onset of the Middle East crisis (Chart 1.11).

In the US, consumer price inflation rose from 3.3 per cent in March 2026 to 3.8 per cent in April and further to 4.2 per cent in May, while euro area inflation picked up from 2.6 per cent to 3.2 per cent in May. Energy-importing emerging economies have also experienced the first-round effects from higher oil prices. India's inflation rose to 3.9 per cent in May, marking the highest inflation rate in a one-year time span, while inflation in South Africa rose to 4.5 per cent (Chart 1.12). Survey based evidence indicates that short-term inflation expectations in the US, euro area and UK have firmed, largely reflecting the pass through of higher energy and input costs (Chart 1.13).

The IMF projects global inflation to rise to 4.4 per cent in 2026, with upside risks stemming from persistent energy and food price pressures, but to recede to 3.7 per cent in 2027 as the impact of the war gradually fades out. Inflation in advanced economies in 2026 is expected to remain above-target, with inflation forecast at 3.2 per cent in the US, 2.6 per cent in the euro area and 3.2 per cent in the UK.

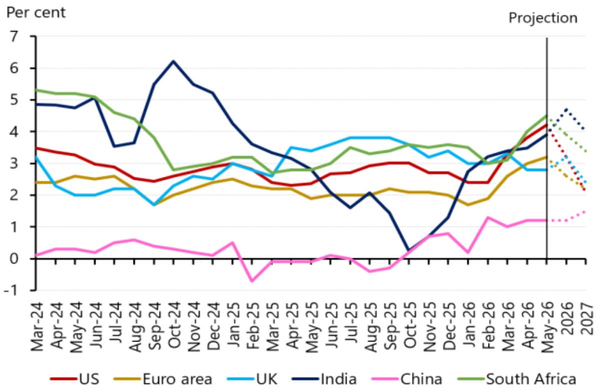
Emerging market economies are also likely to face strong inflationary pressures in 2026 given their higher energy and food import intensities. In India, inflation is expected to accelerate to 4.7

Chart 1.11: Change in fuel prices



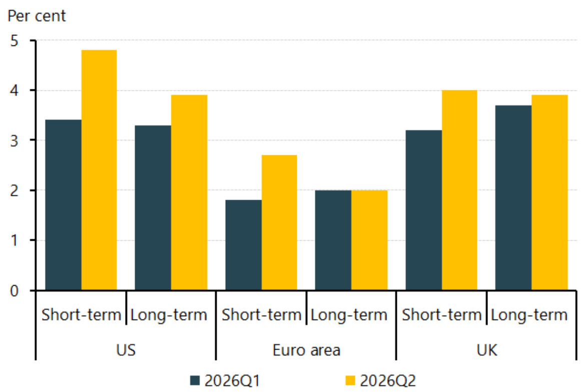
Source: GlobalPetrolPrices.com.

Chart 1.12: Inflation rate for selected economies



Note: Projections are from the IMF WEO April 2026.
Source: Refinitiv.

Chart 1.13: Inflation expectations



Sources: Surveys of Consumers, University of Michigan; ECB Survey of Professional Forecasters, 2026Q2; Bank of England/Ipsos Inflation Attitudes Survey, May 2026.

per cent, while in South Africa it is expected to increase to 3.9 per cent, driven primarily by higher energy costs. Meanwhile, inflation in China is anticipated to gradually pick up from current low levels.

Risks to the global inflation outlook remain skewed to the upside in the current environment. Elevated oil and food prices pose persistent inflation risks, while tighter global financial conditions and a stronger US dollar add pressure on emerging and small open economies. In parallel, resilient labour markets in some advanced economies could sustain demand and slow the disinflation process.

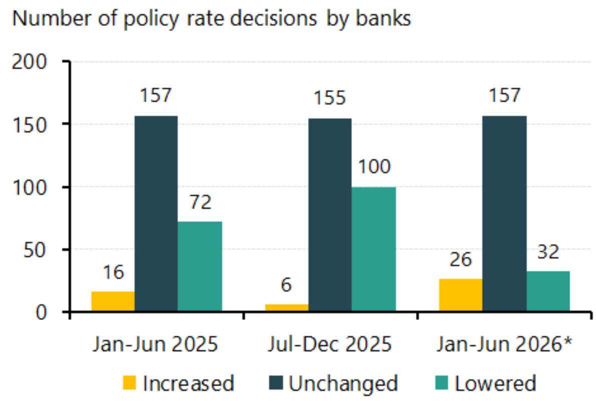
Monetary policy developments

Since the onset of the conflict, global monetary policy has shifted towards a markedly more cautious stance. Central banks have largely paused their easing cycles as inflation risks have re-emerged alongside weakening growth, creating a difficult policy trade-off. The majority of monetary policy decisions since late February 2026 have been to hold rates unchanged. Out of 145 MPC decisions, 109 decisions were to maintain the status quo, 14 decisions were to cut rates and 22 decisions were to raise rates (Charts 1.14 and 1.15).

At its June 2026 meeting, the BoE maintained its policy rate at 3.75 per cent, citing elevated uncertainty and balancing the risks of second-round effects on inflation against signs of a weakening economy. The US Fed also held the federal funds rate unchanged at 3.50–3.75 per cent in June, reflecting sustained economic activity and stable labour market conditions, despite inflation remaining above target.

However, as widely expected, the ECB raised its policy rate to 2.25 per cent at its June 2026 meeting. A higher path for energy prices, and food that would increase goods and services inflation motivated the policy rate hike.

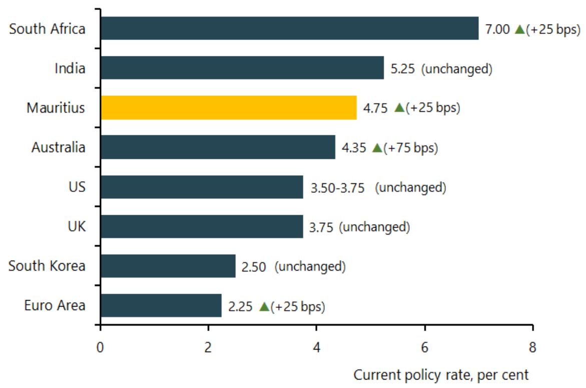
Chart 1.14: Policy rate decisions



**Data as at 17 June 2026.*

Source: Central banks' websites.

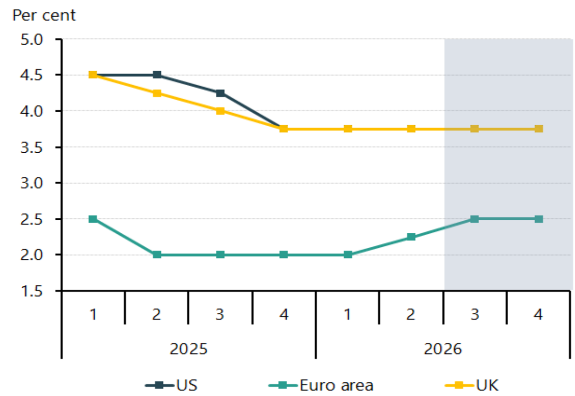
Chart 1.15: Policy rates in key economies



Source: Refinitiv.

According to the latest Refinitiv poll, the ECB is projected to tighten its monetary policy stance further, with an additional rate hike of 25 bps in 2026Q3. Meanwhile, the US Fed and the BoE are now expected to maintain their policy rates unchanged in 2026. However, some financial analysts anticipate a possible 25 bps increase in the Fed funds rate by the end of the year. Looking ahead, monetary policy is expected to remain firmly data-dependent as central banks navigate an increasingly complex and uncertain environment (Chart 1.16).

Chart 1.16: Expected policy path

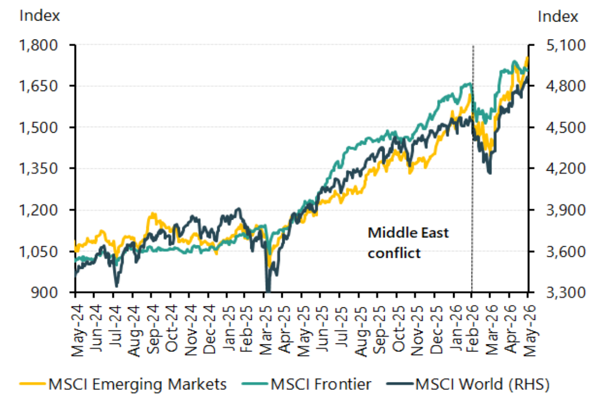


Source: Refinitiv polls as at 18 June 2026.

Financial market developments

Global financial markets have remained volatile but broadly resilient. Major equity markets continue to perform well, supported by firm risk sentiment, strong corporate earnings and sustained momentum in technology-related sectors. US equities have been buoyed by the strong performance of AI-related firms, while stock markets in Latin America have benefited from robust foreign capital inflows into commodity sectors. By contrast, European and developing Asian indices have faced margin pressures and weaker equity returns (Chart 1.17).

Chart 1.17: Equity markets

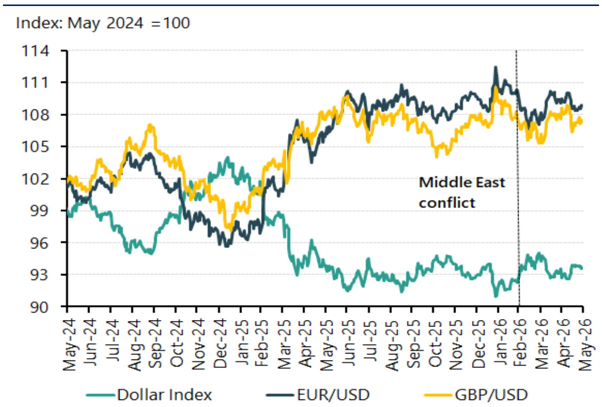


Source: Refinitiv.

Bond markets have been highly volatile, with a sharp sell-off in sovereign debt as investors reassessed the inflation outlook and expected policy rate paths. Yields in major economies have risen, lifting financing costs and tightening financial conditions.

FX markets have remained highly sensitive to geopolitical developments. The US dollar strengthened in March on safe-haven demand but has since fluctuated in line with changes in risk sentiment, inflation dynamics and interest rate expectations (Chart 1.18). In the short term, exchange rate volatility is expected to persist, though the US dollar is likely to remain firmer for longer, supported by its safe-haven status and market repricing of the US Fed's policy path.

Chart 1.18: Foreign exchange



Source: Refinitiv.

2. Domestic Economy

Domestic economic activity has remained resilient, supported by continued expansion in key services sectors. However, the growth outlook has become more uncertain and is tilted to the downside, reflecting a less supportive external environment and spillovers from the conflict in the Middle East. Accordingly, the Bank revised its 2026 real GDP growth forecast down to 2.8 per cent, from the 3.3–3.5 per cent range presented at the February 2026 MPC meeting.

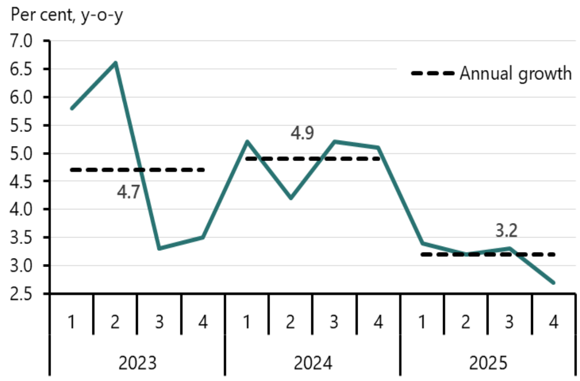
Recent economic developments

Domestic economic activity remained resilient in 2025Q4, but momentum moderated and the underlying growth impulse became less broad-based (Chart 2.1). While output continued to expand, the softer print points to rising constraints on domestic activity and greater sensitivity to external shocks.

The services sector continued to anchor growth, partly offsetting weaknesses elsewhere in the economy. '*Financial and insurance activities*' sustained firm growth, supported by banking, insurance and global business services. '*Wholesale and retail trade*' also expanded, underpinned by resilient household spending, while '*Accommodation and food service*' activities remained on an upward trajectory (Chart 2.2). However, the outlook for these sectors is exposed to downside risks from weaker external demand, higher transport and energy costs, and possible second-round effects from geopolitical disruptions.

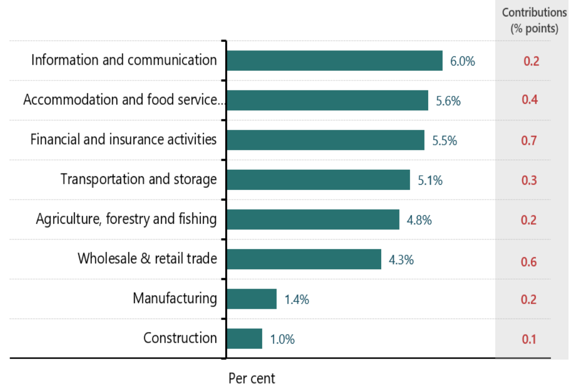
In contrast, productive sectors have performed unevenly. Manufacturing recorded modest growth but continued to face labour shortages and elevated input costs, while construction activity remained weak following contractions earlier in 2025 and only a limited subsequent recovery.

