

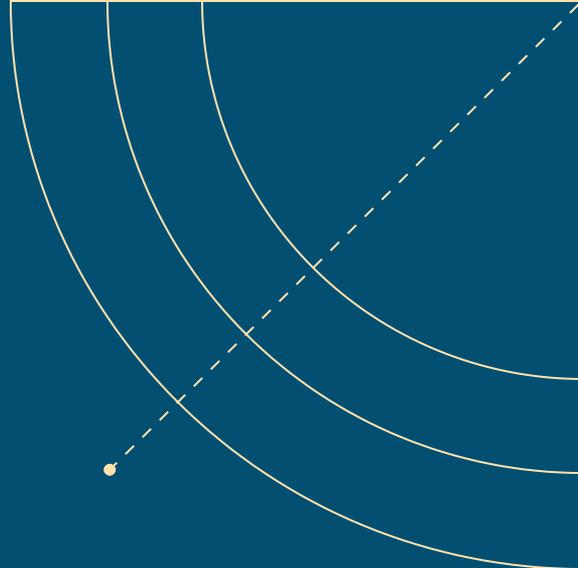


Monetary Policy Report

November 2025

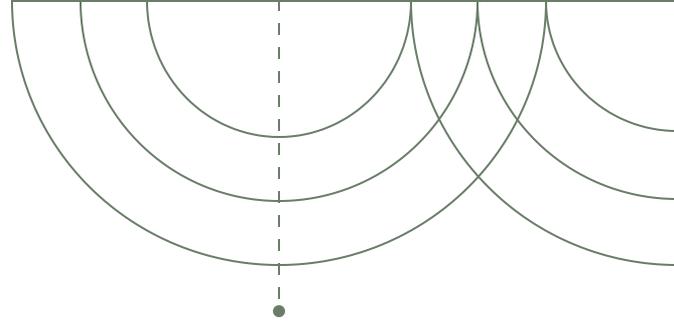
Monetary Policy Report

November 2025



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Preface

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

The Bank's Monetary Policy Framework, effective since 16 January 2023, is a flexible inflation targeting framework that 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 ending October 2025, unless stated otherwise.

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>.

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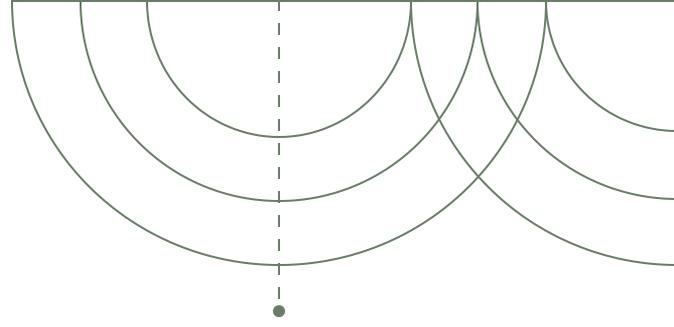
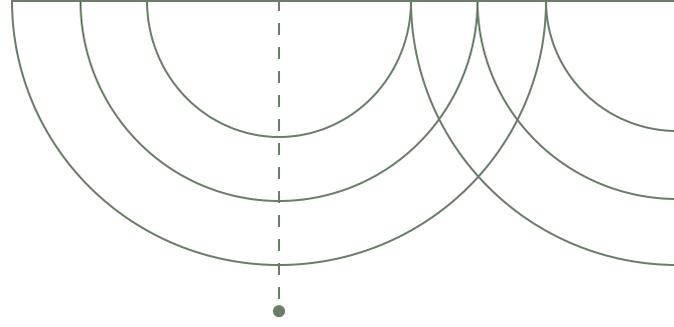


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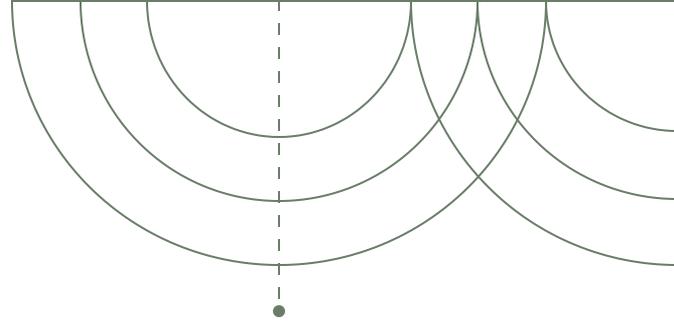


List of Acronyms

AGOA	African Growth and Opportunity Act	IMF	International Monetary Fund
AI	Artificial Intelligence	IPI	Import Price Index
BML	Broad Money Liabilities	MERI	Mauritius Exchange Rate Index
BoM	Bank of Mauritius	M-o-m	Month-on-month
BoE	Bank of England	MPC	Monetary Policy Committee
CIEA	Composite Indicator of Economic Activity	OECD	Organisation for Economic Co-operation and Development
CoPI	Construction Price Index	OPEC+	Organisation of the Petroleum Exporting Countries and non-member countries
CPI	Consumer Price Index	PCE	Personal Consumption Expenditures
ECB	European Central Bank	PLR	Prime Lending Rate
EDB	Economic Development Board	PMI	Purchasing Managers' Index
EMDEs	Emerging Market and Developing Economies	PRB	Pay Research Bureau
EPI	Export Price Index	QPM	Quarterly Projection Model
FAO	Food and Agriculture Organisation	Q-o-q	Quarter-on-quarter
FDI	Foreign Direct Investment	RPPI	Residential Property Price Index
FPAS	Forecasting and Policy Analysis System	SDR	Savings Deposit Rate
FX	Foreign Exchange	US Fed	US Federal Reserve
GBC	Global Business Company	WEO	World Economic Outlook
GDP	Gross Domestic Product	WRI	Wage Rate Index
GOIR	Gross Official International Reserves	WTO	World Trade Organisation
HICP	Harmonised Index of Consumer Prices	Y-o-y	Year-on-year

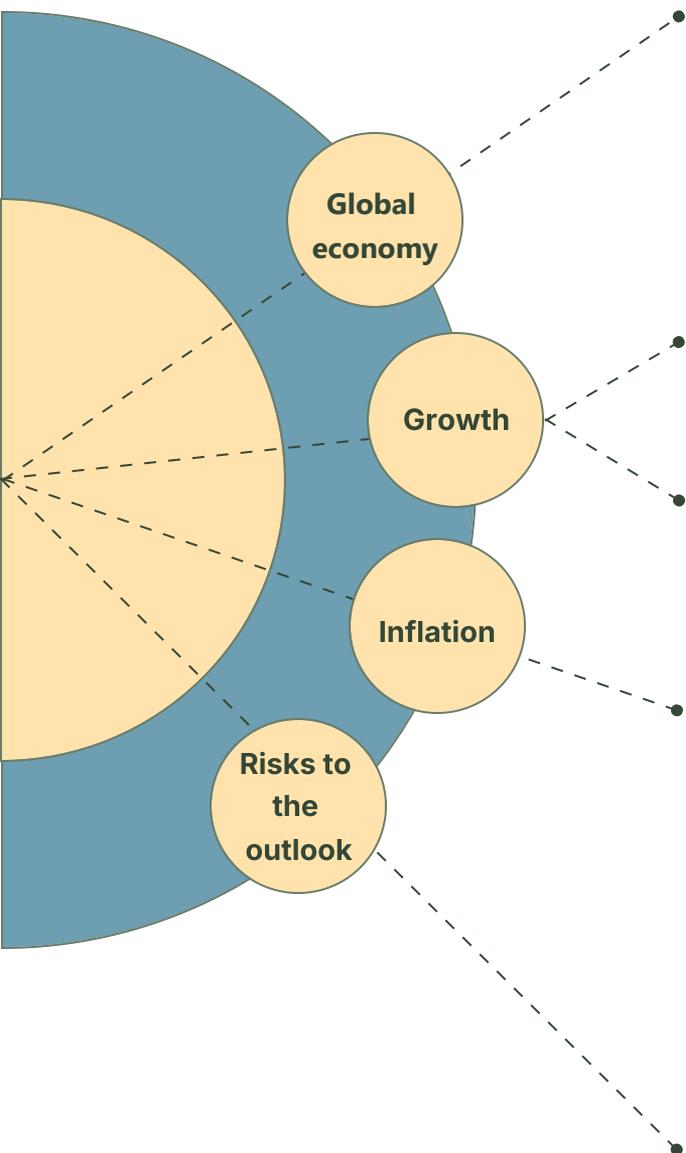
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Summary

The Monetary Policy Committee (MPC) kept the Key Rate unchanged at 4.50 per cent per annum in November 2025. The main deliberations of the MPC are summarised below:



The global economy remained resilient, as reflected in improved growth forecasts by major multilateral institutions. Tariff-related risks have been mitigated to a large extent, with trade and output picking up as importers built up their inventories in the run-up to the final tariff deadline of August 2025. Inflation trends among key trading partners were mixed: inflation remained sticky in the US and UK, while benign price pressures were observed in India and China. Most central banks are adopting a cautious, data-driven approach to monetary policy making.

Gross Domestic Product (GDP) is expected to be close to potential in 2025. Main drivers of growth, such as tourism, financial services and distributive trade, maintained strong performance. The 'Accommodation and food service activities' sector was buoyant, as tourism indicators looked set for new records in 2025. However, manufacturing and construction activities were softer.

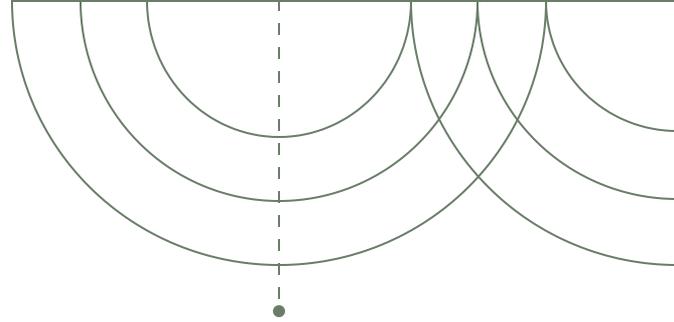
Consumption spending underpinned aggregate demand, explained by resilient household expenditure. GDP is forecast to grow by 3.1 per cent in 2025 and by around 3 per cent in 2026.

Headline inflation remained well within the Bank's target range of 2-5 per cent and very close to the medium-term target of 3.5 per cent. In recent months, headline inflation has been on a gradual uptrend on the back of domestic factors. However, considering favourable global commodity price developments and relatively subdued impact of US tariff measures so far, headline inflation is projected to end 2025 at 3.7 per cent. For 2026, the baseline forecast is for headline inflation to be around 3.6 per cent.

The projected trajectories for growth and inflation remain subject to uncertainty. Key risks include, *inter alia*, intensification of protectionist measures, escalation of geopolitical tensions and climate-related events. These could disrupt global supply chains, dent trade and production prospects and exacerbate global inflationary pressures, with repercussions on the domestic economy.

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1. International Economic Developments

Concerns about trade policies have eased since April 2025. The de-escalation of US-China trade tensions, bilateral trade deals between the US and its trading partners as well as trade agreements among countries excluding the US have helped to mitigate trade tensions. The slowdown in global activity is now expected to be milder than initially anticipated, supported by signs that both output and trade have held up well so far. Meanwhile, global inflation continues to decline, albeit at varied pace across countries. The monetary easing cycle is likely to be paused or to slow down in the near-term. Central banks are shifting towards a more data-driven approach to policy making as they assess the pernicious effects of tariff-induced shocks on inflation and output.

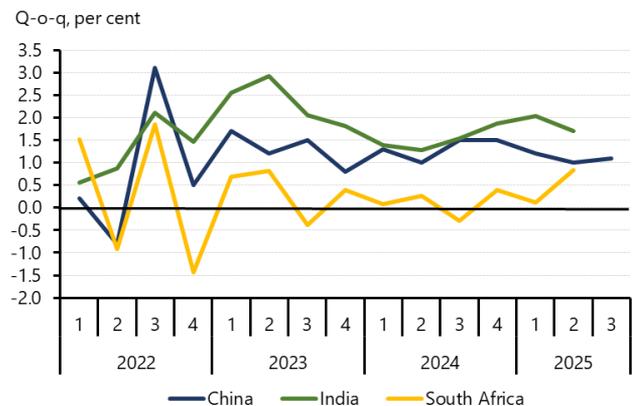
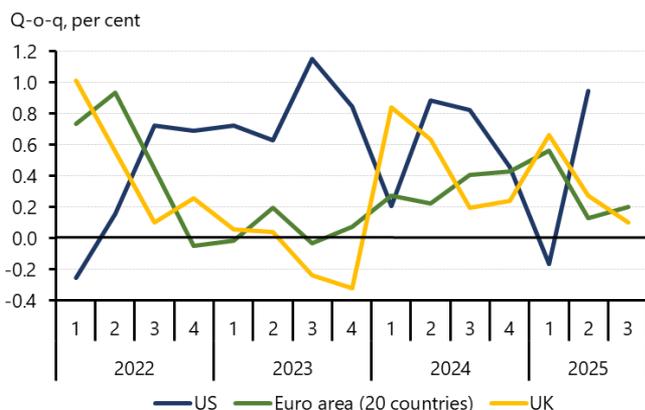
1.1 Growth developments

The global economy has so far proven resilient. The anticipated disruptions from trade tariffs that clouded the outlook earlier this year have turned out to be rather moderate. Front-loading activities underpinned trade and output, as importers built up their inventories in the run-up to the final tariff deadline of August 2025. The weakening US dollar and significant investment in the technology sector also supported global activity. Of late, the international trade environment has improved relative to April 2025. The de-escalation of the US-China stand-off and bilateral trade negotiations renewed optimism over trade prospects.

Available data suggest that global economic activity grew steadily so far this year. Among major advanced economies, US output reversed an earlier contraction, with a solid quarter-on-quarter (q-o-q)

expansion of 0.9 per cent in 2025Q2 (Chart 1.1). Consumption spending remained strong, while imports fell as front-loading activities subsided. In the euro area, q-o-q GDP growth eased to the 0.1 to 0.2 per cent range in the last two quarters, after a strong expansion of 0.6 per cent in 2025Q1. Subsiding front-loading effects dampened momentum, although household spending and investment remained strong. Meanwhile, output in the UK grew at a slower pace of 0.3 per cent in 2025Q2 and 0.1 per cent in 2025Q3. Signs of weakening were observed in the construction and services sectors, alongside a contraction in the manufacturing sector. Spare capacity in the labour market also dragged down economic activity. However, on the demand side, household and government spending was sustained.

Chart 1.1: Quarterly GDP growth of selected economies



Note: Data for 2025Q3 are preliminary estimates. GDP growth data for US, India and South Africa were not available for 2025Q3. Source: OECD.

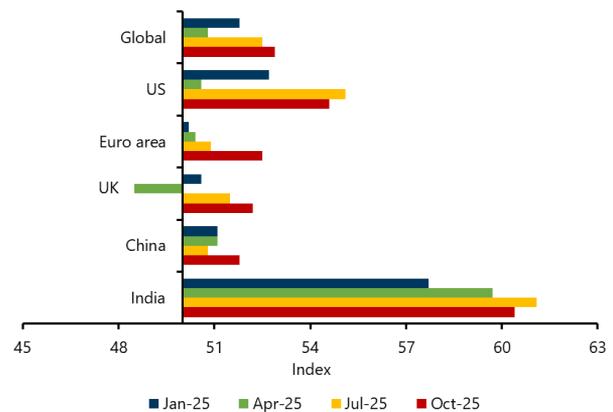
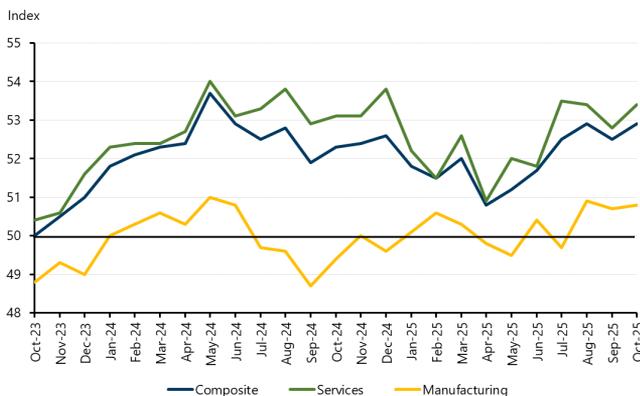
Within major Emerging Market and Developing Economies (EMDEs), China sustained a growth momentum of around 1.0 per cent in the first three quarters of 2025. Front-loading dynamics fuelled production, especially in the high-tech manufacturing segment. Household consumption and manufacturing investment remained strong, backed by expansionary policy measures. India's economy expanded, in q-o-q terms, by 2.0 per cent in 2025Q1 and further by 1.7 per cent in 2025Q2. Domestic activity was supported by sustained strength in consumption and investment spending. Notable growth sectors included manufacturing, construction and services. In South Africa, GDP data surprised on the upside, as q-o-q growth accelerated from 0.1 per cent in 2025Q1 to 0.8 per cent in 2025Q2. Recovery was broad-based and supported by robust consumption and softer imports.

The J.P. Morgan Global Composite PMI Output Index, which posted the strongest performance since May 2024, further underscored the continuing global growth momentum. The index, which fell to a 16-month low of 50.8 in April, has since been on an uptrend, reaching 52.9 in October 2025 (Chart 1.2). Notable gains in production were noted in both the manufacturing and services sectors. Buoyancy in financial and technology sectors bolstered services activity growth. The manufacturing sector also recorded firm back-to-back expansions, not seen since 2024Q2. Business confidence improved

remarkably, amid receding, although concerns regarding flat employment remain. Country-wise indicators show mixed patterns, with continued growth in US, China and India contrasting with sluggish activity in the euro area and UK.

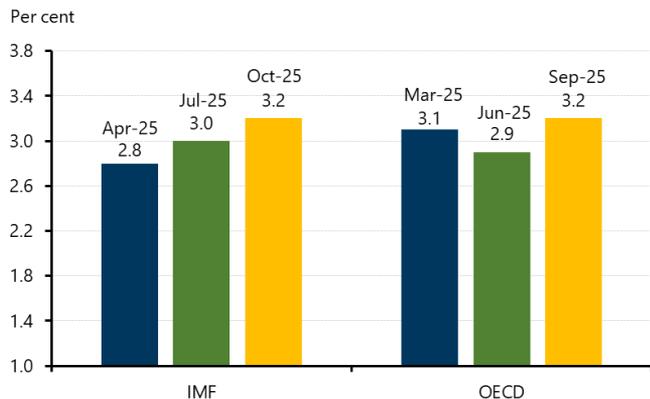
In view of these latest economic developments, major international institutions, notably the International Monetary Fund (IMF), World Trade Organisation (WTO) and Organisation for Economic Co-operation and Development (OECD), have updated their assessments of the global economy (Chart 1.3). In its October 2025 World Economic Outlook (WEO), the IMF raised its global growth projection for 2025 to 3.2 per cent – an upgrade of 0.2 percentage point (pp) relative to the July 2025 forecast. The growth forecast for 2026 was unchanged at 3.1 per cent. Advanced economies are projected to grow by 1.6 per cent in 2025 while growth in EMDEs is forecast at 4.2 per cent, up 0.1 pp from the previous projection. The WTO, in its October 2025 Global Trade Outlook and Statistics Report, also scaled up its global growth forecast to 2.7 per cent in 2025 and 2.6 per cent in 2026. These represent upward revisions of 0.5 pp and 0.2 pp, respectively, compared to the April 2025 report. The OECD had previously upgraded its global growth projection to 3.2 per cent for 2025 as per its September 2025 Economic Outlook – a difference of 0.3 pp relative to the June 2025 forecast. Projected growth for 2026 was maintained at 2.9 per cent.

Chart 1.2: Purchasing Managers' Indices



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

Chart 1.3: Global growth projections for 2025



Sources: IMF and OECD.

These improved growth projections reflect, to a large extent, idiosyncratic policy responses that cushioned the impact of tariff-induced disruptions. Improved financial conditions and fiscal stimulus in major economies like Europe and China as well as a boom in AI-driven investments supported productivity and economic activity.

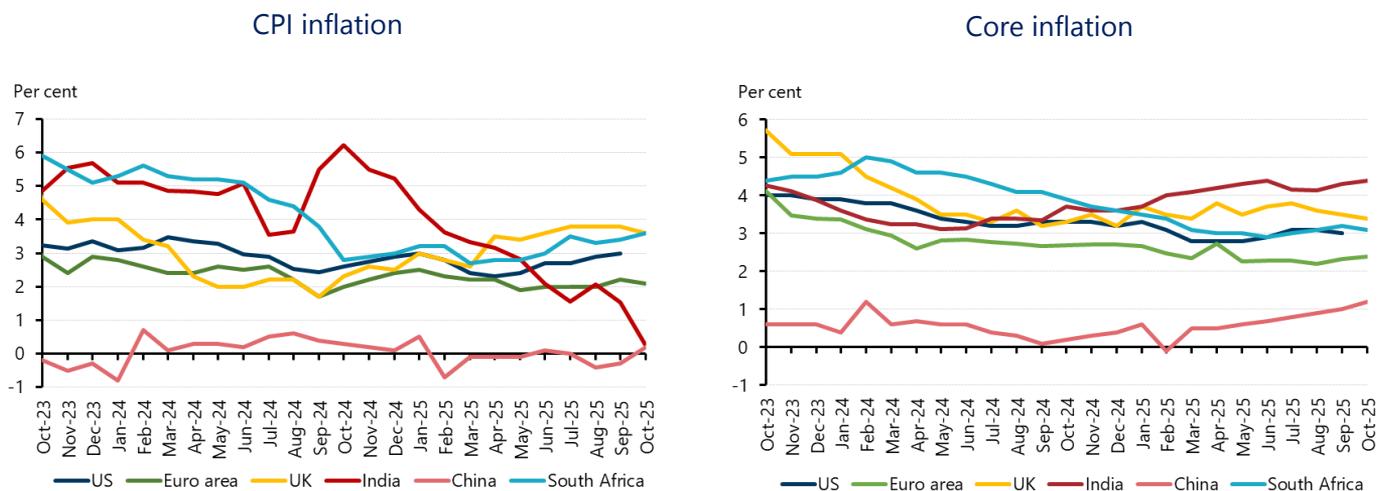
Nonetheless, some downside risks surround the global growth outlook. Uncertainty over policy directions may hurt economic confidence, with dampening effects on consumption and investment spending. Labour constraints in specific skill-dependent sectors – exacerbated by tighter immigration policies – are likely to dent growth potential. Abrupt market correction for tech stocks may halt the potential for AI-related investment, triggering capital reversals and financial stability

pressures. Climate-related factors and geopolitical tensions could detract growth from expected trajectories in import-reliant countries. On the upside, positive trade developments are expected to boost near-term growth. Productivity gains from additional spending on AI-technologies and human capital will be beneficial to longer-term growth.

1.2 Price developments

Inflation trends are diverging in key economies (Chart 1.4). Inflation in the US has been trending higher since April 2025 and reaching 3.0 per cent in September 2025. Tariffs have translated into higher goods inflation, while disinflation continued in the services sector. In the euro area, inflation has hovered in a tight range of 1.9 per cent to 2.2 per cent for the past eight months. Food and services inflation have been quite sticky. Inflation in the UK, which stalled at 3.8 per cent in the preceding three months, eased to 3.6 per cent in October 2025. The change in energy policies led to softer fuel price increases, countering rising food prices. China has been struggling with deflationary pressures since February 2025, although inflation rose to 0.2 per cent in October 2025. The recent increase was led by improving consumer demand and impetus from accommodative policies. In India, price pressures were broadly benign, with inflation sliding to a record low of 0.25 per cent in October 2025. This was mostly explained by lower prices for food, fuel and other consumables, partly linked to the reduction in the Goods and Services Tax rate.

Chart 1.4: Annual CPI and core inflation of selected economies



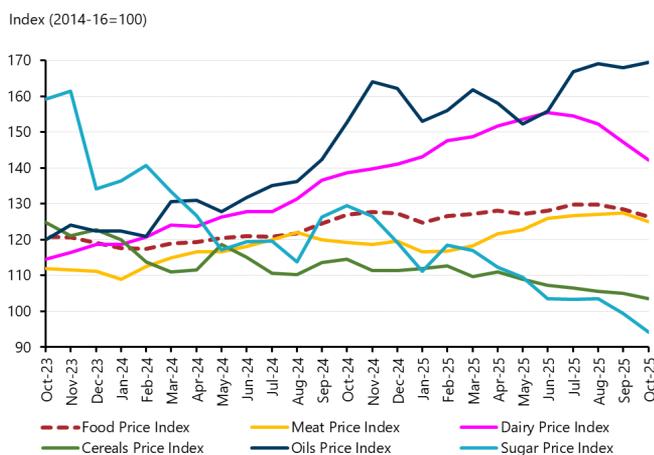
Note: Data for euro area and UK refer to HICP inflation. October data for US has been delayed due to the government shutdown. Sources: OECD, Refinitiv and country statistical offices' websites.

Meanwhile, inflation in South Africa has accelerated in recent months, reaching 3.6 per cent in October 2025. Notable price increases were evident in the ‘transport’, ‘recreation, sport and culture’, and ‘alcoholic beverages and tobacco’ components.

The IMF, in its October 2025 WEO, projects global inflation at 4.2 per cent in 2025 and 3.7 per cent in 2026, same as forecast in July 2025. Inflation for advanced economies is projected at 2.5 per cent in 2025, unchanged from the previous report. For EMDEs, inflation is expected at 5.3 per cent, a reduction of 0.1 pp compared to the previous projection.

Upside risks to the inflation outlook persist. The full impact of trade diversion and reallocation in response to US tariffs has been slow to materialise given front-loading activities. However, prices in some countries are starting to reflect higher tariffs and may affect inflation in the near-term. The likelihood of inflation expectations shifting to elevated levels remains. In this scenario, renewed second-round effects may take place and risk de-anchoring inflation expectations. Revived geopolitical tensions may lead to supply constraints that drive commodity prices to higher levels than current estimates. On the flip side, downside pressures on inflation may arise from weakening demand, especially if the dampening effects of tariffs on consumption and investment spending become more considerable.

Chart 1.5: FAO Food Price Index



Sources: FAO and Refinitiv.

1.3 Commodity prices

The World Bank, in its October 2025 Commodity Markets Outlook, projects global commodity prices to fall by 7 per cent in both 2025 and 2026. Although on a sustained downtrend for the fourth consecutive year, commodity prices largely remain above pre-pandemic levels. This hints at further scope for commodity-led disinflation. Sluggish demand, uncertainty over trade policy and oversupply in the oil market are the main drivers of downside pressures on commodity prices. If these factors become more protracted, commodity prices may even turn out markedly lower. However, upside risks could emerge from sanctions, rising trade protectionism and climate-related constraints.

Global food prices have broadly moderated (Chart 1.5). The Food and Agriculture Organisation (FAO) Food Price Index – which tracks monthly changes in the international prices of a set of globally traded food commodities – peaked at 129.8 in July 2025, before coming down to 126.4 in October 2025. Declines in prices of meat, dairy, cereals and sugar were observed amid ample supplies. This helped to offset higher vegetable oil prices that stemmed from strong global import demand and constrained exports. According to the World Bank, food prices will go down by around 6.0 per cent on average in 2025. Prices will then stabilise in 2026 as supply patterns for main crops normalise near long-term averages.