Chart 2.1: Real GDP growth



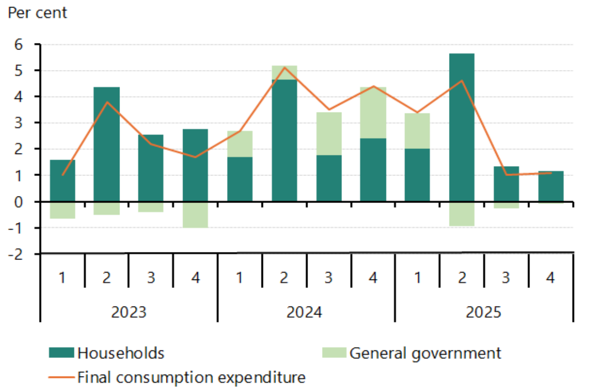
Source: Statistics Mauritius.

Chart 2.2: Sectoral growth rate, 2025Q4



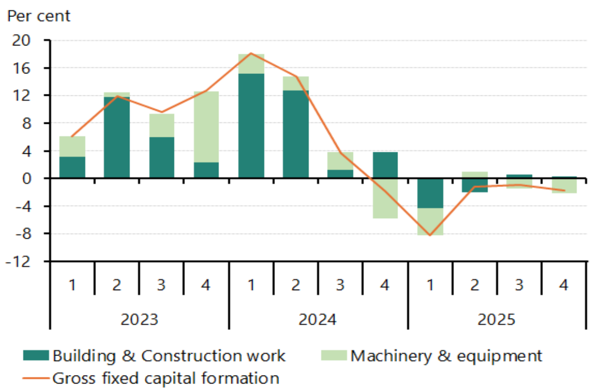
Source: Statistics Mauritius.

Chart 2.3: Final consumption expenditure



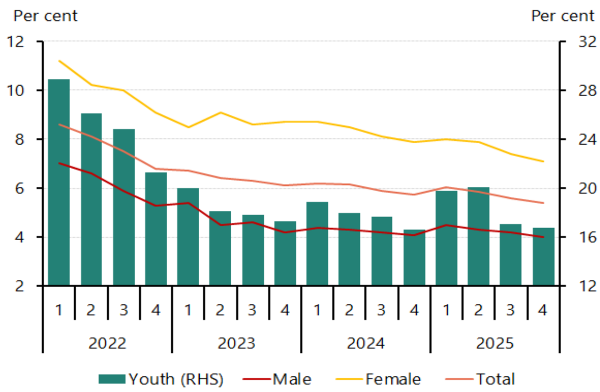
Source: Statistics Mauritius.

Chart 2.4: Gross fixed capital formation



Source: Statistics Mauritius.

Chart 2.5: Unemployment rate



Source: Statistics Mauritius.

On the expenditure side, growth remained dependent on household consumption, leaving the recovery vulnerable to shocks to real income and confidence. Government consumption contracted, consistent with efforts to contain current expenditure and strengthen fiscal sustainability (Chart 2.3). Investment conditions remained subdued, with gross fixed capital formation declining for a fifth consecutive quarter in 2025Q4. The weakness was concentrated in *'Machinery and equipment*', while investment in 'B*uilding and construction work'* increased only marginally (Chart 2.4). Persistent weakness in investment points to downside risks to potential growth over the medium-term.

Net exports contributed positively to growth in 2025Q4, supported by continued expansion in services exports, notably tourism and Global Business activities, including cross-border financial and corporate services. While external conditions remain subject to uncertainties related to geopolitical developments, the services sector exports have demonstrated resilience, underpinned by stable demand for offshore financial services and buoyant tourist arrivals.

In contrast, goods exports recorded only modest gains amid subdued manufacturing activity, whereas imports continued to expand, reflecting sustained domestic demand.

Labour market developments

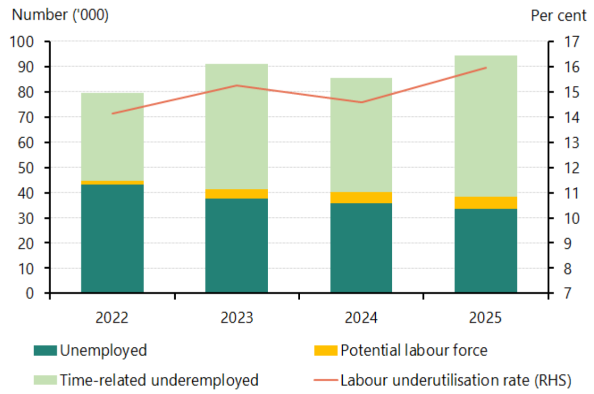
The labour market improved further in 2025Q4, although slack remains in some segments. Employment increased by 10,500 compared with a year earlier, while the unemployment rate declined to 5.4 per cent from 5.6 per cent in 2025Q3, reaching its lowest level in more than two decades (Chart 2.5). Unemployment among both men and women fell to record lows of 4.0 per cent and 7.1 per cent, respectively. Youth unemployment also eased, from 17.1 per cent in 2025Q3 to 16.8 per cent in 2025Q4 but remained elevated and continued to pose risks of entrenching skills mismatches and weakening human capital accumulation.

Labour supply also expanded over the quarter, with the labour force rising by 8,800 compared with a year earlier. The increase appears to have reflected stronger participation among women, including homemakers entering or re-entering the labour market towards year-end, as well as possible additional participation by retired or older workers seeking to supplement household income. These developments suggest that higher labour demand continued to draw additional workers into the labour force.

Broader indicators of the labour market remained broadly stable in 2025. Labour underutilisation, comprising the '*unemployed*', the '*potential labour force*' and '*time-related underemployed persons*', was little changed, consistent with relatively firm underlying labour market conditions. At the same time, the economy continued to absorb additional workers without a material build-up of spare capacity. A marked increase in reported vacancies at end-2025 further points to sustained labour demand across sectors (Charts 2.6 and 2.7).

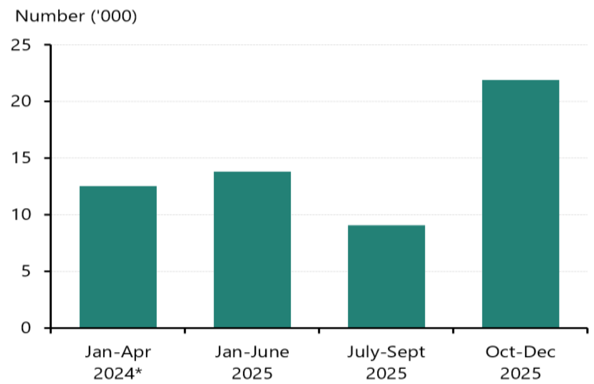
Foreign labour continued to play a complementary role in easing capacity constraints in key sectors during 2025. The rise in total work permits, reflecting both new issuances and renewals, indicates that firms relied increasingly on migrant workers to meet labour needs, particularly in labour-intensive activities such as '*Manufacturing*', '*Construction*', '*Wholesale and retail trade*', and '*Hotels and restaurants*'. Government measures facilitating the recruitment of foreign workers appear to have supported this adjustment (Chart 2.8). The greater use of foreign labour was accompanied by higher outward workers' remittances, consistent with increased income transfers by migrant workers to their countries of origin (Chart 2.9).

Chart 2.6: Labour underutilisation



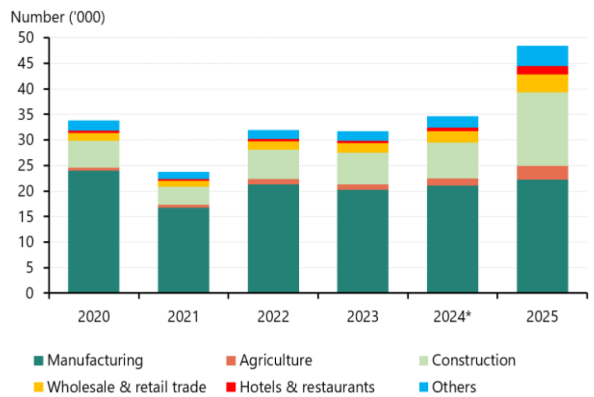
Source: Statistics Mauritius.

Chart 2.7: Number of vacancies



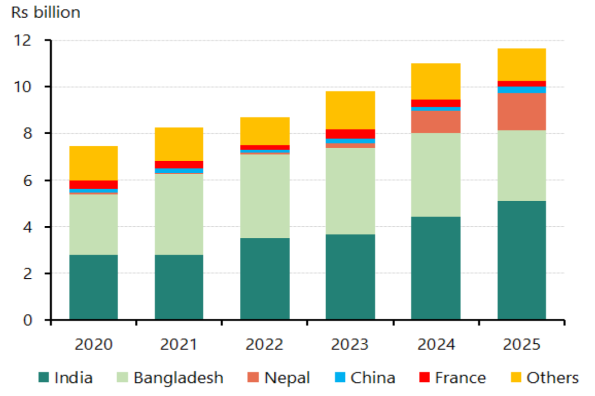
** Data from May to December 2024 are not available.*
Note: This represents number of vacancies advertised in the press and notified to Employment Information Centres.
Source: Ministry of Labour and Industrial Relations.

Chart 2.8: Work permits by industry



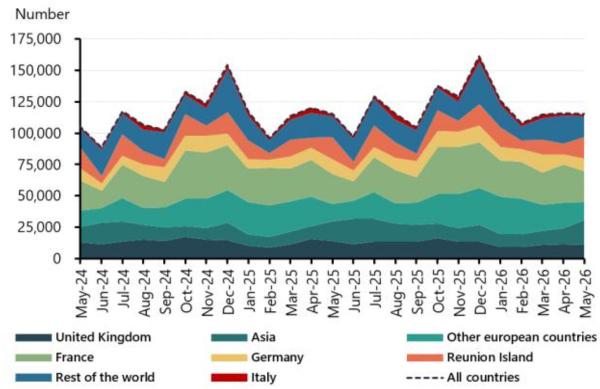
** Data as at April 2024.*
Source: Ministry of Labour and Industrial Relations.

Chart 2.9: Outward workers' remittances



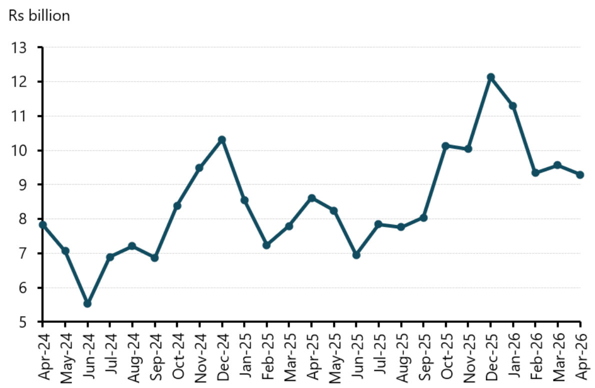
Source: BoM.

Chart 2.10: Tourist arrivals



Source: Statistics Mauritius.

Chart 2.11: Tourism earnings



Source: BoM.

Current economic conditions

Current estimates suggest that the economy is operating slightly above its potential (Box II). This points to limited spare capacity in the economy and suggests that demand conditions are sustained, even as external risks have increased. At the same time, monetary policy conditions are assessed to be broadly neutral, implying that the current stance is neither materially stimulating nor restraining economic activity.

High-frequency indicators suggest that economic activity remained resilient in the early part of 2026, but the balance of risks has deteriorated. Tourism continued to expand despite geopolitical disruptions. Tourist arrivals rose by 3.2 per cent y-o-y during January-May, reaching 579,373 visitors (Chart 2.10). Although lower flight frequencies weighed on connectivity, alternative routes and additional operations by other airlines partly offset the impact.

Gross tourism earnings rose by 22.6 per cent y-o-y, amounting to around Rs40 billion during the first four months of 2026 (Chart 2.11), equivalent to increases of 11.0 per cent in Euro terms and 21.6 per cent in US dollar terms. The sector remains exposed to risks from higher fuel prices, weaker external demand and renewed disruption to air connectivity.

The external position strengthened in 2026Q1 as the merchandise trade deficit narrowed by 2.9 per cent y-o-y. The improvement mainly reflected a decline in imports, particularly of *'manufactured goods classified chiefly by material'*, *'mineral fuels, lubricants and related products'*, and *'machinery and transport equipment'*, while exports remained broadly resilient. The narrower deficit should help ease FX demand pressures and, together with sustained net services receipts, support growth.

Box II: Assessing potential output in Mauritius

Potential output represents the level of economic activity that can be sustained over the medium- to long-term without generating inflationary pressures. It provides an assessment of the economy's productive capacity, reflecting developments in labour, capital and productivity. As potential output is not directly observable, it is estimated using a range of analytical approaches, supported by judgement and subject to uncertainty.

Estimates based on a Cobb-Douglas production function, using proxies for potential Total Factor Productivity (TFP), labour supply and capital accumulation, suggest that potential output growth has trended down over the past two decades. The decline mainly reflects slower growth in labour supply and productivity, with a smaller contribution from capital accumulation. Robustness checks using Hodrick-Prescott and Kalman filtering techniques point to a similar profile, with the three approaches indicating an average potential growth rate of around 3.2 per cent over 2001–2025.

Chart I: Growth accounting decomposition

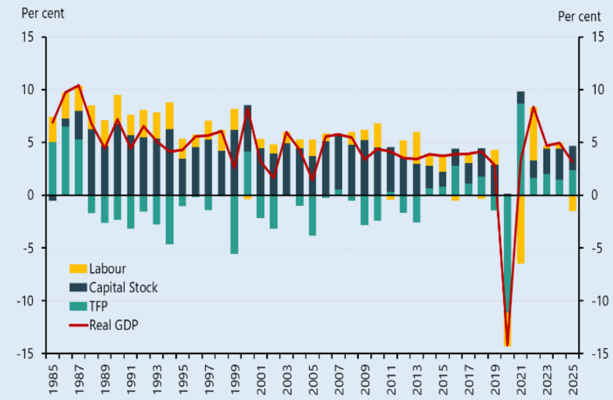


Chart II: Trends in productivity growth

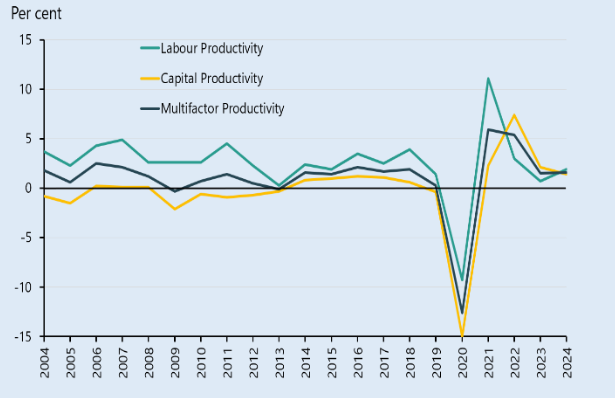


Chart III: Potential growth using the Cobb-Douglas production function

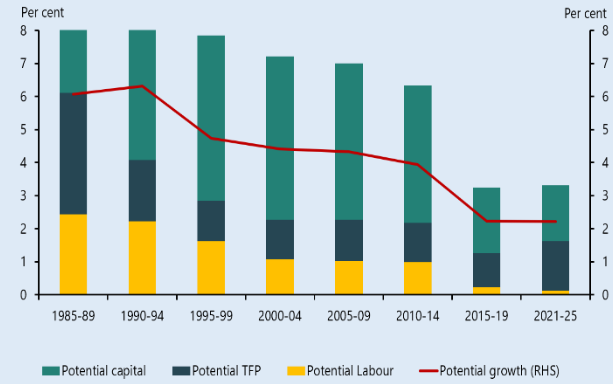
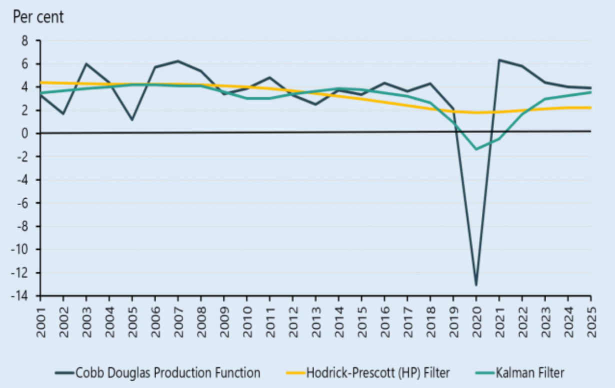


Chart IV: Potential output growth



Sources: Statistics Mauritius and BoM.

The Bank's Composite Indicator of Economic Activity[4] (CIEA), an independent satellite model based on high-frequency indicators, also points to continued near-term expansion. Based on available data, the index – which tracks current and near-term economic conditions – suggests that output has continued to grow during the first semester of 2026 (Chart 2.12).

Nonetheless, forecast confidence has declined given the highly uncertain global environment. A more adverse external environment, persistent geopolitical tensions and weaker investment could weigh on activity more than currently assumed, while domestic resilience will depend on sustained services growth, stable labour market conditions and the ability to contain cost pressures.

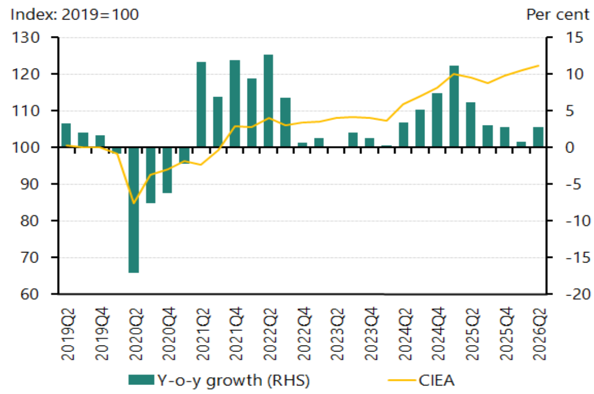
Financial conditions

Monetary developments

The monetary base increased by 12.2 per cent in the year to March 2026, driven primarily by higher deposits held by commercial banks at the central bank (Chart 2.13). Over the same period, growth in Broad Money Liabilities (BML) continued to ease, to 8.7 per cent, from double-digit rates a year earlier. This moderation largely reflected slower growth in rupee deposits, although these remained the main contributor to broad money expansion, supported by inflows from households and the financial sector.

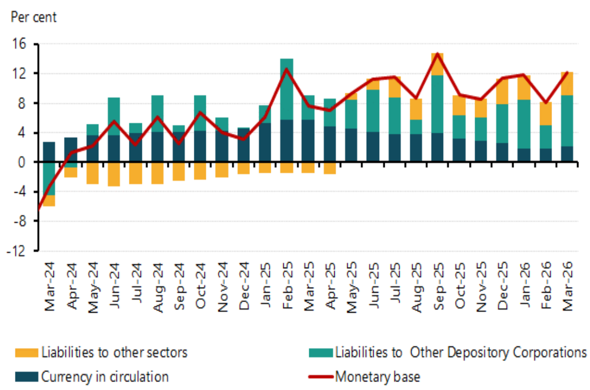
The transmission from base money to broad money remained broadly stable. The money multiplier was unchanged at 5.2, while the velocity of money remained low and stable at 0.7. The rate of broad money expansion, which had increased during the COVID-19 period reflecting monetary financing and investment into the Mauritius Investment Corporation, is mostly back to its long-term average (Box III).

Chart 2.12: CIEA



Source: BoM.

Chart 2.13: Annual growth of monetary base



Source: BoM.

[4] *The index extracts information from a wide set of high frequency indicators that are seemingly related with actual output. See MPR May 2025: Box 5 for a detailed description of the CIEA.*

Box III: The evolution of monetary aggregates – pre and post the COVID-19 pandemic

Before the COVID-19 pandemic, monetary aggregates in Mauritius expanded at a moderate pace. BoM rupee assets remained contained, while growth in the monetary base and BML was broadly consistent with developments in domestic economic activity.

The onset of the pandemic represented a clear break from this trend. The implementation of exceptional policy support measures led to a marked increase in the Bank's rupee assets, mainly reflecting monetary financing operations, investment in the Mauritius Investment Corporation, and lines of credit extended to public non-financial corporations (Chart I).

These operations increased banking system liquidity and contributed to a sharp expansion in the monetary base, particularly through higher banks' balances held with the Bank and higher liabilities to other sectors. Growth in the monetary base subsequently moderated as monetary conditions normalised and the new Monetary Policy Framework, introduced in January 2023, became the main anchor for policy implementation (Charts II and III).

BML also rose following the COVID-19 shock, driven mainly by higher rupee deposits held by households in the wake of Government support measures and precautionary savings behaviour while corporate deposits increased at a more moderate pace. BML growth gradually eased toward its long-term trend as the effects of exceptional support measures dissipated (Charts IV and V).

The behaviour of the money multiplier[5] and income velocity[6] suggests that the transmission from base money expansion to broader monetary and real activity remained muted. The money multiplier stayed broadly range-bound, while income velocity remained low, consistent with the persistence of excess rupee liquidity in the banking system (Chart VI).

In a quantity-based Monetary Policy Framework, growth in the monetary base and BML would typically be expected to generate stronger pressures on nominal spending and inflation. However, the historically strong link between money supply, prices and income has weakened, making monetary aggregates less reliable as indicators of inflationary pressures and economic activity.

Central banks are increasingly relying on price-based Monetary Policy Framework for effective policy transmission. Under such a framework, the policy rate provides the primary signal of the monetary policy stance, while liquidity management operations help steer short-term market rates within the interest rate corridor. Monetary aggregates remain important for assessing liquidity conditions, balance sheet developments and risks to inflation expectations, but are best used as complementary indicators rather than operational targets.

---

[5] *The money multiplier is the ratio of money supply to the monetary base, showing how much the total money supply can increase from an initial increase in monetary base.*

[6] *Income velocity of money measures how often a unit of money is used to generate GDP in a period, with a value below one indicating that much of the money is held idle rather than actively used in transactions.*