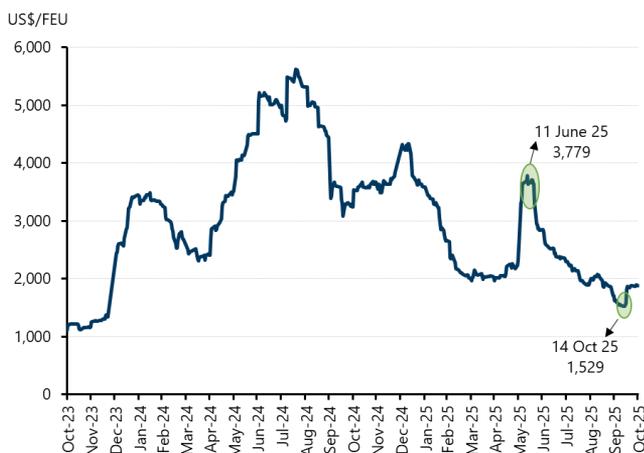
Chart 1.6: Crude oil prices



Excess supply in the global oil market continues to drive prices down (Chart 1.6). Rising oil inventories in the US and agreement by the Organisation of the Petroleum Exporting Countries and non-member countries (OPEC+) to expand oil production in November 2025 have resulted in a global oil supply glut. This occurred against a backdrop of slowing oil consumption growth, amid subdued demand in China and the shift towards eco-friendly vehicles. Crude oil prices fell to US\$65 per barrel on 31 October 2025, from a peak of US\$78.9 per barrel reached in June. The World Bank is projecting crude oil prices to go down further, from an average of US\$68 per barrel in 2025 to US\$60 per barrel in 2026. The November 2025 issue of the US Energy Information Administration’s Short-Term Energy Outlook forecast crude oil prices to average US\$69 per barrel in 2025 and US\$55 per barrel in 2026. Their estimates underlie faster-than-expected expansion in global oil production. Nonetheless, some upside risks to global oil prices may arise from ongoing geopolitical tensions and lingering trade policy uncertainty.

The Freightos Baltic Index, a metric to assess shipping cost pressures, broadly remained on a downward trajectory since June 2025 (Chart 1.7). The decline in freight costs reflects favourable trade developments and normalising shipping activities. However, the risk of an escalation in shipping costs remains, depending on evolving demand, supply logistics and geopolitical factors.

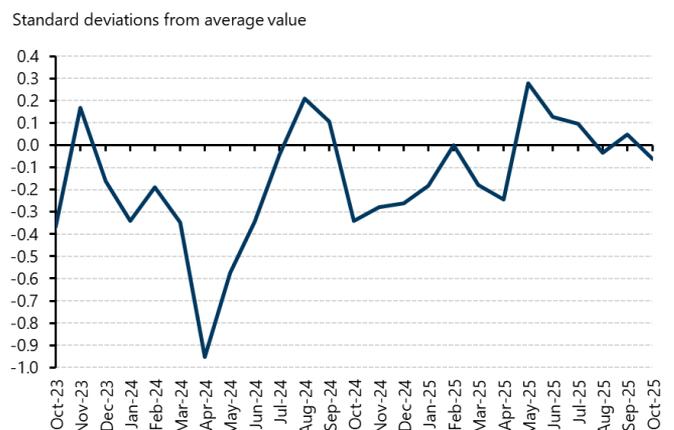
Chart 1.7: Freightos Baltic Global Container Index



Note: FEU denotes forty-foot equivalent unit.
Source: Refinitiv.

The Global Supply Chain Pressure Index, a measure for supply chain disruptions that encompasses global transportation cost and manufacturing indicators, also ebbed from a high reached in May 2025. Thereafter, global supply chains have proved resilient to tariffs and related shocks. Front-loading activities, trade re-routing and successful negotiation of trade deals have insofar helped to minimise supply chain disruptions (Chart 1.8).

Chart 1.8: Global Supply Chain Pressure Index

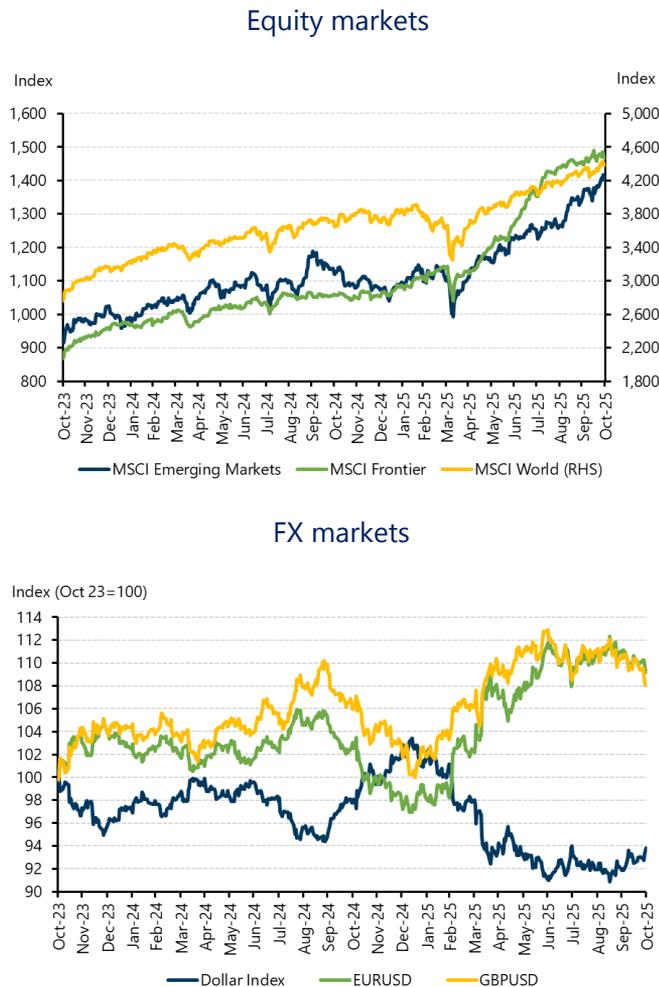


Source: Federal Reserve Bank of New York.

1.4 Equity and foreign exchange markets

Equity and Foreign Exchange (FX) markets have recovered steadily from the tariff-induced sell-off observed in April 2025 (Chart 1.9). Investor sentiment was supported by rising expectations of monetary policy easing in the US, alongside strong corporate earnings data. Technology stocks fared remarkably amid ongoing AI optimism and sustained capital spending. Even the US government shutdown did little to halt the rally in global equities, as major market indices remained close to all-time highs in October 2025. The US dollar, which remained on a broad downtrend until September 2025, recouped some of its losses in October 2025. Concerns over the US government shut down and political developments in Japan and the euro area sparked fresh rounds of investor jitters and boosted safe-haven demand for the currency. Expectations of expansionary policy decisions by the US Federal Reserve (US Fed) also lent support to the dollar. For 2026, the US dollar remains subject to uncertainty in the global geopolitical environment.

Chart 1.9: Equity and FX markets



Source: Refinitiv.

1.5 Monetary policy

Central banks have turned more cautious and data-dependent in their approach to policy making. Some central banks remain on an easing path, as the moderation in headline inflation progresses. However, a vast majority of central banks preferred to stay put on monetary policy. Uncertainty surrounding trade tariffs pass-through and geopolitics are viewed as latent upside risks to inflation, warranting a wait-and-see approach.

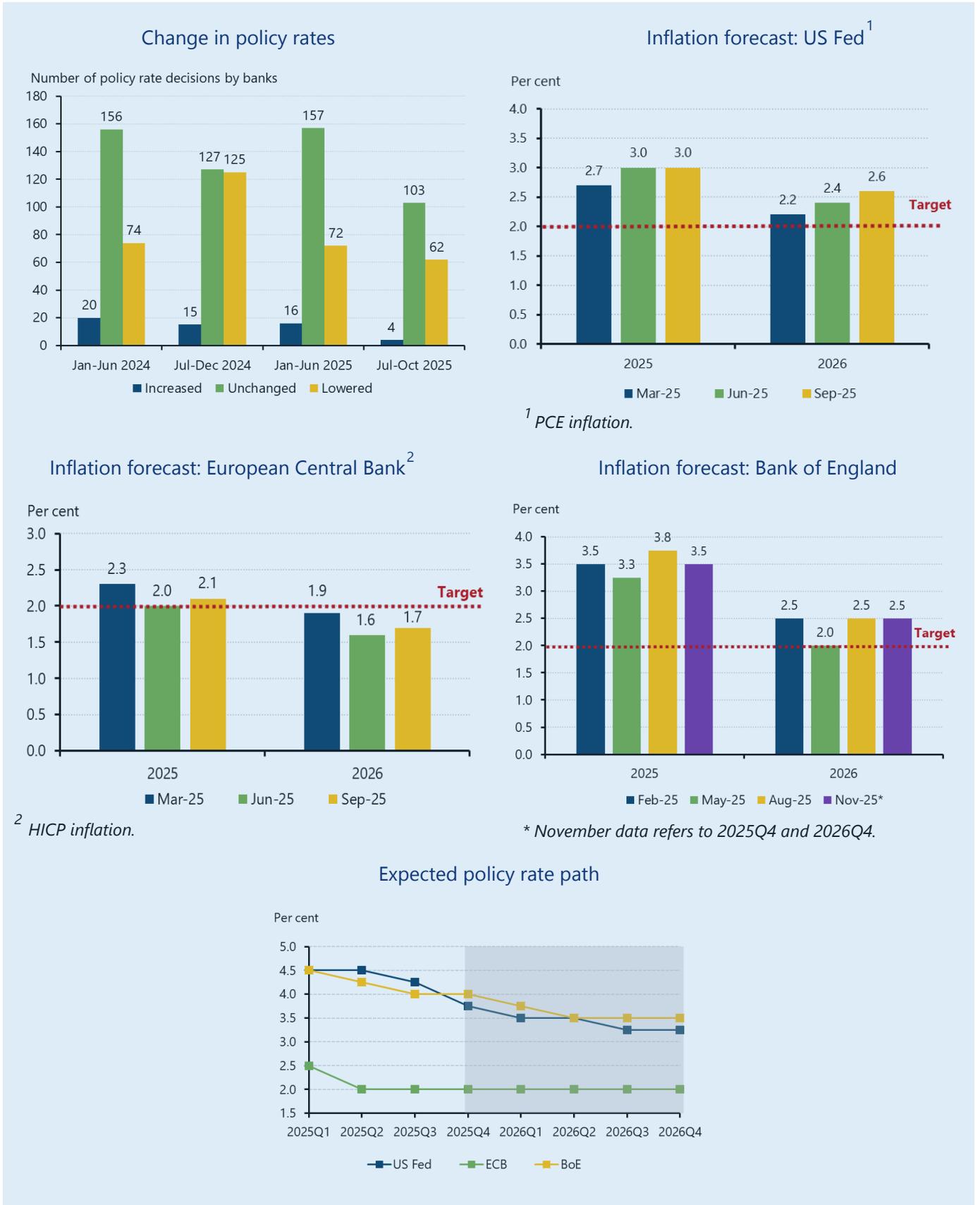
Of 414 MPC decisions taken globally in 2025[1], 134 decisions were about cutting rates and 260 decisions have been to maintain the status quo, as opposed to 20 decisions to raise rates (Panel Chart 1).

The US Fed opted for two policy rate cuts of 25 bps at its back-to-back meetings in September 2025 and October 2025, bringing down interest rates to a range of 3.75-4.00 per cent. However, it emphasised that additional policy rate adjustments would hinge on incoming data, the evolving outlook, and the balance of risks. The European Central Bank (ECB) delivered a last interest rate cut of 25 bps in June 2025, marking seven consecutive meetings of policy easing. The policy rate has since been left unchanged at 2.00 per cent at its meetings in July, September and October. The Bank of England (BoE) kept its policy rate unchanged at 4.00 per cent at its September and November 2025 meetings. Persistence of inflationary pressures in food, housing and services balanced out risks of slowing growth and labour market cooling. But the BoE signalled that the policy rate may still be adjusted downward, subject to progress in disinflation.

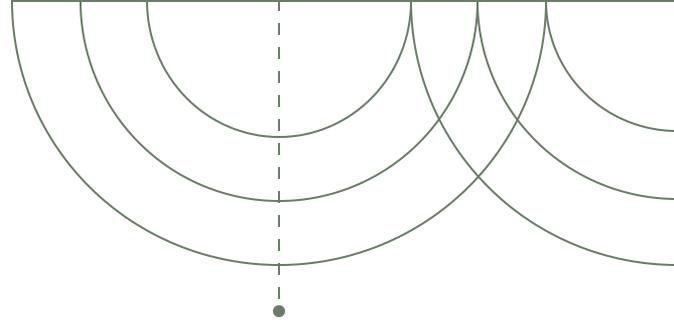
In light of incoming data on inflation and latest developments in trade and economic activity, major central banks have revised their assessments of the expected inflation path and associated risks. Accordingly, markets have adjusted their expectations of future monetary policy actions by these central banks. Based on the Refinitiv polls, the US Fed is expected to deliver another policy rate cut of 25 bps at its last meeting of 2025, following up with two equivalent rate reductions in 2026. The BoE is expected to leave the policy rate at the current level at its next meeting, before proceeding with two 25 bps cut in the policy rate in 2026H1. Meanwhile, the ECB has signalled a pause in its easing cycle for the near-term.

[1] Up to 31 October 2025.

Panel Chart 1: Policy rates and inflation forecasts of major central banks



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



2. Domestic Economic Developments

The domestic economy maintained a positive performance in the first half of 2025. Key sectors such as financial services, tourism and distributive trade continued to sustain overall growth. Since April 2025, inflation has maintained an upward trajectory. Labour market conditions improved, marked by rising employment and stable wage growth. The current account deteriorated, reflecting a higher trade deficit that was partly offset by a rise in the surplus on the services account.

2.1 Economic activity

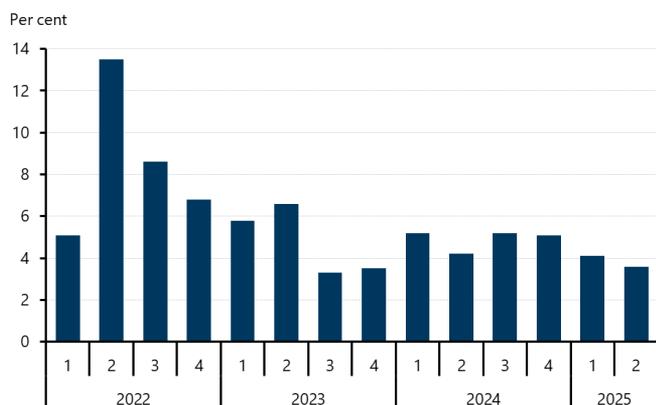
Real GDP expanded at an average annual rate of 3.9 per cent in 2025H1 (Chart 2.1). The economy was driven by the 'Agriculture, forestry and fishing', 'Financial and insurance activities' and 'Wholesale and retail trade' sectors. The 'Agriculture, forestry and fishing' sector experienced robust growth of 15.5 per cent in 2025H1, primarily on the back of strong output in non-sugarcane activities. The 'Financial and insurance' sector maintained steady progress, supported by robust performance in banking, insurance and global business services.