Chart I: MUR assets of the Central Bank by instrument

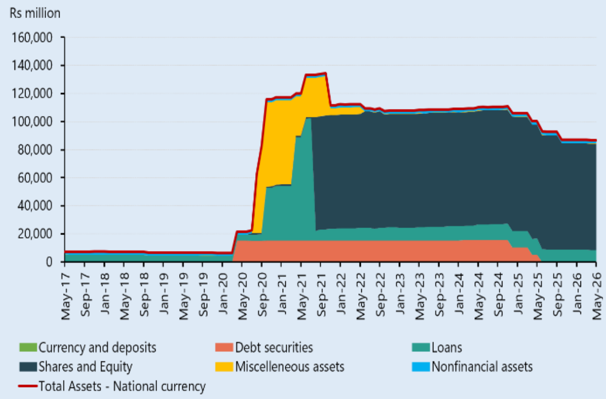


Chart II: Monetary base

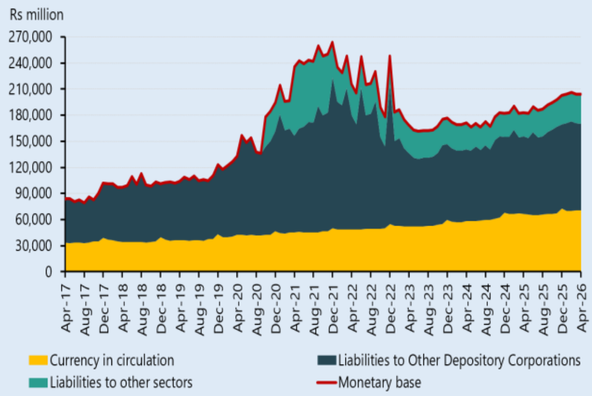


Chart III: Rupee excess reserves

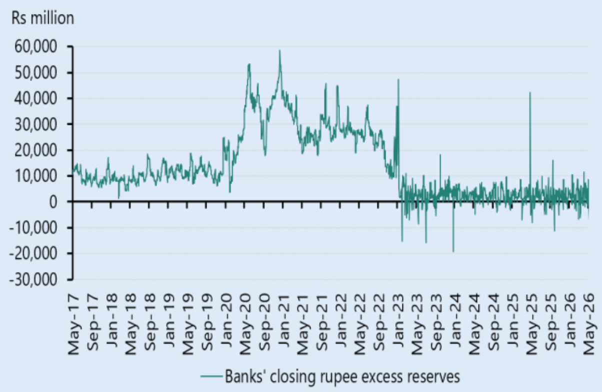


Chart IV: Decomposition of growth by Broad Money Liabilities components

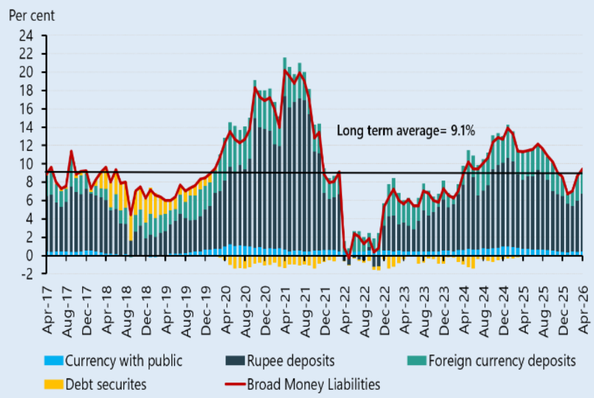


Chart V: BML (Rupee deposits) by sectors

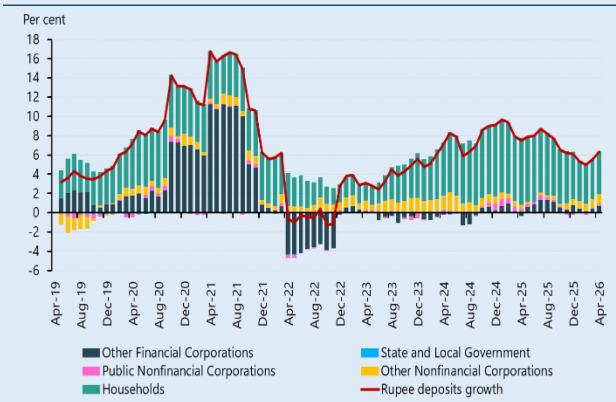
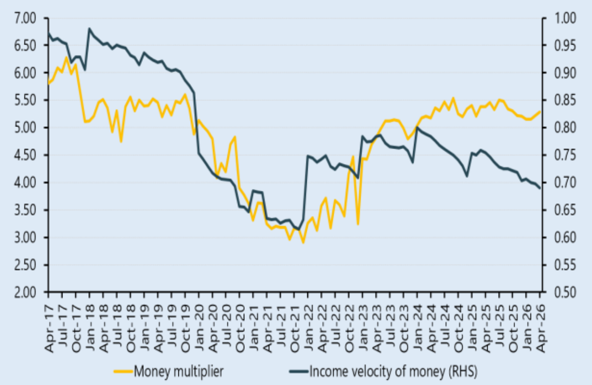
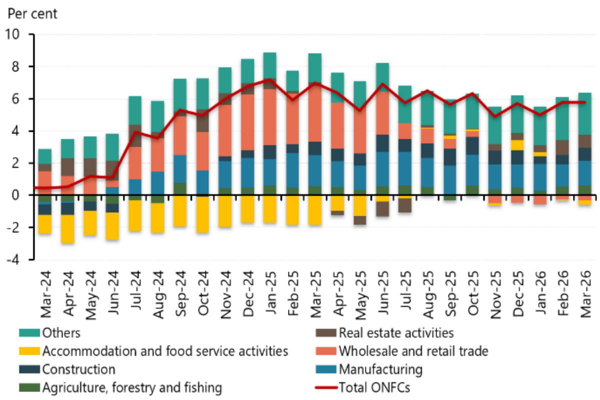


Chart VI: Money multiplier and income velocity of money



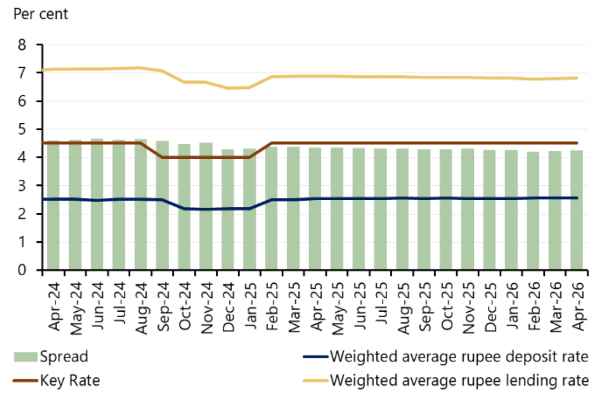
Source: BoM.

Chart 2.14: Contribution to growth in bank loans to corporates by sector



Source: BoM.

Chart 2.15: Policy rate and interest rates on outstanding rupee deposits and loans



Source: BoM.

Excess liquidity, largely resulting from these injections of money into the banking system, continued to be absorbed by the Bank's open market operations. Since the February 2026 MPC meeting, issuance of BoM Bills totalled Rs59.5 billion across short-term maturities, alongside Rs6.0 billion in Two-year BoM Notes. FX interventions also contributed to a withdrawal of liquidity from the system.

These operations were complemented by the use of standing facilities to manage short-term liquidity conditions. Banks placed surplus funds in the Overnight Deposit Facility, supporting the absorption of excess reserves and helping to anchor short-term money market rates. Since the February 2026 MPC meeting, the facility absorbed a daily average of Rs27.8 billion. Government net issuances, including Treasury Certificates on tap, also contributed to liquidity withdrawal.

Private sector credit remained robust, with bank loans increasing by 11.7 per cent in the year to April 2026. Growth was broadly balanced across households and corporates: household lending rose by 12.3 per cent, while corporate credit increased by 11.0 per cent, supported by activity in '*Manufacturing*', '*Construction*' and '*Real estate activities*', although lending to *'Accommodation and food service activities'* remained subdued (Chart 2.14). The Bank's credit conditions survey indicates that credit standards were broadly unchanged in 2026Q1 (Box IV), suggesting that banks maintained stable lending criteria while continuing to support credit growth. This points to orderly credit conditions that sustain economic activity, while limiting the risk of excessive credit expansion.

Overall, monetary dynamics and credit conditions point to continued support for economic activity, with robust lending taking place against a backdrop of stable credit standards and orderly liquidity conditions.

Box IV: Survey on Credit Conditions

The quarterly Survey on Credit Conditions collects qualitative information on credit demand, credit supply and lending standards in Mauritius, as well as developments in the terms and conditions attached to credit. The survey covers 30 financial institutions, comprising 16 banks, 5 non-bank deposit-taking institutions and 9 insurance and leasing companies.

Corporate credit conditions remained broadly stable in 2026Q1

Corporate credit standards were unchanged in 2026Q1, reflecting banks' market share objectives, competitive pressures, expectations about economic activity and assessments of borrowers' financial and liquidity positions. Respondents signalled a more cautious lending stance for 2026Q2, amid heightened uncertainty linked to the Middle East conflict (Chart I).

Corporate credit demand was assessed to have remained broadly stable since 2025H2, consistent with resilient domestic activity (Chart II). Demand is expected to remain broadly unchanged in 2026Q2, although uncertainty around the external outlook may weigh on investment-related borrowing.

Actual data on corporate loan applications and approvals broadly corroborated the survey findings, notwithstanding a decline in 2026Q1 partly due to seasonal factors and a slow start to the year (Chart III). Respondents also cited the non-recurrence of large facilities granted in the previous quarter and cancellations associated with changes in borrowers' financing plans and investment timelines. From a policy perspective, stable credit standards and broadly unchanged demand suggest that credit conditions remain orderly, but the expected increase in lending prudence points to a potential moderation in credit transmission if external uncertainty persists.

Household credit conditions were broadly in line with corporate credit trends in 2026Q1

Household credit standards were unchanged in 2026Q1, reflecting competitive pressures, market share objectives, expectations about economic activity and assessments of applicants' financial and liquidity positions. Respondents nevertheless expected a slight tightening in 2026Q2, consistent with downside risks to activity and a more cautious lending environment (Chart IV).

Household credit demand remained broadly neutral in 2026Q1 (Chart V). Loan applications increased, while approvals declined, although this appears to reflect normal quarter-to-quarter volatility rather than a material weakening in demand (Chart VI). The continued expansion in household lending, particularly for housing purposes, suggests that household credit conditions remain supportive.

Chart I: Credit standards for corporate loans

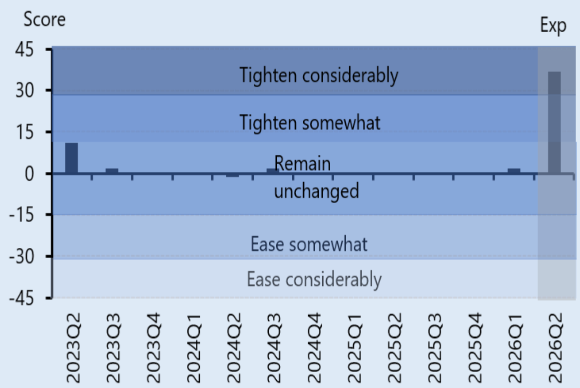


Chart II: Credit demand for corporate loans

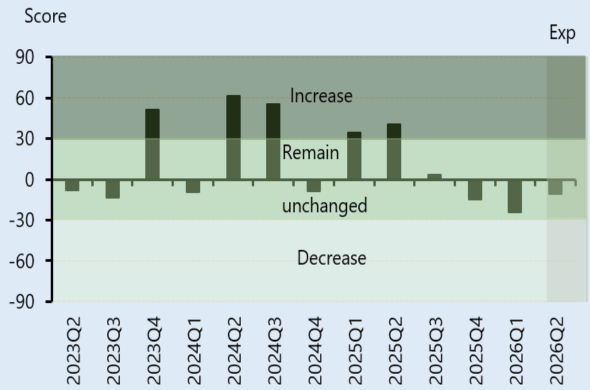


Chart III: Amount of loans applied for, approved and disbursed (corporates)

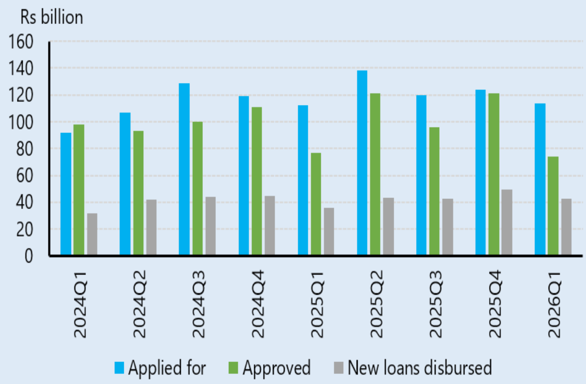


Chart IV: Credit standards for household loans

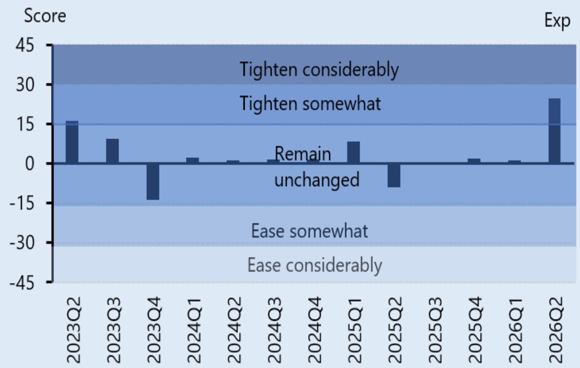


Chart V: Credit demand for household loans

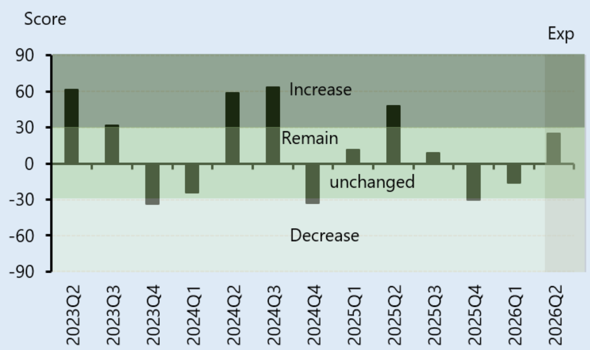
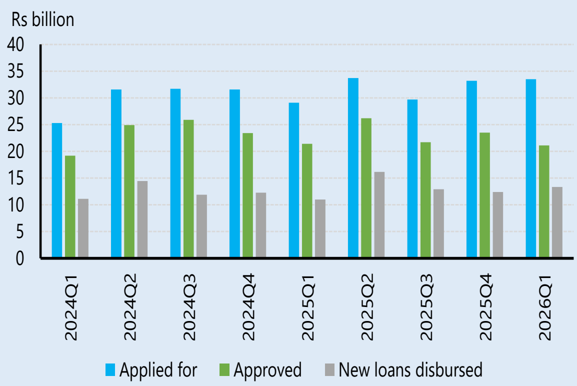


Chart VI: Amount of loans applied for, approved and disbursed (households)



Note: Exp refers to expectations.
Source: BoM.

Interest rates

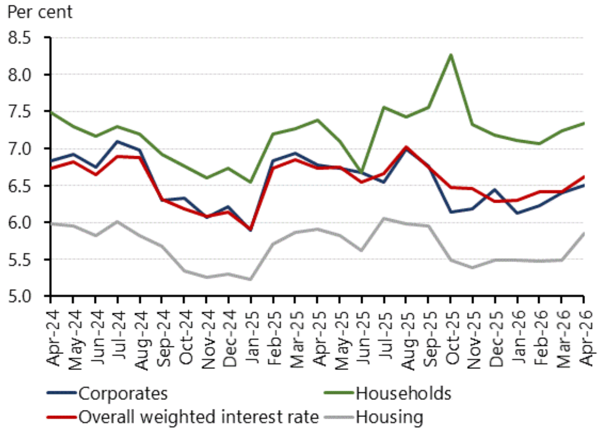
Open market operations by the Bank left the overnight interbank rate stable at around 3.25 per cent, trading close to the lower bound of the interest rate corridor.

Bank lending and deposit rates continued to reflect the changes in monetary policy stance. Following the February 2026 MPC decision to maintain the Key Rate at 4.50 per cent per annum, banks' Savings Deposit Rate (SDR) and Prime Lending Rate (PLR) were left unchanged. The SDR ranged between 2.95-3.40 per cent, while the PLR stood between 6.65-9.00 per cent. The weighted average rupee deposit and lending rates were at 2.56 per cent and 6.81 per cent, respectively, in April 2026 (Chart 2.15). The subsequent 25 bps increase in the Key Rate to 4.75 per cent at the May 2026 MPC meeting is expected to pass through gradually to retail rates, shifting both SDR and PLR higher.

Rates on new loans have been on an upward trend since the beginning of 2026, standing at 6.62 per cent in April 2026. This reflected the rising trend in interest rates on corporate loans as well as the latest interest rates developments in the household segment. Within the corporate segment, borrowing cost increased for sectors such as '*Wholesale and retail trade*', '*Agriculture, forestry and fishing*', '*Real estate activities*' and '*Accommodation and food service activities*' (Chart 2.16).

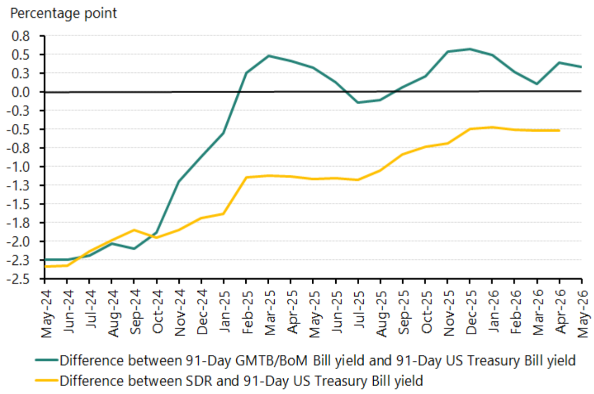
The recent increase of 25 bps in the Key Rate is expected to exert some upward pressure on lending rates going forward, particularly in interest rate-sensitive segments. The extent of the pass-through to borrowing costs could reflect prevailing liquidity conditions and competitive dynamics in the banking sector.

Chart 2.16: Interest rate on new rupee loans



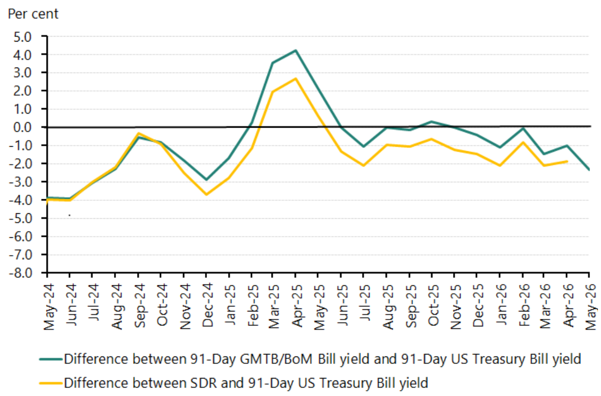
Source: BoM.

Chart 2.17: 3-month differential returns



Source: BoM.

Chart 2.18: 3-month differential returns adjusted for exchange rate



Source: BoM.

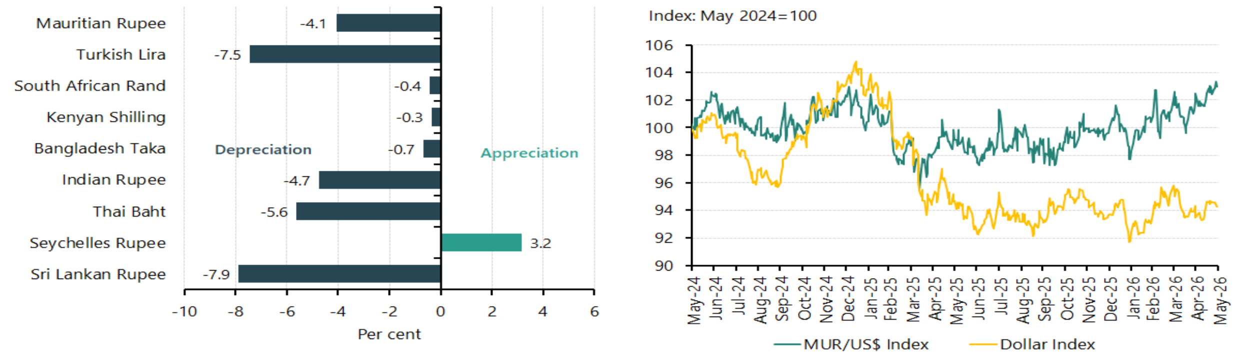
Nominal yield differentials between Government of Mauritius Treasury Bills/BoM Bills and US Treasury Bills remained broadly positive (Chart 2.17). However, after adjusting for exchange rate movements, yield differentials remained negative reflecting the depreciation of the rupee against the US dollar (Chart 2.18). The recent policy rate increase is expected to support yield differentials, although higher US yields amid rising inflation concerns could narrow them.

FX market and exchange rate developments

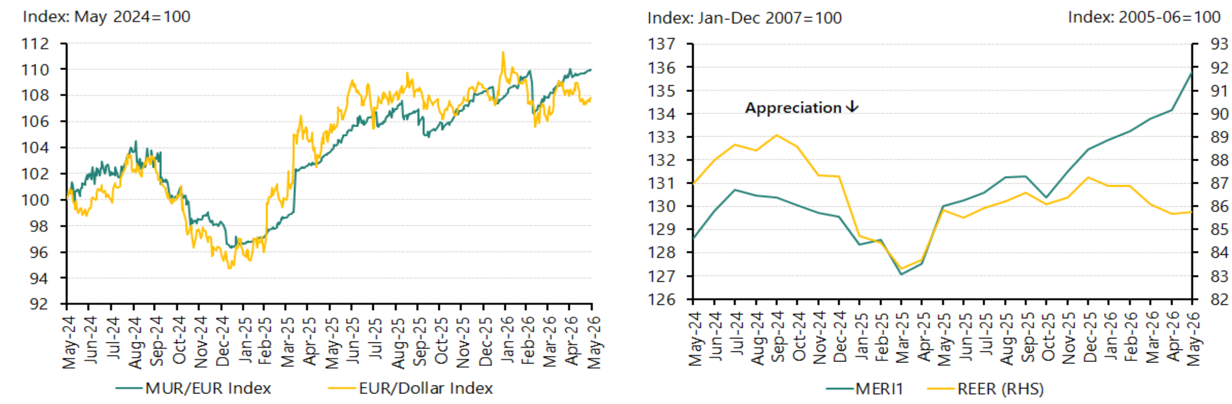
The rupee exchange rate continued to be shaped by domestic FX demand and supply conditions, alongside developments in global currency markets. From the beginning of the year to 31 May, the rupee has depreciated by 2.2 per cent against the US dollar, 1.5 per cent against the euro and 2.0 per cent against the pound sterling. This occurred against a backdrop of heightened global uncertainty, stronger demand for safe-haven assets and changing expectations for major central banks' policy rates, which weighed on several emerging market currencies. In nominal effective terms, as measured by MERI1, the rupee depreciated by 2.2 per cent between January and May 2026. In real effective terms, however, the rupee appreciated by 1.3 per cent over the same period, reflecting relative price developments vis-à-vis trading partners (Panel Chart 1).

The adjustment in the rupee took place in the domestic market where FX supply conditions were favourable and the Bank's interventions remained relatively small, indicating that market functioning was orderly.

Panel Chart 1: Exchange rate developments

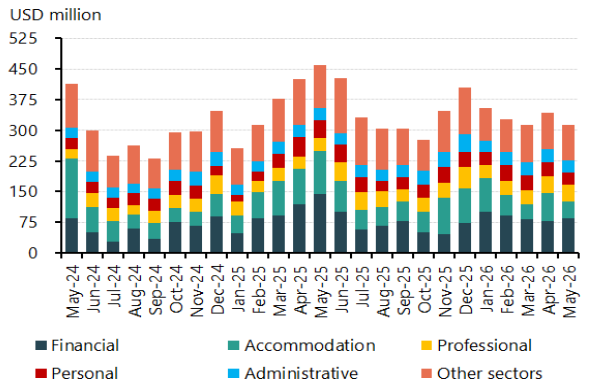


Performance of MUR and Emerging countries currencies against USD since start of the year.



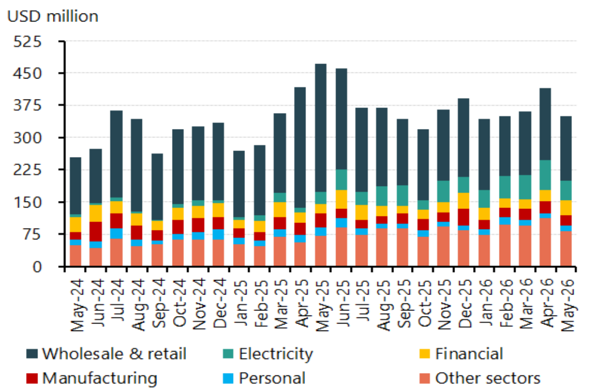
Source: BoM.

Chart 2.19: FX purchases in main sectors



Source: BoM.

Chart 2.20: FX sales in main sectors



Source: BoM.

Since the beginning of the year, the Bank has intervened for a total of USD50 million in the domestic market to smooth excessive volatility and ensure orderly market conditions. The relatively small size of these interventions compared with overall market turnover was consistent with the improvement in FX liquidity and availability of FX in the domestic market. The Bank's operations therefore remained focused on mitigating short-term disruptions, rather than targeting a specific exchange rate level.

Activity in the domestic FX market has remained broadly stable since the beginning of the year. Market turnover amounted to USD6,287 million, 1 per cent higher than in the corresponding period of 2025. Purchases of FX by banks and FX dealers increased to USD3,120 million, while sales were broadly unchanged at USD3,167 million. These developments point to continued two-way market activity and a gradual improvement in the availability of FX in the domestic market.

The pattern of FX purchases continued to reflect the structure of Mauritius' external receipts. During January–May 2026, the largest sources of FX supplied to banks and FX dealers were the '*Financial and insurance activities*' followed by '*Accommodation and food service activities*' and '*Professional, scientific and technical activities*' sectors (Chart 2.19).

On the demand side, FX sales remained concentrated in import-intensive and utility-related sectors. The highest sales were recorded for '*Wholesale and retail trade*', '*Electricity, gas, steam and air conditioning supply*', and '*Financial and insurance activities*' (Chart 2.20).

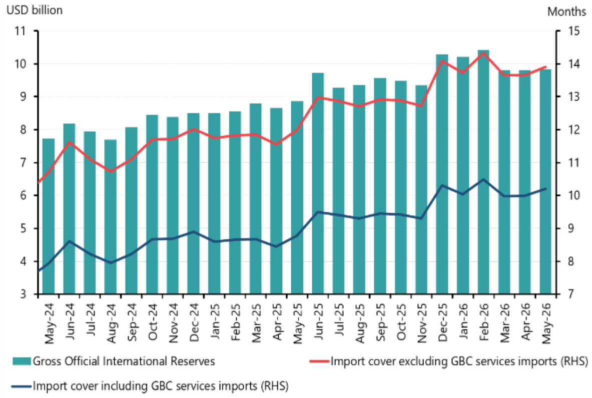
The currency composition of FX transactions shifted during the period, with a higher share of transactions conducted in currencies other than the US dollar, euro and pound sterling. This mainly reflected a marked increase in ZAR-denominated transactions. The share of ZAR purchases rose from 10 per cent in January–May 2025 to 24 per cent in

January–May 2026, while the share of ZAR sales increased from 8 per cent to 31 per cent over the same period. This diversification in transaction currencies is partly consistent with trade flows in the domestic market.

FX swap activity also remained sizeable. During the first five months of 2026, swap purchases and sales against the rupee amounted to USD2.1 billion and USD1.2 billion, respectively. Activity was concentrated in '*Financial and insurance activities*', which accounted for 29 per cent of swap purchases and 69 per cent of swap sales. Swap transactions against the rupee were predominantly US dollar-denominated.