The 'Wholesale and retail trade' sector also held up well, buoyed by resilient consumer spending (Chart 2.2). In contrast, growth in the 'Manufacturing' sector remained subdued at 1.6 per cent in 2025H1,

with ongoing challenges in the 'sugar' and 'textile' sub-sectors, such as labour shortages and structural concerns. The 'Construction' sector, which had previously experienced rapid growth, contracted by 4.5 per cent in 2025H1, reflecting the completion of major projects and a measured pace of the initiation of new developments.

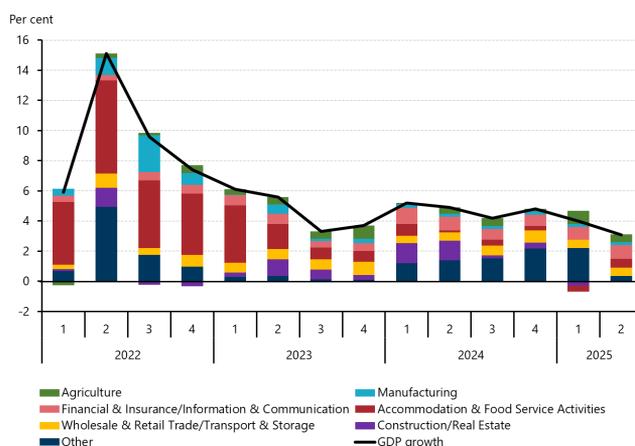
The 'Accommodation and food service activities' sector showed a marked recovery in 2025Q2, reversing the contraction observed in 2025Q1. This rebound was largely attributed to a resurgence in tourist arrivals, which positively impacted sectoral performance. The sector registered an overall growth of 2.4 per cent in 2025H1.

Chart 2.1: Real GDP growth



Source: Statistics Mauritius.

Chart 2.2: Sectoral contribution to growth



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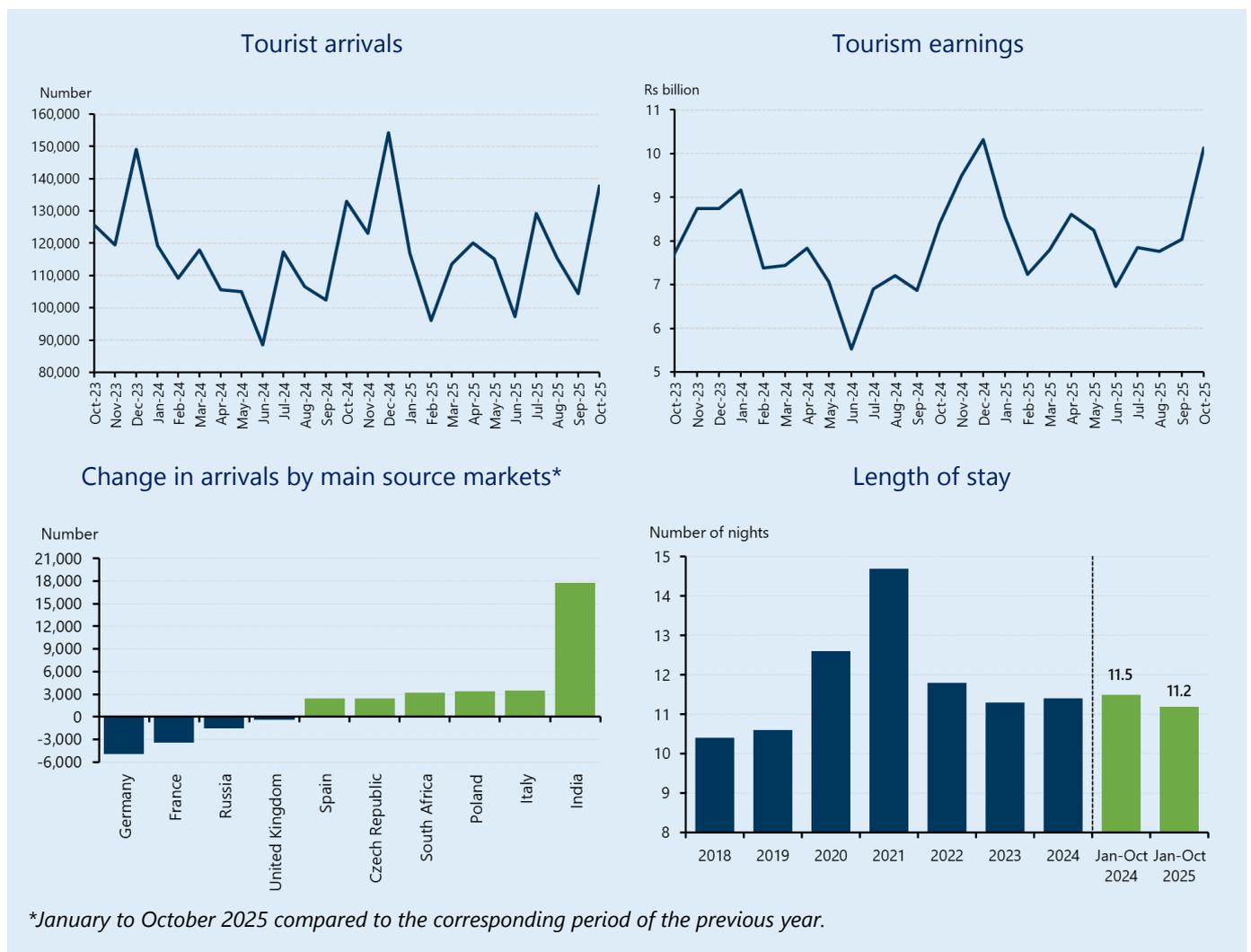
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Mauritius welcomed 1,145,907 tourists from January to October 2025, a growth of 3.7 per cent relative to the same period in 2024 (Panel Chart 2). European countries, like the Czech Republic, Poland, Spain and Italy registered considerable growth in tourist arrivals but key source markets, such as France and Germany recorded declines of 1.3 per cent and 4.9 per cent, respectively. The challenging economic situation prevailing in Europe could be one of the main factors denting demand for Mauritius. However, India showcased a remarkable performance, with an increase of nearly 18,000

tourists for the first ten months of 2025 relative to the corresponding period of 2024.

Tourism earnings totalled Rs81.2 billion over the period January to October 2025, higher by 10.1 per cent compared to the same period of 2024. A slight decline was observed in the average length of stay between January and October 2025 to 11.2 nights, from 11.5 nights over the corresponding period of 2024. For the year 2025, Statistics Mauritius expects the sector to grow by 3.0 per cent, based on tourist arrivals of around 1,425,000.

Panel Chart 2: Tourism indicators

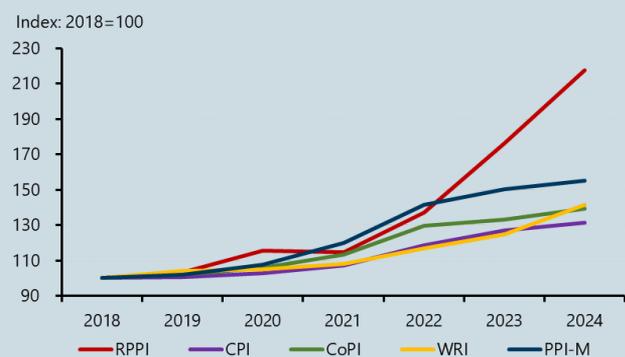


Sources: Statistics Mauritius and Bank of Mauritius.

Box 1: Evolution of residential property prices

The residential real estate market in Mauritius has experienced a significant transformation over the past few years, marked by sharp increases in property prices. The Residential Property Price Index^[2] (RPPI) rose markedly from a base of 100 in 2018 to 217 by the end of 2024 – highlighting the combined effects of strong demand conditions and persistent supply-side constraints (Chart I).

Chart I: RPPI and other indices*



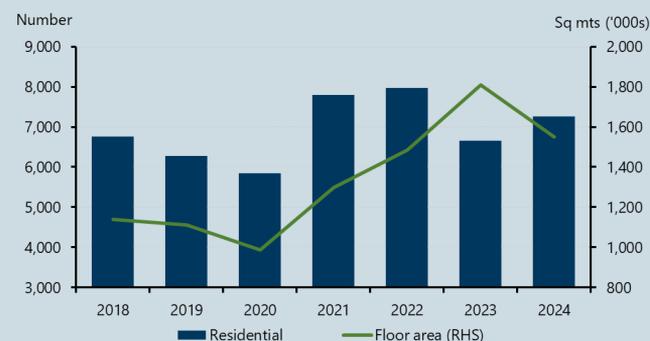
* For comparative purposes, the different indices have been rebased to 2018, which is the base year of the Construction Price Index.

Sources: Statistics Mauritius and Bank of Mauritius calculations.

On the demand side, the Economic Development Board (EDB) has played a pivotal role in sustaining the interest of non-residents for the acquisition of residential properties by offering various schemes. Foreign Direct Investment (FDI) in the real estate sector has increased at an average annual rate of 22 per cent since 2018, reaching a record of Rs24.0 billion in 2024. This amount represented nearly three-quarter of total FDI inflows into the country, underscoring the sector’s attractiveness to international investors.

Domestic demand has further boosted residential property prices. The low interest rate environment and fiscal incentives introduced by the Government encouraged housing demand. Bank loans to resident households for ‘housing purposes’ expanded by an average rate of 11.0 per cent on y-o-y basis since December 2018, indicating strong and rising demand for residential property ownership. The number of building permits approved by authorities for the construction of residential buildings and the rising trend in the number of floor area approved since 2020 also indicate strong demand for residential properties (Chart II). Government schemes such as ‘Home Ownership Scheme’ and the ‘Home Loan Scheme’ introduced in FY2023-24^[3], provided additional impetus to the housing market.

Chart II: Permits issued and floor area approved for the construction of residential buildings



Source: Statistics Mauritius.

The limit of developable land, stemming from the island’s geographical limitations and competing land use for agriculture, tourism, commerce and housing, continues to impose supply-side constraints, thereby exerting upward pressure on residential property prices.

[2] The RPPI is an indicator of changes over time in the prices of residential properties (houses and apartments) purchased. Currently, only the aggregated country-level RPPI for Mauritius is published by Statistics Mauritius.

[3] The Home Ownership Scheme, for properties acquired between July 2023 and June 2024, provided a 5 per cent refund (capped at Rs500,000) on the purchase price. The Home Loan Scheme, targeting new home loans registered between July 2021 and June 2024, provided a 5 per cent refund on the property value. However, these schemes have not been renewed, as per latest Budget 2025-26 measures.

Additionally, construction costs, as gauged by the Construction Price Index (CoPI), have been increasing since 2018, further adding to upward pressures in residential property prices (Chart III). CoPI rose by 39 per cent since 2018, largely driven by increases in the price of construction materials and labour costs. The cost of materials, which constitute nearly 70 per cent of the total weight in the CoPI, increased by 43 per cent relative to 2018, while labour costs, accounting for a weight of around 24 per cent, rose by around 28 per cent over the same period (Chart IV).

Chart III: CoPI

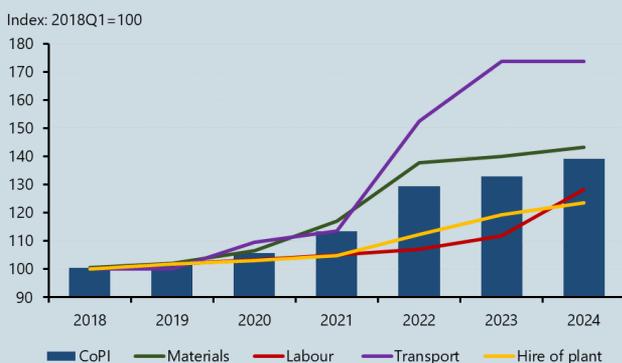
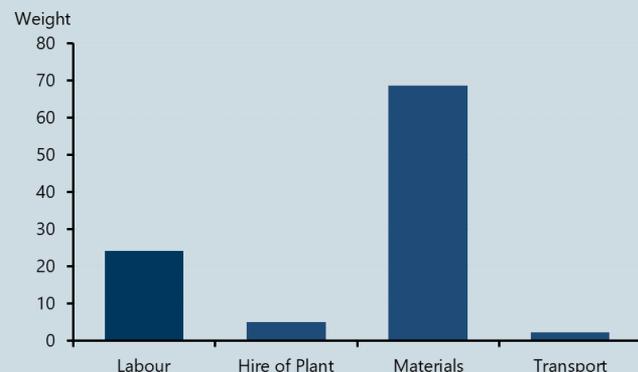


Chart IV: Weight of inputs in CoPI



Source: Statistics Mauritius.

The depreciation of the rupee, by approximately 37 per cent against the US dollar over the same period, has further exacerbated the cost of imported construction materials, such as cement and iron bars. Labour costs in the construction sector have grown progressively since 2018, resulting from the implementation of the national minimum wage and subsequent adjustments to address rising living costs.

These cost dynamics have not only impacted new construction but have also filtered into the maintenance segment of the housing market. The 'maintenance and repair of dwellings' component within the Consumer Price Index, considered a proxy for construction-related expenses, has shown a consistent upward trajectory. This reflects the rising prices of materials and services used for repairs and renovations, linking property market inflation indirectly to consumer price inflation.

The RPPI has increased at a faster pace than both the CoPI and the CPI since 2018, indicating that the rise in residential property prices cannot be attributed solely to higher construction costs and inflation, but also reflects some element of speculation within the property market.