Gross Official International Reserves (GOIR) as at end-May 2026 remained adequate as a buffer against external shocks. The GOIR stood at Rs471.0 billion (USD9.8 billion) as at end-May 2026, compared to Rs406.8 billion (USD8.9 billion) as at end-May 2025 (Chart 2.21). Based on the imports of goods (f.o.b.) and services for calendar year 2025, the GOIR represented 13.9 months of imports (excluding GBC services imports) and 10.2 months of imports (including GBC services imports).

Chart 2.21: Gross Official International Reserves



Source: BoM.

3. Price Developments

Inflationary pressures have intensified since the assessment made at the February 2026 MPC meeting, with price increases across the consumption basket. The rise in domestic energy prices has led to a sharp increase in y-o-y inflation that is slowly being reflected in headline inflation. Measures of underlying inflation remain elevated, suggesting that price pressures are persistent and are increasingly reflecting domestic cost dynamics in addition to the direct effects of higher energy prices.

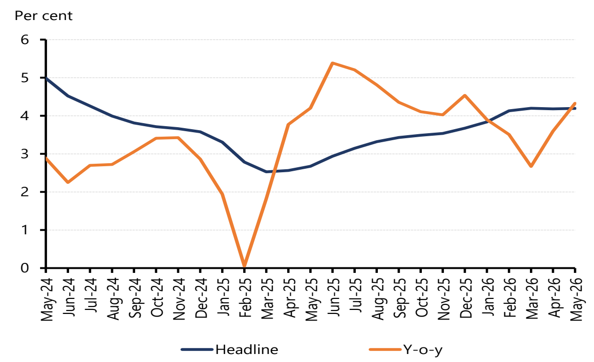
Headline and underlying inflation

Headline inflation stood at 4.2 per cent in May 2026, unchanged since March but 0.5 percentage point higher than the 3.7 per cent recorded in December 2025. On a y-o-y basis, inflation increased markedly to 4.3 per cent in May from 3.6 per cent in April and 2.7 per cent in March, indicating a broad-based strengthening in price dynamics (Chart 3.1).

The increase in y-o-y inflation was accounted for by sizeable contributions from several key divisions. Prices for housing, water, electricity, gas and other fuels rose by 4.1 per cent, reflecting higher electricity tariffs. Transport prices increased by 1.9 per cent, following upward adjustments in domestic fuel prices. Prices for restaurants and accommodation services rose by 1.0 per cent, mainly reflecting higher prices of prepared food. Furnishings, household equipment and routine household maintenance goods contributed 0.9 per cent, while food and non-alcoholic beverages added 0.6 per cent, largely because of higher bread and meat prices (Chart 3.2).

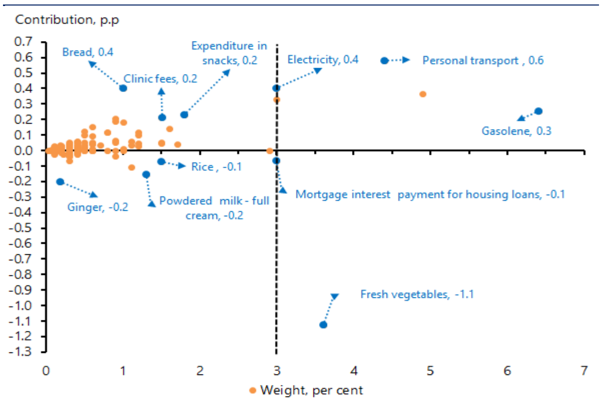
Indicators of underlying inflation continue to signal persistent price pressures. Y-o-y CORE1[7] inflation rose to 6.6 per cent in May 2026, while CORE2[8]

Chart 3.1: Inflation



Source: Statistics Mauritius.

Chart 3.2: Contribution to y-o-y inflation (May 2026)

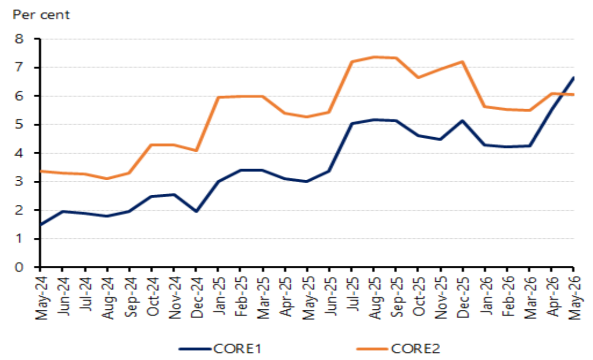


Note: Items in the top-right area (high weight, positive contribution) are the main drivers of inflation, while those in the bottom-right (high weight, negative contribution), are providing an offset.
Source: BoM.

[7] *CORE1 excludes food, beverages and tobacco components and mortgage interest on housing loan from headline inflation.*

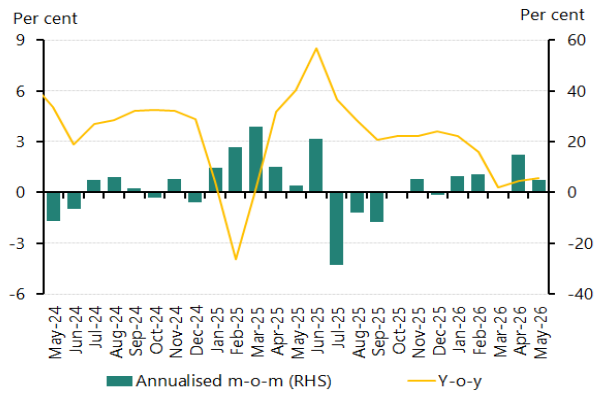
[8] *CORE2 excludes food, beverages and tobacco, mortgage interest on housing loan, electricity, gas, other fuels and items whose prices are controlled from headline inflation.*

Chart 3.3: CORE inflation



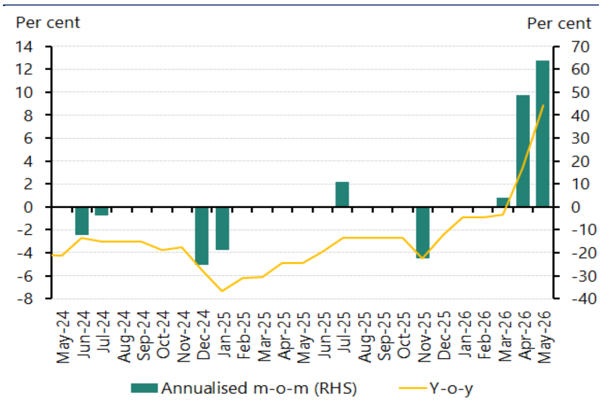
Source: Statistics Mauritius.

Chart 3.4: Food inflation



Source: BoM.

Chart 3.5: Fuel inflation



Source: BoM.

inflation remained elevated at 6.1 per cent. These developments suggest that inflationary pressures are no longer confined to the initial energy shock and are gradually influencing domestic price-setting behaviour (Chart 3.3).

Food and fuel inflation

Food inflation increased to 0.9 per cent y-o-y in May, from 0.7 per cent in April (Chart 3.4). The increase reflects higher costs along the food supply chain, including production, processing, transport and distribution. These pressures are affecting both domestically produced and imported food items. Food inflation is expected to remain vulnerable to upside risks, particularly if energy and fertiliser prices remain elevated or global supply conditions tighten further.

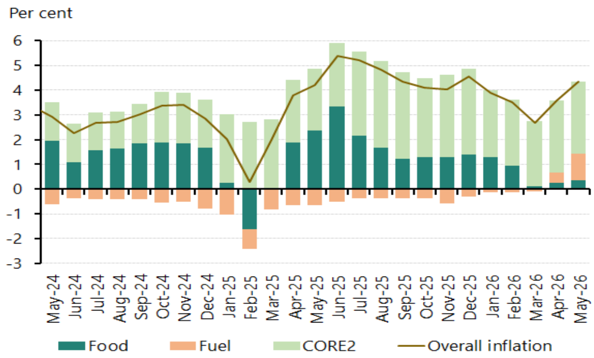
Fuel inflation moved decisively into positive territory in April and May, reaching 3.4 per cent and 8.9 per cent respectively, after having been negative throughout 2025. The rebound reflects increases in domestic gasoline and diesel prices, broadly in line with higher global oil prices and transportation costs (Chart 3.5).

Overall, the May inflation outturn reflects the combined effect of elevated underlying inflation and strong positive contribution from fuel prices. CORE2 inflation made the largest contribution to y-o-y inflation, at 2.9 percentage points. Fuel inflation contributed 1.1 percentage points, while food inflation made a more modest contribution of 0.3 percentage point (Chart 3.6).

Nominal wage growth remained contained at 3.3 per cent y-o-y in 2025Q4, broadly unchanged from the previous quarter. Private sector wage growth was stable, while public sector wages increased only marginally. Sectoral wage gains were strongest in '*Transportation and storage*', '*Agriculture, forestry and fishing*', '*Administrative and support service activities*', and '*Accommodation and food service activities*' (Chart 3.7). In real terms, however, wage growth remained below its previous year's level, as nominal increases did not fully offset the erosion of purchasing power. Overall, wage developments suggest that, despite tight labour market conditions, second-round wage pressures have so far remained limited.

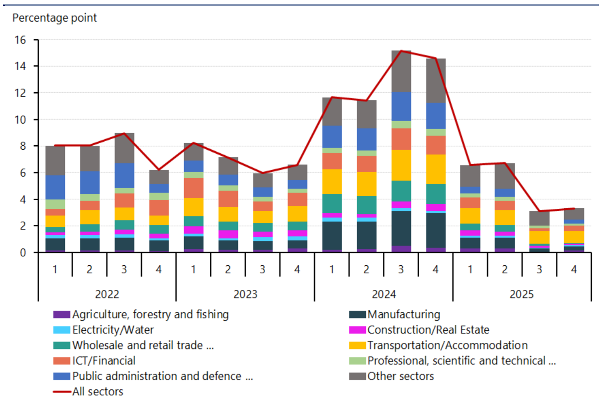
The Bank's March 2026 Inflation Expectations Survey indicates that near-term inflation expectations have moved higher, broadly in line with recent increases in fuel and food prices. Medium-term expectations remain broadly anchored within the target range. Maintaining that anchor is central to the inflation outlook. Against this background, the 25 bps increase in the policy rate decided at the May 2026 MPC meeting is intended to reduce the risk of second-round effects and support the return of inflation towards the mid-point of the target range over the medium-term.

Chart 3.6: Contribution to y-o-y inflation



Source: BoM.

Chart 3.7: Contribution to wage growth



Source: Statistics Mauritius.

4. Growth and Inflation Outlook

Assumptions for a model-based scenario assessment

The Bank's forecasts are prepared using the Forecasting and Policy Analysis System[9], with the Quarterly Projection Model[10] (QPM) providing the central framework for assessing the outlook for GDP growth, inflation and interest rate path, consistent with the monetary policy framework for the medium-term. The forecasts incorporate information from a range of near-term models and judgement about recent domestic and external developments, ensuring that the baseline projection is internally consistent over the forecast horizon.

The baseline forecast used at the May MPC meeting was conditioned on the assumption that the Middle East conflict would be resolved by 2026Q2 and that shipping through the Strait of Hormuz would resume. On this basis, the profile for growth and inflation was shaped by a set of external assumptions that reflected current global economic conditions and the expected evolution of key external drivers.

Foreign demand: Growth in the country's major trading partners was expected to be subdued in the near-term. Activity in the euro area, Mauritius' main trading partner, was expected to be weighed down by the adverse effects of higher energy prices and weaker confidence associated with the conflict. The foreign output gap was therefore projected to remain negative through much of 2026, before gradually closing as energy price pressures eased and domestic demand in Europe recovered. Growth in other key source markets, including the UK, was also assumed to moderate, dampening external demand for Mauritius' exports of goods and services.

Foreign inflation: Inflation in the euro area and the US was expected to remain above target in the near-term, reflecting the first-round effects of higher energy prices. Foreign inflation was forecast to stay elevated through much of 2026 before easing gradually as the oil price shock dissipated and tighter monetary conditions in advanced economies weighed on demand. This implied continued imported inflationary pressure for Mauritius in the near-term.

Global commodity prices: The baseline forecast assumes an average Brent crude oil price of USD90 per barrel in 2026, a material upward revision from the USD65 per barrel assumed at the time of the February 2026 MPC meeting. The oil price gap – the deviation of oil prices from their estimated long-run equilibrium – was assessed to be strongly positive in the near-term, with direct pass-through to administered fuel prices and energy costs and, over time, to broader consumer prices through second-round effects. The food price gap was also assessed to be positive, reflecting elevated global fertiliser costs and disruptions to agricultural supply chains, though the impulse from food prices was expected to be smaller than that from energy.