Affordability of home ownership

A comparative analysis of the Wage Rate Index (WRI) vis-à-vis the RPPI shows that property prices are rising significantly faster than nominal wages, indicating challenges over housing affordability for residents. Although nominal wages have increased by approximately 42 per cent since 2018, the rise in residential property prices has been significantly higher, with an overall increase of 117 per cent over the same period. This widening gap has eroded the purchasing power of the average Mauritian household for the purchase of residential properties. Despite the implementation of social housing programmes and fiscal incentives, these measures have had limited success in mitigating affordability challenges in the face of strong market dynamics.

Higher property prices may impact on household budgets through mortgage financing. As property prices rise, households increasingly rely on larger mortgage loans to purchase homes. The cost of servicing these loan – through interest payments – is captured in the Consumer Price Index under the 'interest on mortgage' component. Although this component represents a relatively small share of the CPI basket, its impact becomes more pronounced when property prices escalate and borrowing needs expand. Higher loan amounts, combined with any upward adjustments in interest rates, amplify the financial burden on households.

On the demand side, activity was largely supported by resilient consumption. Final consumption expenditure rose by 4.9 per cent in 2025H1, driven by both household and government spending. Government expenditure expanded by 7.3 per cent, driven by higher spending on public sector wages and social benefits. Investment activity, measured by Gross Fixed Capital Formation, contracted by 4.4 per cent in 2025H1, weighed down by contractions in both of its sub-components – ‘Building & construction work’ and ‘Machinery & equipment’, pointing to a slowdown in infrastructure and real estate development.

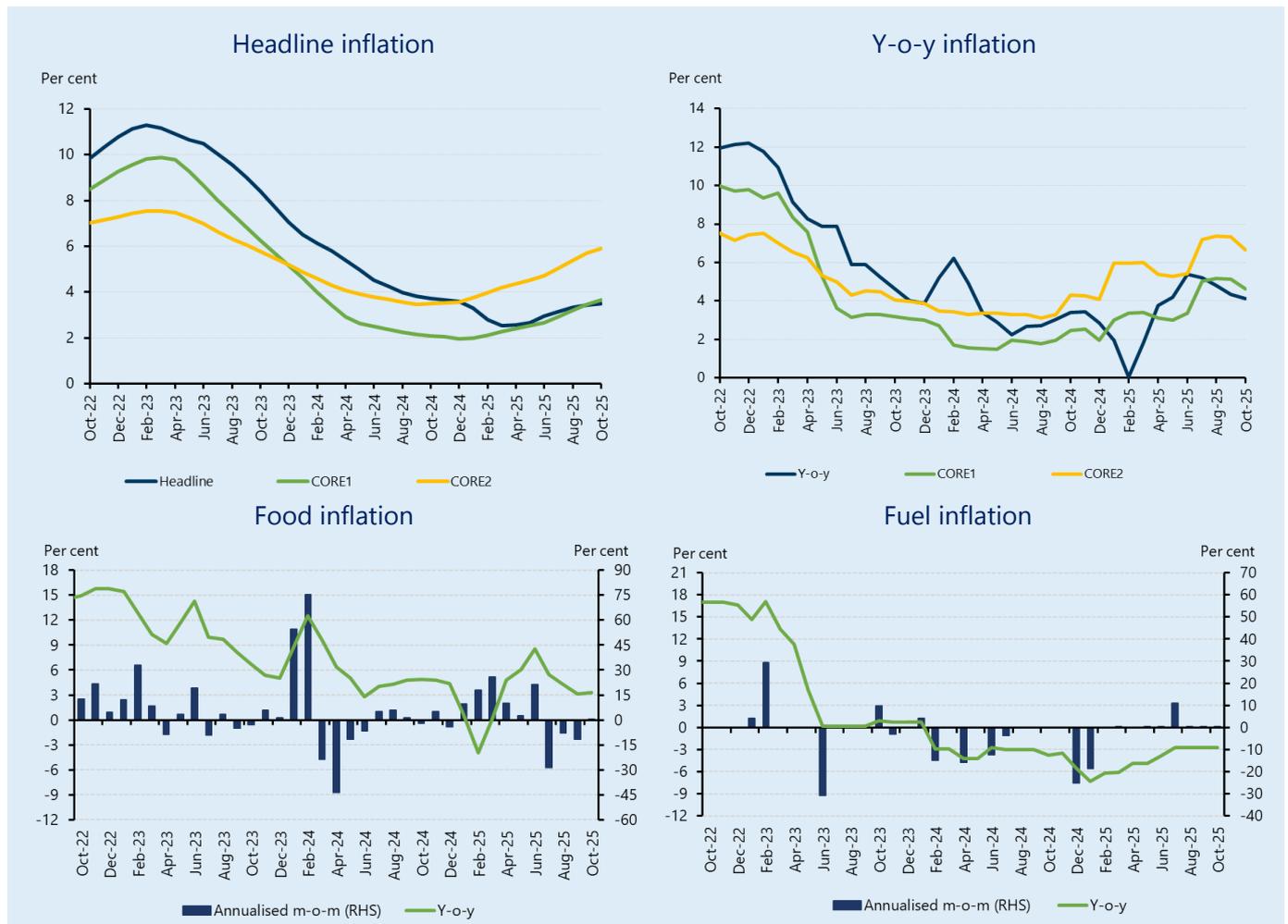
On the external front, net exports of goods and services continued to drag down economic growth. Exports of goods and services declined by 2.7 per cent in 2025H1, primarily due to a drop in exports of services. Imports of goods and services contracted by 0.3 per cent over the same period, driven by a decline in imports of services.

2.2 Price developments

Headline inflation rose for the seventh consecutive month to 3.5 per cent in October 2025. The rise in inflation primarily reflected the impact of budgetary measures, which directly raised the prices of a selection of consumption items, including cigarettes, alcoholic drinks and sweetened products. In contrast, y-o-y inflation followed a downward trend since July 2025 and stood at 4.1 per cent in October 2025. The decline was mostly due to government subsidies on five essential items: milk powder, edible oil, processed cheese, infant milk powder, and baby diapers (Panel Chart 3).

Y-o-y food inflation has continued to ease, falling from a peak of 8.5 per cent in June 2025 to 3.3 per cent in October 2025. This was mainly driven by the normalisation in vegetable prices and government subsidies. Although annualised month-on-month

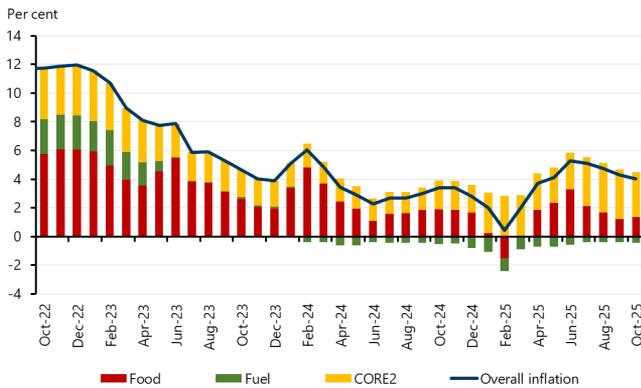
Panel Chart 3: Headline and y-o-y inflation



Sources: Statistics Mauritius and Bank of Mauritius calculations.

(m-o-m) dynamics are currently negative, food inflation could pick up in the coming months due to seasonal weather-related factors. Concurrently, the recent decline in mogas prices is expected to reduce fuel inflation in the coming months (Chart 2.3).

Chart 2.3: Y-o-y inflation decomposition



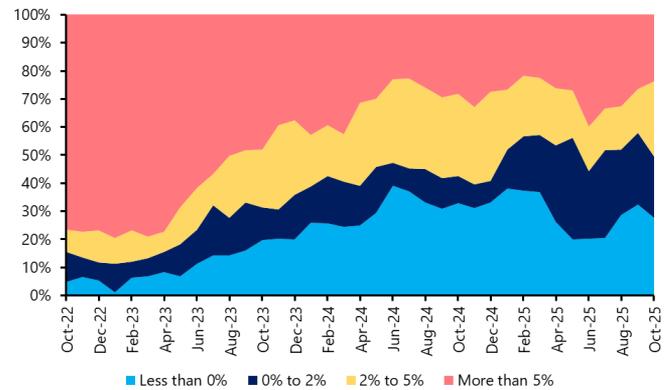
Sources: Statistics Mauritius and Bank of Mauritius calculations.

Core inflation, which measures underlying inflationary pressures in the economy, remained relatively high, upheld by higher prices of services and wage increases. On a 12-month average basis, both CORE1[4] and CORE2[5] inflation have increased since the beginning of the year reaching 3.7 per cent and 5.9 per cent, respectively, in October 2025. On a y-o-y basis, CORE1 and CORE2 inflation stood at 4.6 per cent and 6.6 per cent, respectively, in October 2025.

A granular analysis of the CPI basket shows that the share of items with price increases exceeding 5 per cent has declined from 33.4 per cent in July 2025 to 23.6 per cent in October 2025 (Chart 2.4).

The proportion of items with price increases between 2-5 per cent has increased to 27 per cent. Meanwhile, the proportion of items with price increases of less than 2 per cent declined from 51.8 per cent in July 2025 to 49.4 per cent in October 2025. These dynamics provide further evidence that inflation would remain comfortably within the Bank of Mauritius' target range of 2-5 per cent in the coming months.

Chart 2.4: Breakdown of CPI basket by inflation rate



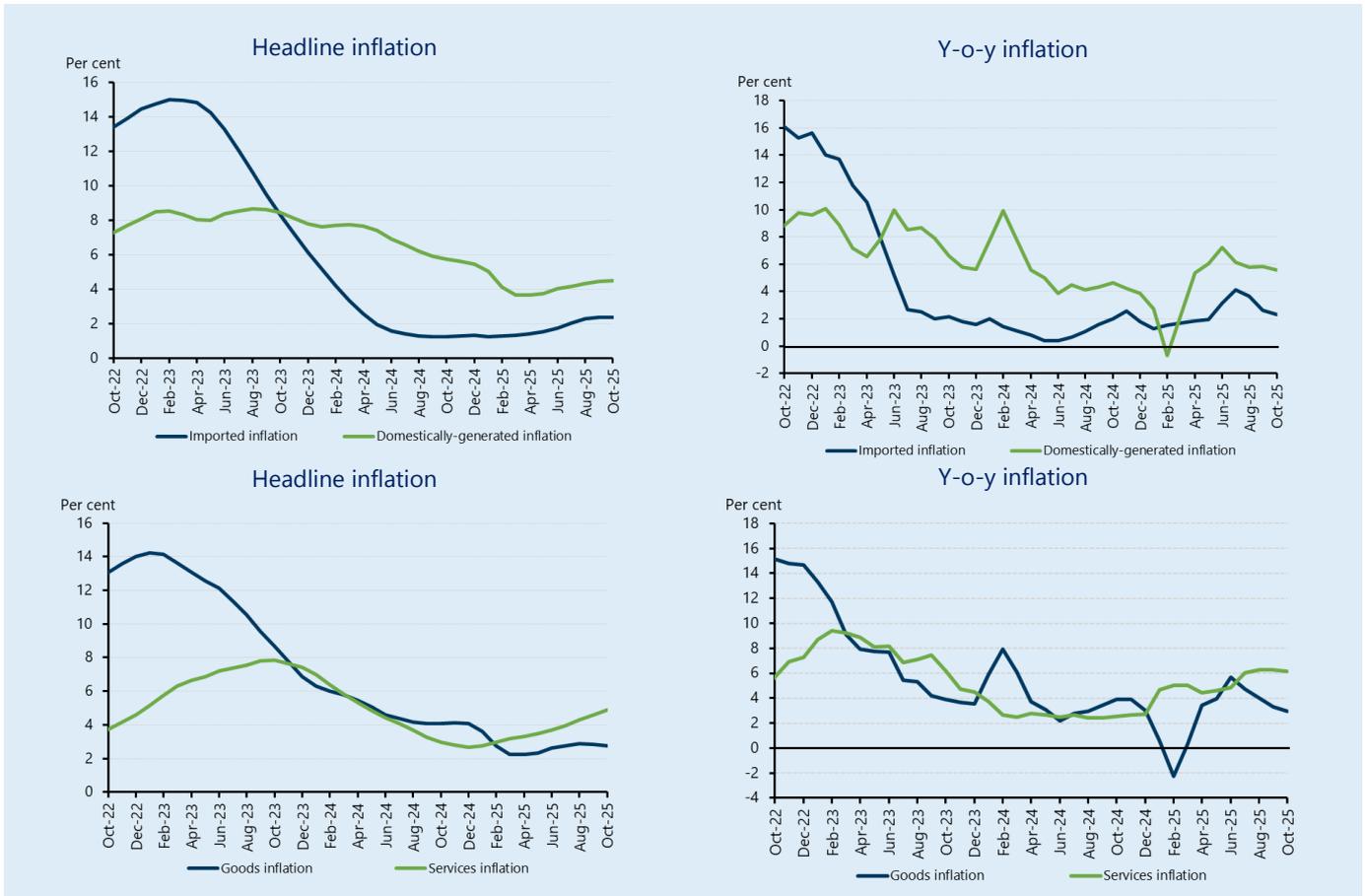
Sources: Statistics Mauritius and Bank of Mauritius calculations.

A comparative analysis of headline inflation components indicates a gradual upward trend in both imported and domestically-generated inflation, as well as in services inflation (Panel Chart 4). Notably, domestically-generated inflation remains relatively elevated compared to imported inflation, largely due to persistent inflationary pressures in the services sector.

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

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

Panel Chart 4: Other measures of inflation

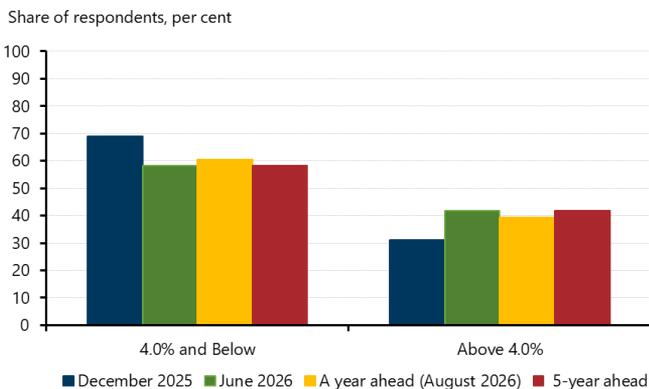


Sources: Statistics Mauritius and Bank of Mauritius calculations.

The survey of inflation expectations conducted in September 2025 indicated that inflation remained within the Bank’s target range. Short-term inflation expectations continued to exhibit a downward bias. Compared to the previous survey conducted in June 2025, inflation expectations for December 2025 were

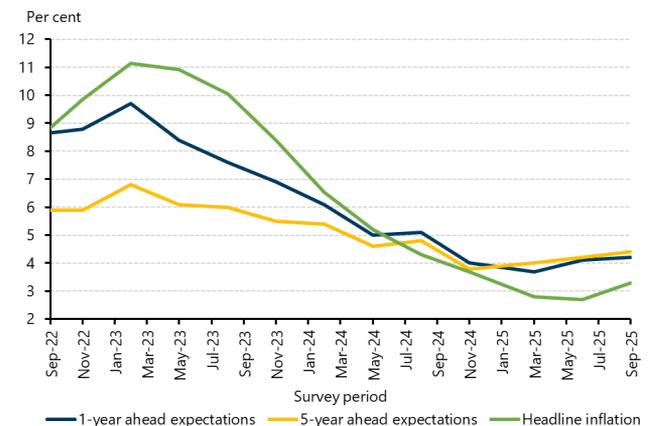
revised slightly upwards from 3.9 per cent to 4.0 per cent and for one-year ahead, were up by 10 bps to 4.2 per cent. The five-year ahead inflation expectations were also at 4.4 per cent compared to 4.2 per cent in the previous survey (Chart 2.5).

Chart 2.5: Inflation Expectations Survey
September 2025 results



Source: Bank of Mauritius.

Headline inflation and inflation expectations



Box 2: Understanding price stickiness in the vegetable market of Mauritius

The fresh vegetable market in Mauritius exhibits downward price stickiness – a phenomenon where prices resist falling even when market conditions would normally warrant a decrease. Since 2022, this trend has intensified, with prices following a sustained upward trajectory (Charts I and II). While retail prices show daily volatility due to short-term supply and demand dynamics, these variations are largely smoothed when aggregated on a monthly basis.

Key drivers of price stickiness

Weather-induced supply shocks: Vegetable prices in Mauritius are highly responsive to supply shocks, with extreme weather exerting a profound influence on market dynamics. Cyclone Garance in early 2025, following a prolonged drought and heatwaves, severely curtailed crop yields. Although the cyclone provided essential rainfall, waterlogged fields delayed recovery, tightening supply and driving prices sharply upward. Wholesale tomato prices surged from Rs50 per kg in January to Rs175 per kg in March, remaining elevated through the second quarter. This escalation is cascaded into retail markets, often with amplified margins, as sellers adjust for procurement costs, logistics, and perceived consumer tolerance during scarcity. Even after wholesale prices normalised to Rs20 per kg in the third quarter, retail prices declined only gradually, underscoring persistent price stickiness and the asymmetry of price transmission across market levels (Chart III).

Chart I: CPI for fresh vegetables

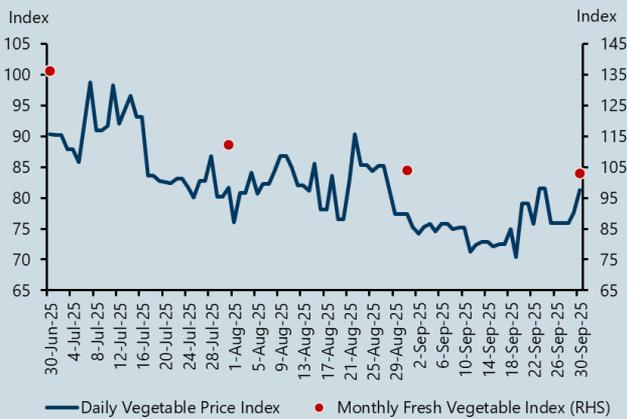


Chart II: CPI for fresh vegetables, annual average

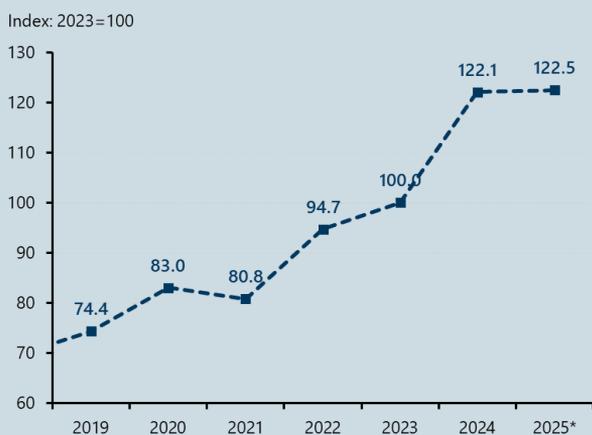
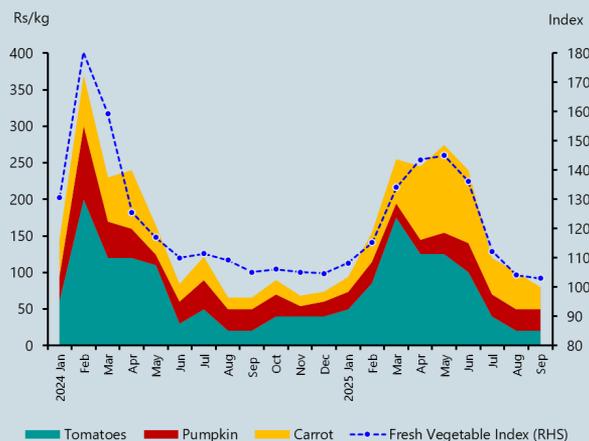


Chart III: Wholesale price of selected vegetables



*Refers to January to September 2025.

Sources: Statistics Mauritius, Bank of Mauritius calculations and Agricultural Marketing Board.

Disease pressures: Disease outbreaks significantly affect crop yields and contribute to price stickiness in the vegetable market. They incite unexpected supply shocks that not only lead to reduced yields but also deteriorate crop quality and increase production costs. These impacts are amplified by the seasonal and perishable nature of vegetables, which limits inventory buffers and market flexibility. Once prices escalate to reflect these constraints, inelastic demand for staple vegetables enables retailers to maintain elevated price levels even after conditions normalise.

Import dependency and exchange rate exposure: Mauritius' vegetable sector relies heavily on imported inputs – including seeds, fertilizers, equipment – and finished vegetables to supplement local production. This dependency makes retail prices highly sensitive to exchange rate movements and imported inflation. Elevated and volatile import costs, compounded by currency fluctuations, create a structural floor beneath retail prices, preventing them from returning to previous levels even when local harvests improve. The Import Price Index for fruits and vegetables surged from 99.9 in 2018 to 271.7 in 2025H1, underscoring the significant impact of import dependency on domestic price dynamics (Chart IV).

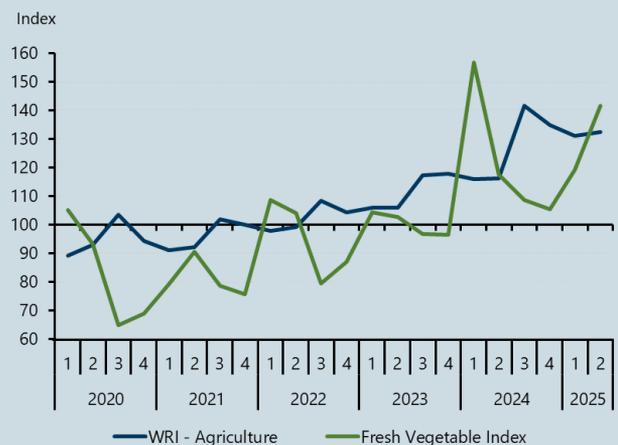
Chart IV: Import Price Index – vegetables and fruits



Source: Statistics Mauritius.

Rising input costs: Local farmers face rising and sticky input costs, which include labour, compost and transport. Labour contributes significantly to the marginal cost of domestic producers in the agricultural sector which is highly labour-intensive. The WRI for the agriculture sector has shown consistent increases mainly stemming from the rise in the national minimum wage and the relative wage adjustment exercise (Chart V). As such, there is a high pass-through of wages to production costs, thereby pushing vegetable prices higher. Once wholesalers and, subsequently, retailers raise prices to cover for rising production costs, they tend to stay put even if input costs stabilise. This inertia is explained by a combination of factors such as uncertainty about the persistence of cost reductions and high profit margins.

Chart V: WRI and Fresh Vegetable Index



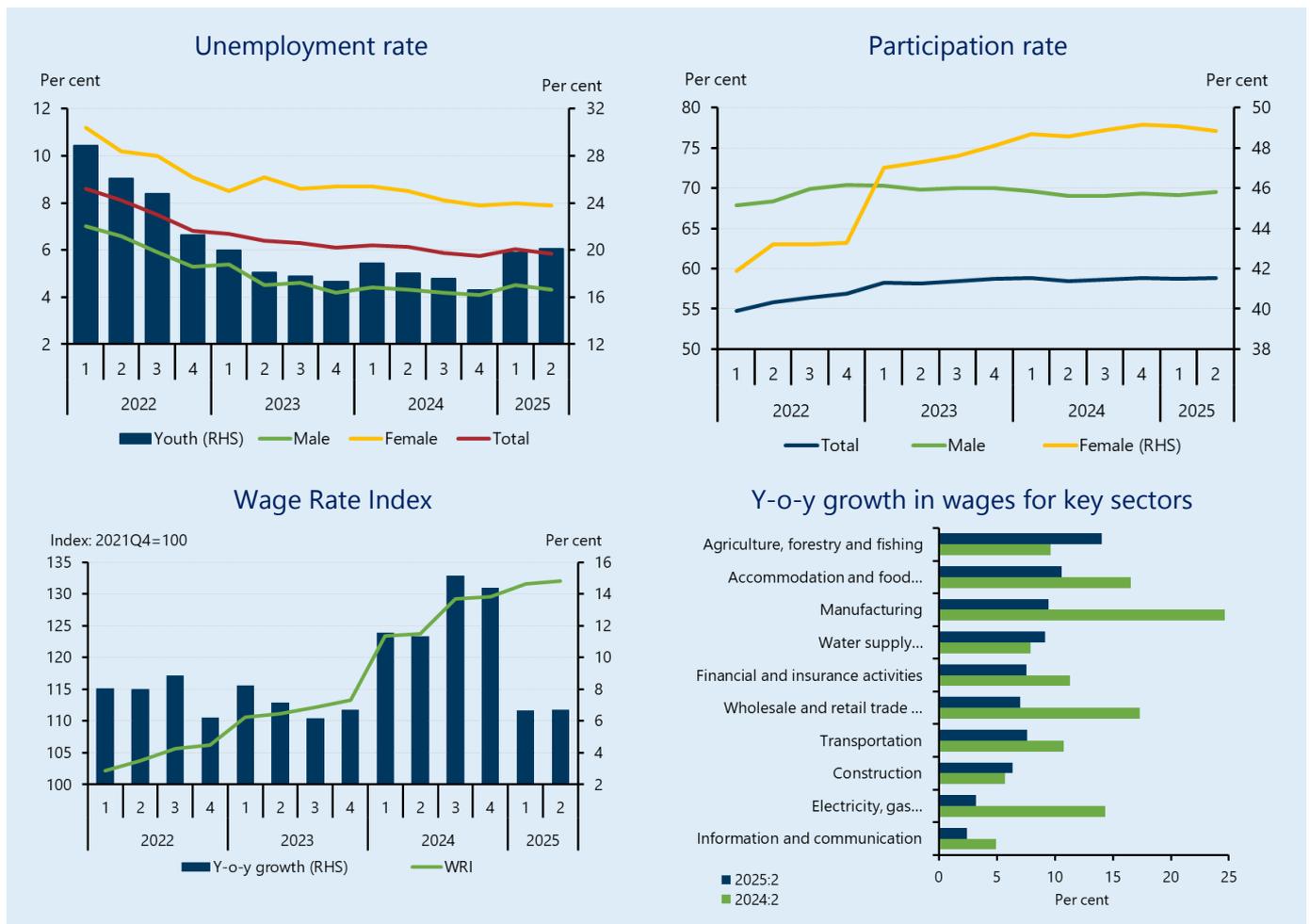
Source: Statistics Mauritius.

2.3 Labour market developments

Labour market conditions strengthened further in the first half of 2025. During this period, the labour force expanded by 4,800 compared to the same period of last year, supported by solid employment gains of 6,200. Concurrently, the number of unemployed declined by 1,400, highlighting demand for labour. The overall unemployment rate declined to an average of 5.9 per cent in 2025H1. Male unemployment rate returned to pre-pandemic levels, falling to an average of 4.4 per cent, while the female unemployment rate fell to its record low of 8.0 per cent. However, the youth unemployment rate rose to 20.0 per cent. The labour force participation rate held steady at 58.8 per cent, reflecting continued resilience in the labour market (Panel Chart 5).

Wage growth moderated significantly during the first six months of 2025. In y-o-y terms, nominal wage growth stabilised at around 6.7 per cent in 2025H1 – down from the double-digit growth rates of 2024, emanating from the increase in the national minimum wage, wage relativity adjustments, as well as payment of interim Pay Research Bureau (PRB) allowances and 14th month bonus. A sectoral analysis indicates that wage growth was concentrated in main labour-intensive sectors, which recorded increases in the range of 5-14 per cent. On a y-o-y basis, in 2025H1, the Wage Rate Index rose by 13.6 per cent in the 'Agriculture, forestry and fishing'; 11.9 per cent in 'Accommodation and food service activities' and 9.7 per cent in 'Manufacturing' sectors. Wages in the private sector and public sector increased by 8.0 per cent and 4.3 per cent, respectively, over the same period.

Panel Chart 5: Labour market indicators



Source: Statistics Mauritius.