Foreign monetary policy: Policy rates in major advanced economies were assumed to remain higher than previously anticipated. The US Fed and the BoE were assumed to pause their easing cycles, while the ECB was expected to shift towards rate increases during the year. Higher foreign interest rates were expected to place some depreciation pressure on emerging market currencies, including the Mauritian rupee.

[9] *Mauritius QPM (2025): A Quarterly Projection Model for the Bank of Mauritius.* https://www.imf.org/-/media/Files/Publications/WP/2025/English/wpiea2025215-source-pdf.ashx

[10] *Monetary Policy Report May 2025, Box 4: Building Blocks of the Quarterly Projection Model* https://www.bom.mu/publications-statistics/publications/monetary-policy-report

Reflective of the highly uncertain outlook, the assessment made at the time of the May 2026 MPC meeting included two alternative scenarios – a protracted conflict scenario and a severe disruption scenario – that increasingly deteriorated the growth and inflation outlook.

Projected GDP growth path

The Bank's baseline forecast shows a moderation in real GDP growth to 2.8 per cent in 2026, from an estimated 3.2 per cent in 2025. This represents a material downward revision from the 3.3–3.5 per cent range anticipated at the February 2026 MPC meeting (Chart 4.1). The weaker profile reflects the combined effects of a less supportive external environment, higher imported cost pressures, heightened global trade tensions, more cautious domestic spending behaviour and a gradual tightening in real monetary conditions.

The output gap – the difference between actual GDP and the economy's potential output – is estimated to narrow over the projection horizon (Chart 4.2). The moderation in growth should therefore be seen as both a demand-side adjustment and a response to supply-side cost pressures. Externally, the negative foreign output gap could affect domestic activity through weaker demand from trading partners, which would weigh on export volumes, both for goods and externally oriented services. This effect is likely to be amplified by continuing global trade tensions, as higher tariffs and uncertainty around trade policy, particularly in the US, weigh on import demand.

Domestically, higher fuel, electricity and food prices are expected to reduce household real purchasing power, while higher imported input costs could compress corporate margins and delay some investment decisions.

Private consumption is expected to make a smaller contribution to growth than in recent years. Household spending has been the principal driver of the post-pandemic expansion, supported by employment gains, wage growth and fiscal measures. In 2026, however, consumption could soften as higher energy and food prices reduce real disposable income and as households become more precautionary in the face of greater uncertainty. The moderation in real wage growth, together with the phasing-out of selected fiscal support measures, is likely to restrain discretionary spending.

Private investment is expected to remain subdued in 2026. In addition to structural competitiveness challenges, heightened uncertainty around global energy prices, external demand, trade policy and the implementation of the US–Iran agreement is likely to keep business confidence cautious. Firms may delay or reduce capital spending where demand prospects are uncertain or where imported machinery and construction materials have become more costly. Tighter financing conditions, both domestically and internationally, are also expected to raise the hurdle rates for investment projects.

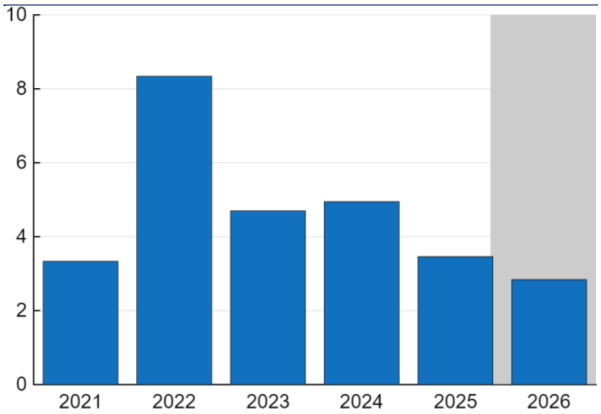
The fiscal impulse is expected to provide only limited support to aggregate demand over the near- to medium-term, in line with the authorities' objective of fiscal consolidation. Government consumption is projected to remain contained as spending is assumed to be increasingly prioritised towards preserving fiscal sustainability. At the same time, the contribution from public investment is expected to be moderate, reflecting a measured pace of implementation of capital projects and the need to balance infrastructure priorities against debt-reduction objectives.

Real monetary conditions are expected to become less supportive of activity over the forecast horizon. The real monetary conditions index – a weighted average of the deviations of the real interest rate and the real effective exchange rate from equilibrium – is currently assessed to be broadly neutral but is projected to tighten as real interest rates gradually rise relative to their trend (Chart 4.3). Higher interest rates should help contain second-round inflationary pressures and support the rupee through positive interest rate differentials. At the same time, the real effective exchange rate relative to trend is expected to remain positive over the forecast horizon due to higher domestic inflation. The net effect is a more restrained path for domestic demand, consistent with the gradual narrowing of the output gap and the return of inflation towards the Bank's objective over the medium-term.

Key sectors of the economy are expected to be affected unevenly. Tourism has remained resilient but is expected to face headwinds from higher airfares, weaker confidence and slower real income growth in key source markets. Tourist arrivals may therefore expand more slowly than previously anticipated, although higher prices for food and accommodation could continue to support nominal tourism earnings. Manufacturing and agriculture need to tackle underlying issues of loss of competitiveness and labour shortages. They are, in addition, likely to face margin pressures from higher fuel, freight, fertiliser and other imported input costs, while disruptions to global supply chains and trade-policy uncertainty could delay production, increase precautionary inventory holdings and raise working-capital needs.

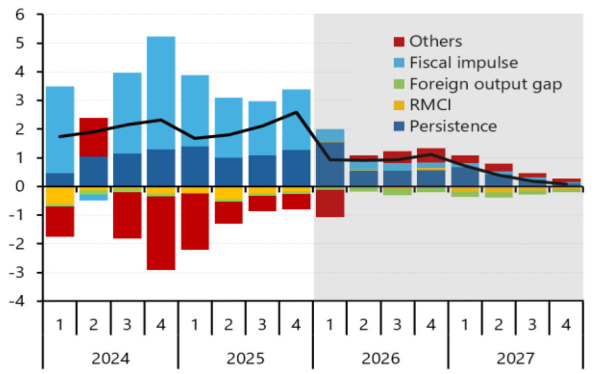
Construction activity is expected to remain subdued until the implementation of major public infrastructure projects gains traction, with imported materials costs remaining a constraint. The services sector should continue to provide the main support to activity, underpinned by financial services, wholesale and retail trade and information and communication, although its momentum is also expected to moderate as economy-wide demand softens.

Chart 4.1: GDP growth (%)



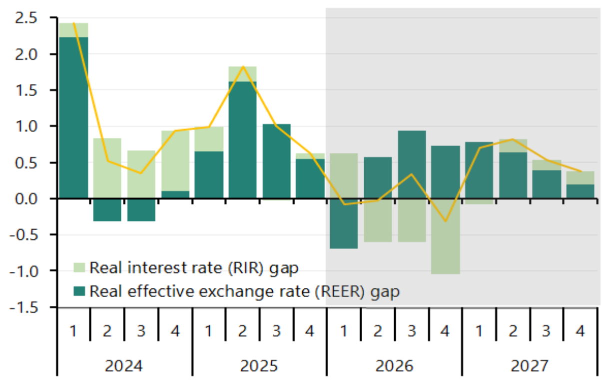
Source: BoM.

Chart 4.2: Output gap (%)



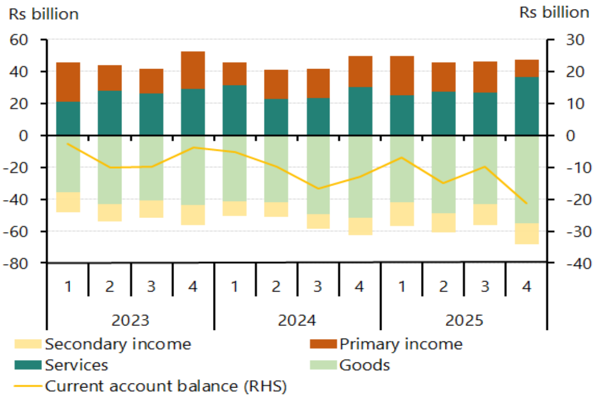
Source: BoM.

Chart 4.3: Real monetary conditions index (%)



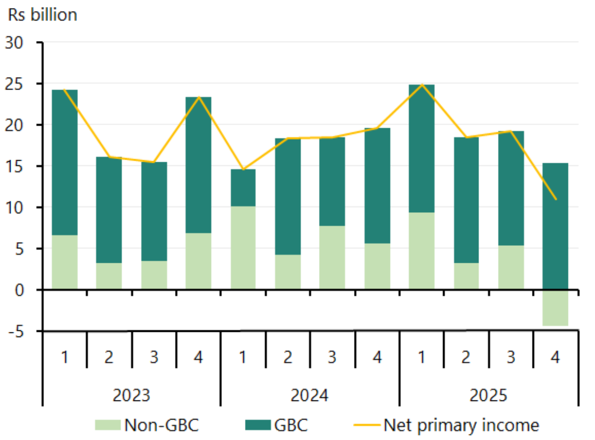
Source: BoM.

Chart 4.4: Current account balance



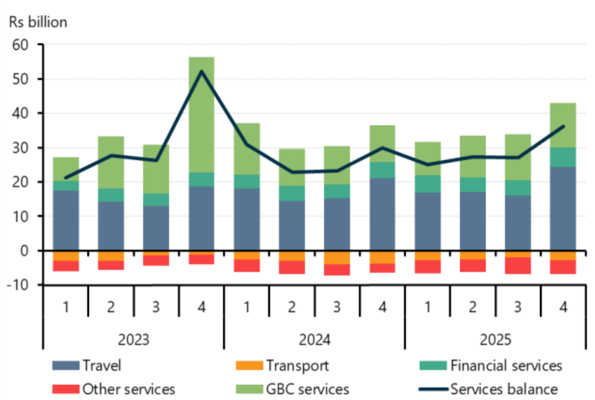
Source: BoM.

Chart 4.5: Primary income account (Net)



Source: BoM.

Chart 4.6: Services account (Net)



Source: BoM.

Export-oriented firms may also face weaker order books if global trade and geopolitical tensions dampen demand in key markets or lead to trade diversion. Structural constraints in apparel and fish exports are expected to continue weighing on merchandise export receipts although a partial offset from bunkering activity is possible, as the diversion of shipping routes through Mauritian waters supports ship's stores and bunkers exports.

From an external account perspective, the goods deficit – despite an improvement in 2026Q1 – is expected to remain a drag on the outlook. As domestic demand and production remain heavily import-dependent, higher energy and transport costs are likely to raise the import bill, keeping it structurally above total exports. By contrast, the services account is expected to stay in surplus and support growth, although the surplus may narrow as rising transport-related outflows, including war-risk insurance premiums and freight costs, partly offset continued growth in tourism earnings.

The current account deficit is projected to narrow to around 6.7 per cent of GDP in 2026. The main source of improvement is expected to come from a stronger primary income surplus, which more than offsets the drag from the goods deficit and lower services surplus. As major central banks pause their easing cycles, returns on the reserve asset portfolio and on residents' foreign fixed-income holdings remain broadly favourable (Charts 4.4, 4.5 and 4.6).

Continued net financial inflows to and through the Mauritius IFC are expected to finance the current account deficit and maintain the overall balance of payments in surplus.

Inflation outlook

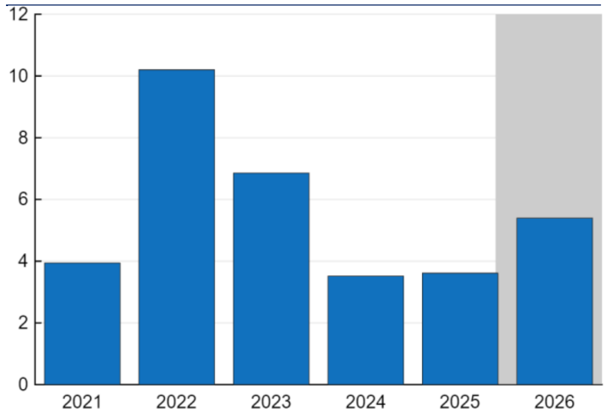
The inflation outlook has shifted materially higher since the February 2026 MPC meeting. In the baseline scenario, headline inflation is projected to move above the upper end of the Bank's 2–5 per cent target range in 2026, mainly reflecting the energy price shock associated with the conflict in the Middle East and its pass-through to domestic prices. The balance of risks to the outlook is tilted to the upside.

The baseline inflation projection is conditioned on the same assumptions underpinning the GDP growth forecast. Brent crude oil is assumed to average USD90 per barrel in 2026, forming the central assumption for the energy price path. Given the administered nature of domestic fuel prices, this assumption is considered to be already reflected in the recent increases in retail prices for petrol, diesel and liquefied petroleum gas, as well as in the electricity tariff hike.