Several initiatives have been announced in the Budget 2025-26 to address structural bottlenecks in the labour market. While the non-renewal of the 'Prime à l'emploi' scheme may pose a significant challenge to the integration of women into the labour force, other measures, including flexible work arrangements, mentorship programmes, and marketing assistance may continue to attract women

into the labour force. In addition, efforts to tackle labour shortages in key labour-intensive sectors, such as manufacturing, construction and distributive trade, are ongoing. The recruitment process of foreign workers is expected to be streamlined, while targeted training programmes aim at enhancing the employability of the existing labour force, especially the youth.

Box 3: The impact of wage dynamics on inflation

Price stability – characterised by low and stable inflation – is the primary objective of most central banks, particularly those operating under inflation targeting framework. Given inflation's detrimental effects on economic welfare, purchasing power, and long-term growth, policymakers usually adopt a forward-looking approach, carefully monitoring leading indicators that signal emerging price pressures. Labour market dynamics constitute a critical component of this analytical framework, providing essential insights into real-side economic conditions and their potential inflationary implications.

The relationship between wages and inflation receives scrutiny since wages can function both as a driver and a consequence of inflation. A rise in wages creates demand-pull inflation as consumers with improved purchasing power compete for a

limited supply of goods and services. Higher labour costs result in cost-push inflation as firms increase final prices to preserve profit margins. These dynamics become self-reinforcing when workers, anticipating future price increases, demand higher wages in subsequent bargaining rounds to protect their real income. Figure I illustrates the wage-price spiral.

For a small open and developing economy like Mauritius, the nexus between wages and inflation is clearly important. The wage-setting mechanism in Mauritius is significantly influenced by institutional factors that introduce rigidities and complicate the relationship between wages and inflation (Figure II). These non-market forces create potential inflationary pressures through both the domestic and cost-push channels.

Figure I: Wage-price spiral



Figure II: Wage determination in Mauritius



Historical data reveals limited evidence of a sustained wage-price spiral in Mauritius, especially in the pre-pandemic period (Panel Chart I). Occasional episodes of wage pressures coincided with institutional interventions, but their impact on consumer prices has been inconsistent and often muted. For instance, the 2003 PRB revision, which ranged from 15 to 27 per cent, did not trigger a sustained rise in inflation. Instead, headline inflation declined from 6.4 per cent in 2002 to 3.9 per cent in 2003. Similar patterns were noted in periods of PRB-led pay revisions until 2019.

Intuitively, cost-push pressures associated with wage increases can be avoided when accompanied by proportionate productivity improvements – leaving unit labour costs broadly unchanged. However, productivity trends in Mauritius do not appear to have aligned well with labour cost developments. It can thus be argued that other factors likely contributed to this outcome. One likely explanation is that the pre-COVID period was marked by excess capacity, reflected in the persistent negative output gap. This allowed additional increases in production without inducing demand pressures on prices. Imported inflation was also relatively contained in the run-up to the COVID crisis. Given favourable commodity price developments, the imported channel also helped in countering inflationary impulses. The transition to an interest-based framework for the conduct of monetary policy to achieve the price stability mandate likely contributed to enhancing the Bank's credibility and anchoring inflation expectations.

In the post-pandemic period, such patterns seem to have reversed. The economic recovery, supported by accommodative fiscal and monetary policies, led to stronger domestic demand – evidenced by the positive output gap. Wage growth also picked up as labour market conditions firmed. The commodity price shock in 2022 transmitted inflationary impulses through the imports channel. These first-round effects generated broad-based cost pressures across

sectors. As these shocks became increasingly embedded in the price-setting behaviour, inflation expectations drifted upwards. This set off a self-fulfilling spiral as workers started to demand wage increases to compensate the loss in purchasing power, in turn reinforcing inflationary pressures. This coincided with a period of successive revisions to national wage policies. Wage growth accelerated to 7.8 per cent, while headline inflation peaked at 10.8 per cent by the end of 2022 – the highest level in over a decade.

Tight monetary policy, alongside resolving supply bottlenecks, eventually helped to rein in domestic price pressures by anchoring inflation expectations. This prevented a full-blown wage-price spiral from emerging. However, growth in wages has remained quite sticky – double-digit pace of expansion noted across the four quarters of 2024. This reflects strong demand for pay revisions, persisting labour shortages and review of economy-wide wage policies via increases in the national minimum wage and relativity adjustment, cost of living allowances complemented by the payment of the 14th month salary bonus.

The recent build-up in labour costs occurred against a backdrop of subdued growth in labour productivity and persisting positive output gap. Faced with rising unit labour costs, businesses may attempt to preserve profit margins by passing higher costs onto consumers. This raises concerns about potential feedback loop to inflation. Domestically-generated inflation – which, to a large extent, reflects the impact of wage pressures on price formation in the services sector – has remained elevated in recent periods. Additional wage increases may inevitably deepen inflationary pressures. However, benign price pressures from the imported channel are assessed to have dampening effects on prices.

In such scenarios, the Bank’s role in monetary policy-making to promote price stability and anchor inflation expectations becomes paramount. The Bank has effectively maintained a restrictive monetary policy stance to rein in price pressures. As a result, inflation expectations have trended down and appear relatively well anchored, within

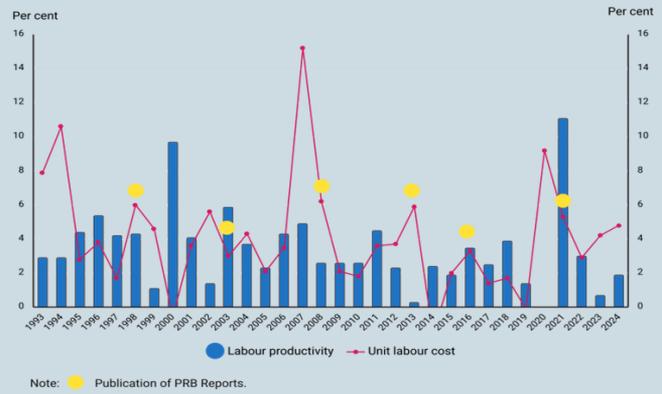
the target range of 2-5 per cent. The central bank’s credibility helps curtail the incidence of a wage-price spiral, as businesses trust that price pressures will be managed. Clear communication about its inflation goals and policy actions guides wage and price-setting behaviour across economic agents.

Panel Chart I: Wage and inflation developments

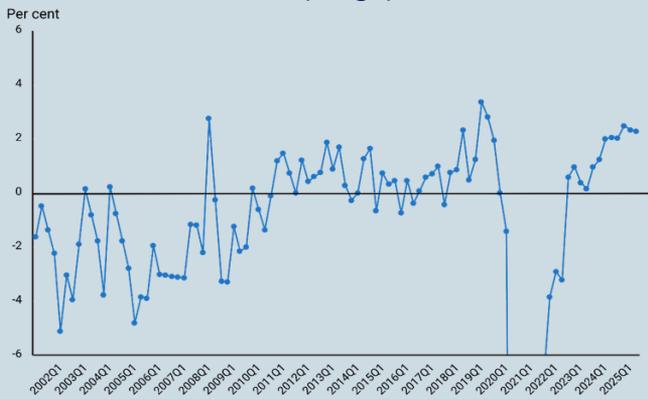
Growth in nominal wages and headline inflation



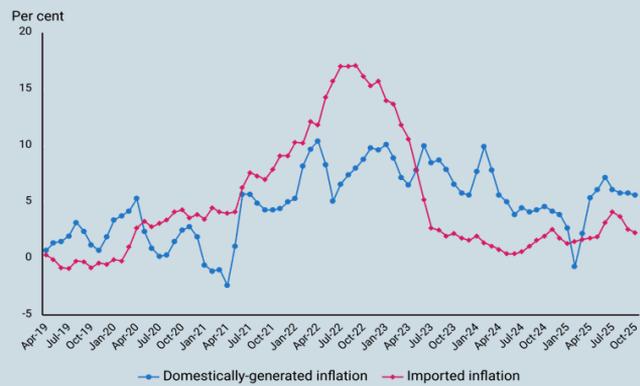
Growth in labour productivity and unit labour cost



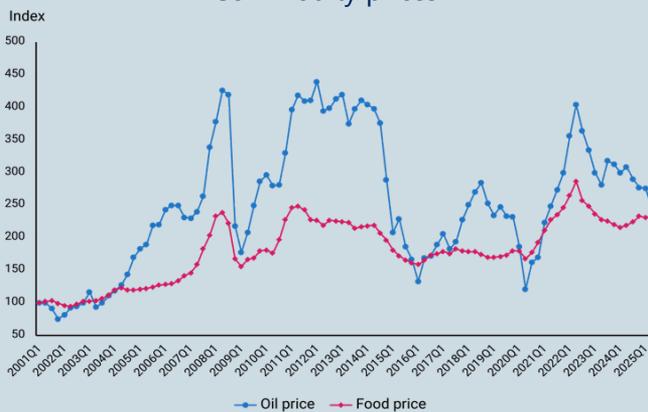
Output gap



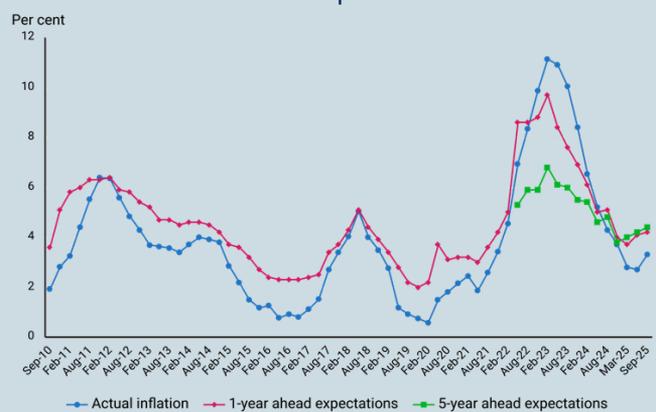
Domestically-generated and imported inflation



Commodity prices



Inflation expectations



Sources: Statistics Mauritius and Bank of Mauritius calculations.

2.4 External sector developments

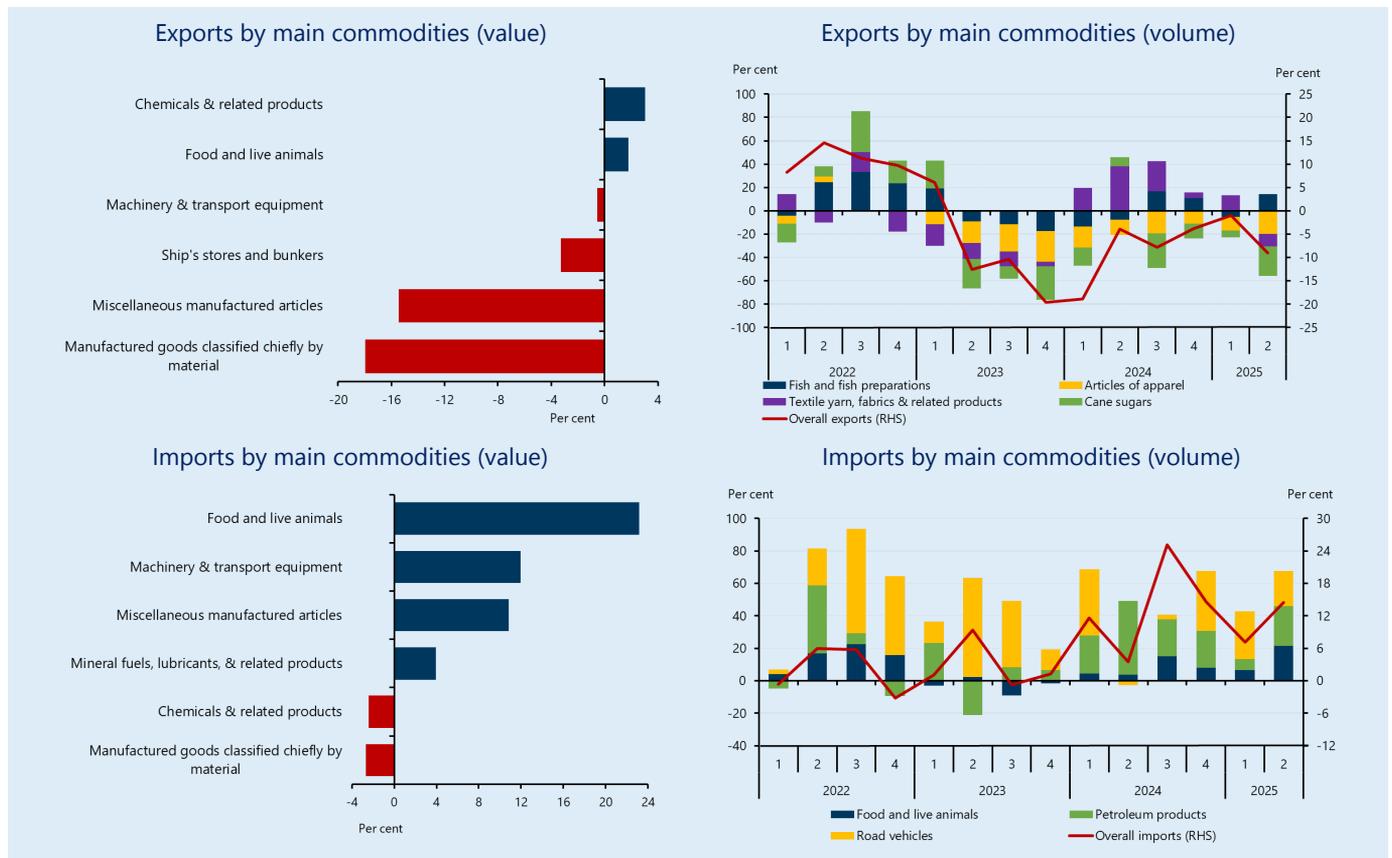
The current account deficit rose to Rs15.1 billion in 2025Q2 (8.6 per cent of GDP), from Rs9.8 billion in 2024Q2 (6.1 per cent of GDP). This deterioration primarily reflects larger deficit in the goods and secondary income accounts, which outweighed the improvement in the services account surplus.