The assumed exchange rate path incorporates a strengthening of the US dollar, consistent with its safe-haven status in global markets. Foreign inflation is also expected to remain elevated in the near-term. Together, these factors are expected to exert upward pressure on domestic prices through the imported inflation channel, particularly for food and manufactured goods.

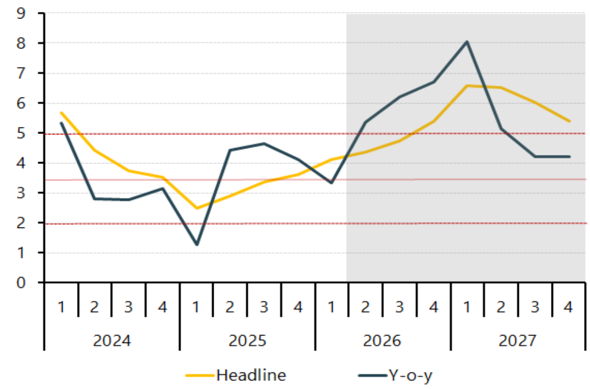
Domestic cost pressures are assessed to be contained but not absent. The real wage gap, defined as the deviation of real wages from productivity-consistent levels, is expected to be broadly neutral in the near-term. Nominal wage growth has remained moderate and is not projected to generate significant additional inflationary pressure in the baseline. Nevertheless, the risk that wage- and price-setting behaviour becomes more sensitive to recent inflation outcomes will continue to be monitored closely. The output gap is projected to remain slightly positive, implying limited but persistent demand-side pressure over the forecast horizon.

Chart 4.7: Headline inflation (%)



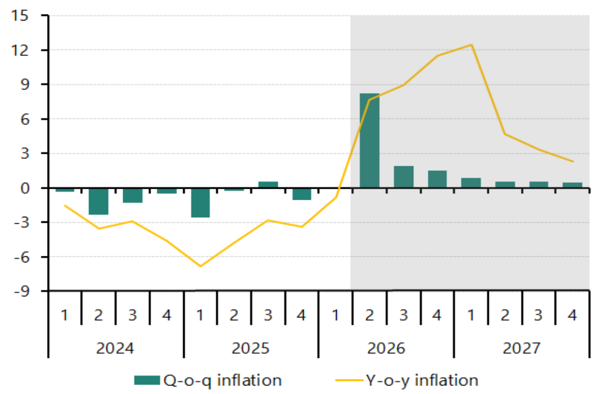
Source: BoM.

Chart 4.8: Inflation trajectory (%)



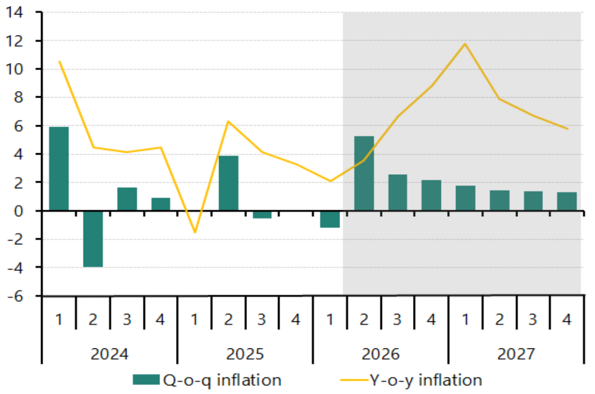
Source: BoM.

Chart 4.9: Fuel & Admin inflation (%)



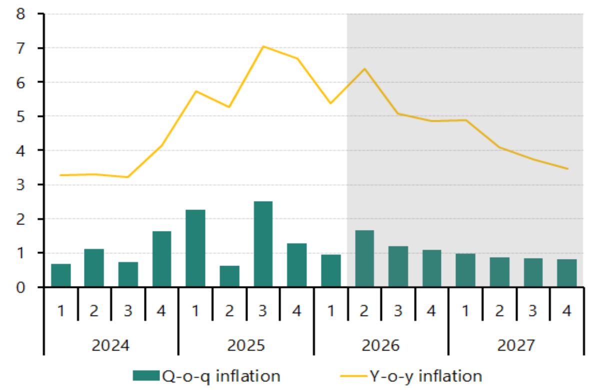
Note: Fuel & Admin inflation includes electricity, gas, other fuels and items whose prices are controlled and excluded from headline inflation.
Source: BoM.

Chart 4.10: Food inflation (%)



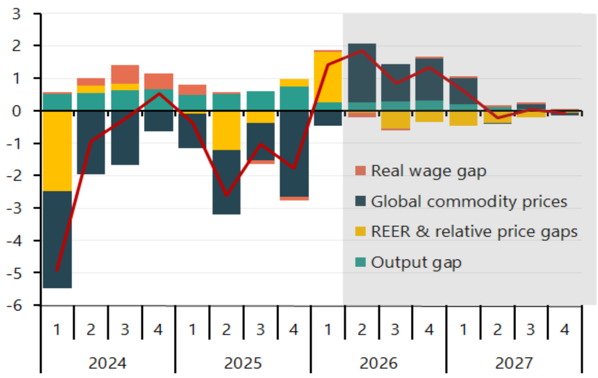
Source: BoM.

Chart 4.11: Core inflation (%)



Source: BoM.

Chart 4.12: Real marginal costs (%)



Source: BoM.

Projected inflation path

In the baseline projection, headline inflation rises throughout 2026, reflecting the full pass-through of the April 2026 fuel price adjustments and the May electricity tariff increase. Inflation is projected to average around 5.5 per cent in 2026, above the upper bound of the 2–5 per cent target range, before easing gradually as the direct effects of the energy shock fade and base effects become more favourable (Charts 4.7 and 4.8). In adverse scenarios, which assumed higher global oil prices among others, inflation could rise further and remain above target for longer, particularly if second-round effects are stronger than assumed.

Energy and administered prices are expected to be the dominant drivers of headline inflation in 2026. Quarter-on-quarter (q-o-q) fuel and energy inflation is projected to peak in 2026Q2 and then moderate gradually from 2026Q3 as base effects turn more favourable. Food inflation is expected to increase in the near-term, reflecting higher input and freight costs, as well as some pass-through from global commodity prices (Charts 4.9 and 4.10).

CORE2 inflation is projected to remain above 5 per cent in the near-term, as higher energy costs spill over into services and other goods (Chart 4.11). Domestically-generated inflation, particularly in services, is expected to persist though the moderation in wage growth and the gradual closing of the output gap are expected to provide some offset. Even so, core inflation is projected to decline only gradually, consistent with the relatively sticky nature of services prices and higher near-term inflation expectations.

Real marginal costs, which summarise the domestic and imported cost pressures driving inflation in the QPM, are projected to increase in 2026 (Chart 4.12). The main contribution is expected to come from global commodity prices, transmitted through the exchange rate and import price channels. Domestic cost factors, including the output gap and the real wage gap, are expected to contribute to a lesser extent. As global commodity prices normalise and the exchange rate stabilises, real marginal cost pressures are projected to ease progressively over the medium-term.

Risks to the outlook

Risks to the growth outlook remain tilted to the downside, although the signature of the MoU between the US and Iran has reduced some of the immediate tail risks. The agreement, which envisages the reopening of the Strait of Hormuz and provides a framework for further negotiations, has eased concerns over a prolonged disruption to energy and shipping flows. Oil prices have declined from their conflict-related peaks, and, if this adjustment is sustained, the associated easing in import costs, freight charges and household purchasing-power pressures should support activity relative to the more adverse scenarios previously considered. However, the balance of risks has not normalised fully. The pace at which energy supplies and maritime traffic return to pre-conflict levels remains uncertain, while unresolved issues around implementation, regional security and sanctions could keep risk premia elevated. As a small and highly open economy with a high import content in consumption and production, Mauritius remains exposed to renewed volatility in global energy prices, shipping costs and external demand.

Tourism remains a key channel through which external shocks could affect growth. The de-escalation implied by the US–Iran MoU could support confidence and reduce the likelihood of severe disruption to air connectivity. Nevertheless, higher-than-normal airfares, residual insurance and freight costs, and softer consumer confidence in key source markets could still weigh on tourist arrivals and receipts. A slower recovery in international travel conditions, renewed geopolitical tensions or a sharper slowdown in trading partners could therefore lead to a larger moderation in tourism activity than assumed in the baseline.

Investment could also remain subdued if firms delay capital spending until there is greater clarity on global demand, energy prices, trade policy and the durability of the agreement. A deterioration in the fiscal position, arising from revenue shortfalls or higher-than-budgeted expenditure, could further limit fiscal space and reduce the scope for countercyclical support.

These downside risks are partly mitigated by sources of resilience in the domestic economy. Services activity remains the main anchor of growth, supported by tourism, financial services, wholesale and retail trade and information and communication. Labour market conditions remain relatively firm, with low unemployment and sustained demand for workers supporting household incomes. If the easing of energy and shipping risks following the US–Iran MoU is sustained, confidence would improve and cost pressures on firms and households would be lower than under the adverse scenarios. The economy also benefits from diversified sources of FX earnings, continued net financial inflows through the Mauritius IFC and an adequate level of international reserves, which provide a buffer against external shocks and support orderly conditions in the domestic FX market.

Risks to the inflation outlook are assessed to be skewed to the upside and remain more pronounced than risks to growth. The main upside risk relates to global energy prices. Although the US–Iran MoU has reduced the likelihood of a severe disruption to oil and shipping flows, it has not yet led to a sustained and substantial decline in oil prices. The speed at which oil supply can increase and maritime traffic can normalise will be a key determinant of the global oil price path. Given the administered nature of domestic fuel prices, persistently high international oil prices would increase pressure for domestic petrol and diesel prices to adjust, with subsequent pass-through to transport, electricity, food and other consumer prices.

A second source of upside risk is imported inflation. Higher global freight costs, supply-chain disruptions and elevated prices for food, fertilisers and other intermediate goods could broaden external price pressures beyond energy. In such a scenario, the prices of imported consumer goods and domestically produced goods with high import content would rise more rapidly.

Domestic inflation persistence is also a material risk. Although nominal wage growth has remained moderate, the erosion of real incomes could lead to stronger wage demands, particularly in sectors where labour market conditions remain tight or where firms have greater pricing power. If wage- and price-setting behaviour become more backward-looking, the initial energy and food price shocks could generate larger second-round effects.

Inflation expectations represent an important channel through which temporary shocks could become more persistent. Near-term expectations have already moved higher in response to recent increases in fuel and food prices. While medium-term expectations remain broadly anchored within the target range, there is a risk that above-target inflation outcomes could weaken that anchor. A de-anchoring of expectations would increase the cost of returning inflation to target and could require a more restrictive monetary policy stance than currently assumed.

There are also downside risks to inflation. Domestic demand could weaken more than projected if higher fuel, electricity and food prices compress household real disposable income and weigh on consumption. Tighter financial conditions, weaker external demand or a sharper slowdown in key trading partners could further reduce demand-side pressures. A faster-than-expected normalisation of global energy prices, lower global food prices or an appreciation of the rupee would also reduce imported inflation and bring headline inflation back within the target range sooner than projected.

Overall, the balance of risks to the growth outlook remains tilted to the downside, but less so than under the more adverse conflict scenarios previously considered. A smooth implementation of the US–Iran MoU, sustained normalisation of energy and shipping flows and continued resilience in services activity would support the baseline growth projection. However, growth could slow more sharply if the agreement falters, oil prices rise again, freight costs remain elevated, global trade tensions intensify or external demand weakens further. The extent of any slowdown would depend on the persistence of external shocks and on the economy's capacity to sustain services growth, preserve labour market strength and maintain orderly macro-financial conditions.

For inflation, the balance of risks remains skewed to the upside. A faster normalisation of global energy prices, lower food prices or an appreciation of the rupee would help bring headline inflation back within the target range sooner than projected. However, the upside risks from energy prices, imported inflation, wage- and price-setting behaviour and inflation expectations are judged to be more material.

Taken together, the overall risk profile points to a challenging policy trade-off: growth risks are predominantly to the downside, while inflation risks are predominantly to the upside. Monetary policy will therefore need to remain forward-looking and data-dependent, with particular attention to the evolution of energy prices, the exchange rate, wage settlements, inflation expectations and indicators of domestic demand. The MPC will adjust the monetary policy stance to bring back inflation to the target range within a reasonable horizon, while limiting unnecessary volatility in output and employment.

BANK OF MAURITIUS
Sir William Newton Street
Port Louis 11328, Mauritius
Email: communications@bom.mu
https://www.bom.mu

Monetary Policy Report – June 2026