In 2025Q2, the goods account deficit expanded to Rs48.6 billion, mainly due to rise in imports and a decline in exports. Exports of goods^[6] (f.o.b.) fell by 7.5 per cent to Rs19.2 billion, mainly due to lower shipment of 'Articles of apparel and clothing accessories', 'Cane sugars' and 'Pearls & precious stones', although 'Fish and fish preparations' showed improvement as labour shortage was addressed (Panel Chart 6). Overall export momentum, however, remained subdued amid ongoing uncertainties linked to the renewal of African Growth and Opportunity Act (AGOA), the imposition of US tariffs on Mauritian products and the political crisis lingering in Madagascar, an important exports

market for the country as well as a vital component of the supply chain of some major enterprises in Mauritius. On the other hand, imports of goods (f.o.b.) increased by 6.7 per cent to Rs76.3 billion, mostly attributable to higher imports of 'Food and live animals' and 'Road vehicles', contributing to the broader deficit in the goods balance.

Meanwhile, the terms of trade improved by 8.4 per cent y-o-y to 107.0 in 2025Q2 as import prices fell more sharply than export prices (Chart 2.6). The Export Price Index (EPI) rose mainly on account of higher prices of 'Textile yarn, fabrics and made-up articles' (+0.8 per cent) and 'Food and live animals' (+0.5 per cent). The decline in the Import Price Index (IPI) reflected lower prices of 'Mineral fuels, lubricants and related products' (-14.5 per cent) and 'Manufactured goods' (-2.6 per cent). When adjusted for exchange rate movements, export prices held up relatively well while import prices eased further, reflecting a broadly stable rupee over the semester.

Panel Chart 6: Goods account developments (2025Q2 v/s 2024Q2)



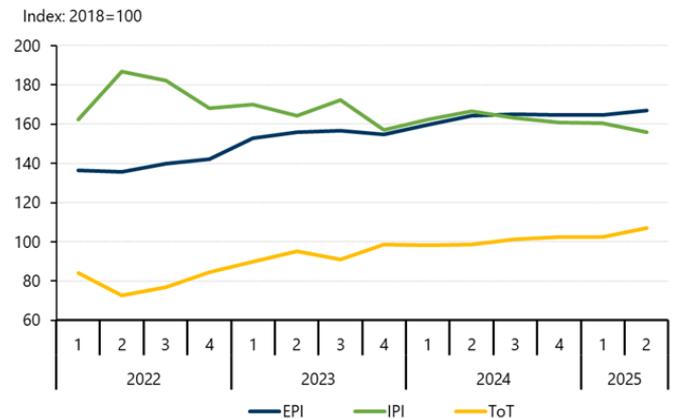
Source: Statistics Mauritius.

[6] Excluding Ship's stores and bunkers.

The EPI rose by 1.5 per cent, while the IPI dropped by 6.4 per cent in 2025Q2, as the rupee depreciated by 0.1 per cent vis-à-vis major currencies.

Removing price effects from the nominal trade data shows that, in volume terms^[7], excluding 'Ship's stores and bunkers', the exports of goods declined by 9.0 per cent during the period under review, reflecting mostly lower export volume of 'Articles of apparels and clothing accessories', 'Cane sugars' and 'Textile yarn, fabrics and made-up articles' (Table 2.1). Concurrently, import volume rose by 14.5 per cent, driven by imports of 'Mineral fuels, lubricants and related products' (Table 2.2).

Chart 2.6: Terms of trade



Source: Statistics Mauritius.

Table 2.1: Price and volume of exports

	Weight	Exports (Rs million)		% change		
		2024Q2	2025Q2	Value	Price	Volume
Total exports*	10,000	20,797	19,237	- 7.5	+ 1.6	- 9.0
Food and live animals	4,055	8,496	8,648	+ 1.8	+ 0.5	+ 1.3
<i>o/w Fish & fish preparations</i>	2,617	3,761	4,317	+ 14.8	+ 0.4	+ 14.3
<i>Cane sugars</i>	898	2,770	2,074	- 25.1	+ 0.2	- 25.3
Chemicals and related products, n.e.s	554	1,089	1,122	+ 3.0	+ 0.1	+ 2.9
Manufactured goods classified chiefly by material	866	2,818	2,312	- 18.0	+ 0.8	- 18.6
<i>o/w Textile yarn, fabrics, made-up articles</i>	866	1,774	1,594	- 10.1	+ 0.8	- 10.9
Miscellaneous manufactured articles	4,525	6,278	5,308	- 15.5	+ 2.9	- 17.8
<i>o/w Articles of apparel and clothing accessories</i>	3,869	3,514	2,879	- 18.1	+ 2.0	- 19.7

* Exclude Ship's stores and bunkers.

Table 2.2: Price and volume of imports

	Weight	Imports (Rs million)		% change		
		2024Q2	2025Q2	Value	Price	Volume
Total imports (c.i.f)	10,000	76,271	81,877	+ 7.4	- 6.3	+ 14.5
Food and live animals	2,169	13,364	16,462	+ 23.2	+ 1.4	+ 21.5
Mineral fuels, lubricants and related materials	3,766	18,602	19,337	+ 4.0	- 14.5	+ 21.6
<i>o/w Refined petroleum products</i>	3,218	16,784	17,684	+ 5.4	- 15.4	+ 24.5
Chemicals and related products, n.e.s	717	6,722	6,560	- 2.4	+ 2.0	- 4.3
Manufactured goods classified chiefly by material	852	9,460	9,204	- 2.7	- 2.6	- 0.1
Machinery and transport equipment	1,515	17,367	19,443	+ 12.0	+ 1.1	+ 10.7
<i>o/w Road vehicles</i>	875	7,488	9,359	+ 25.0	+ 2.7	+ 21.7

Source: Statistics Mauritius.

The services account, inclusive of Global Business Company (GBC) services exports, strengthened further and recorded a surplus of Rs27.5 billion in 2025Q2 – supported by robust tourism activity and sustained demand for cross-border financial and business services. Excluding GBCs, the services

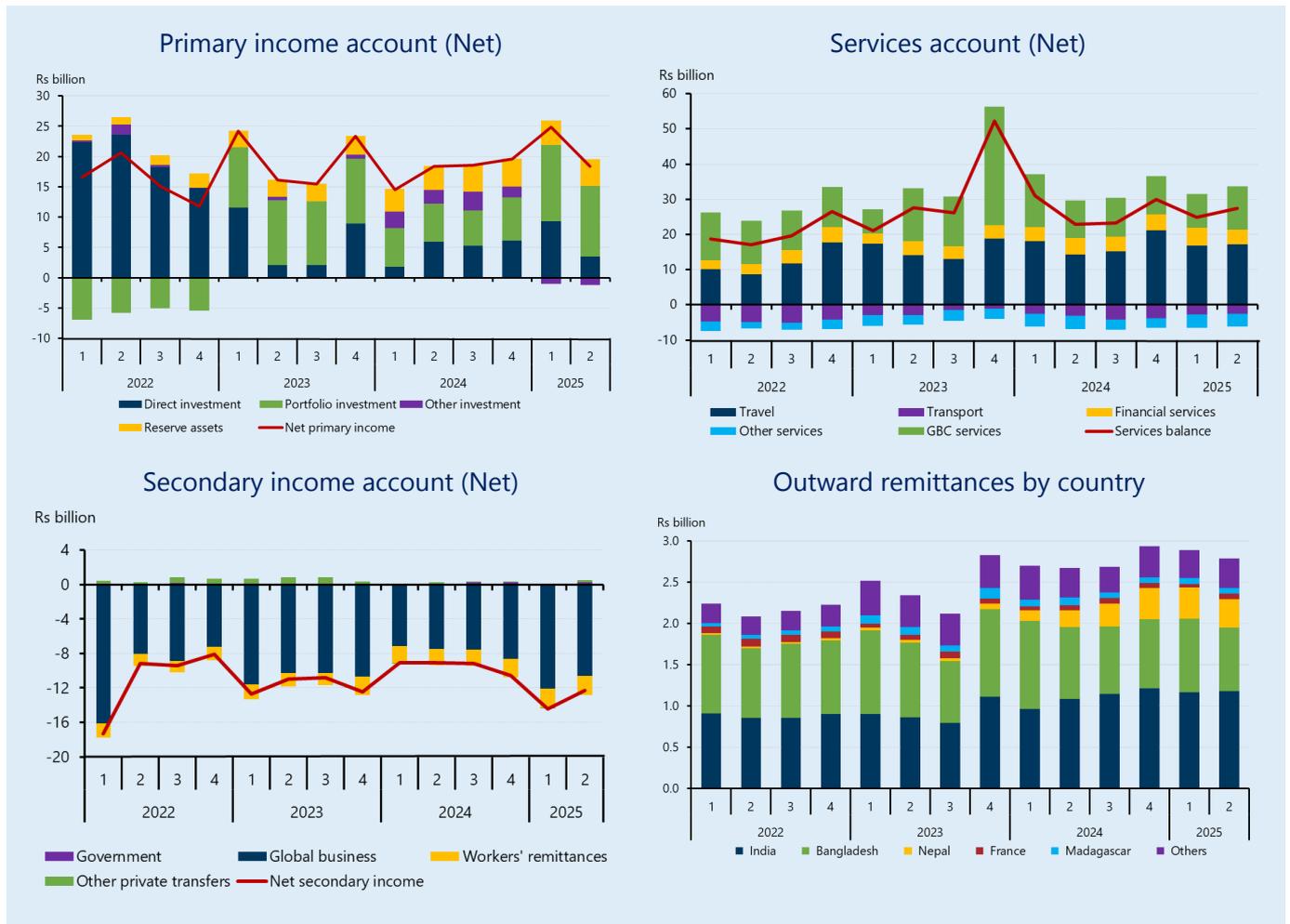
surplus expanded to Rs16.2 billion, reflecting continued growth in tourist arrivals and tourism earnings (Panel Chart 7). The net exports of GBC services also contributed to the services account surplus to the tune of Rs11.2 billion in 2025Q2.

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

Inclusive of GBC flows, the primary income account surplus recorded an overall improvement, increasing to Rs18.4 billion in 2025Q2 (Panel Chart 7). However, the net income surplus generated outside the GBC sector declined to Rs3.2 billion, as higher dividend payments were made to foreign investors and commercial banks earned lower income on assets held abroad. These were partly offset by higher income earned on the country's reserve assets during the period under review. The secondary income account recorded a higher deficit of Rs12.3 billion, mainly due to taxes paid to foreign jurisdictions by the GBCs and the continued increase in outward workers' remittances.

Outward workers' remittances reached Rs2.8 billion in 2025Q2, driven by the growing number of foreign workers across various sectors. India and Bangladesh remained the main recipient countries, accounting for the bulk of these remittances' flows. These foreign workers were primarily employed in the manufacturing and construction sectors. Over the recent quarters, outward remittances to Nepal rose significantly and reached Rs346 million in 2025Q2, making Nepal the third largest recipient country for outward remittances, followed by Madagascar and France.

Panel Chart 7: Services and financial accounts developments



In 2025Q2, the financial account of the balance of payments recorded a net inflow of Rs17.4 billion, driven largely by strong portfolio investment activity. These inflows originated primarily from repatriation of banks' foreign debt securities investments as well as increases in portfolio investment liabilities of GBCs.

The direct investment account posted net outflows of Rs8.5 billion. Excluding GBCs, non-residents' direct investment in Mauritius net of repatriation amounted to Rs6.9 billion in 2025Q2, with the 'real estate' sector continuing to attract the most foreign direct investment inflows in Mauritius. The other

investment account recorded net outflows of Rs17.2 billion, mostly reflecting decreases in non-residents' deposits at banks, which more than offset increases in external borrowings of banks and GBCs. The country posted an overall balance of payments surplus of Rs35.1 billion in 2025Q2.

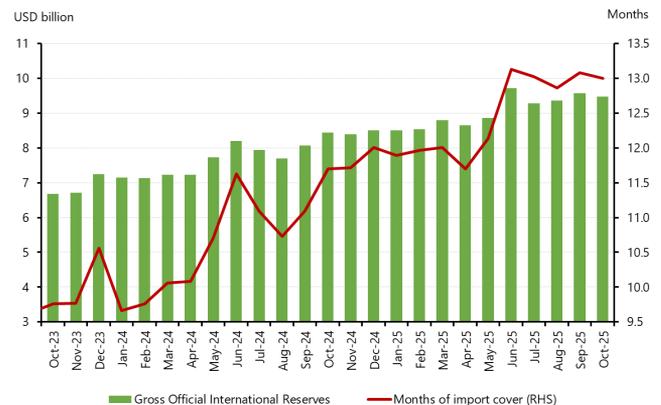
Looking ahead, the current account deficit as a share of GDP is expected to widen slightly in 2025 from 6.4 per cent in 2024 to 6.5 per cent in 2025, reflecting continued deficit in the goods and secondary income accounts. It is noteworthy to underscore that the current account balances for years 2021 to 2024 have been revised on 30 September 2025, following the implementation of IMF recommendations to improve and harmonise the treatment of GBCs in the National Accounts and Balance of Payments statistics. The current account deficit for 2024 was revised down from 7.0 per cent of GDP to 6.4 per cent of GDP. The projected deterioration in the current account deficit in 2025 is primarily due to the weak performance of goods exports that remain subject to substantial challenges. An overall balance of payments surplus of Rs15.0 billion has been forecast for 2025.

2.5 External vulnerabilities

Gross Official International Reserves (GOIR) remained broadly adequate as a buffer against external shocks as at end-October 2025. GOIR rose from Rs431.1 billion (US\$9.4 billion) as at end-August 2025 to Rs437.3 billion (US\$9.5 billion) as at end-October 2025 but stood slightly lower compared to Rs440.2 billion (US\$9.7 billion) as at end-June 2025 (Chart 2.7). This increase was largely driven by valuation gains, benefitting mainly from higher gold prices, increases in commercial banks' FCY balances with the Bank and income on the Bank's foreign assets. Gold prices averaged US\$3,682 per ounce in September 2025 compared to US\$3,373

per ounce in August 2025. Based on the imports of goods (f.o.b.) and services for calendar year 2024, the GOIR represented 13.0 months of imports as at end-October 2025.

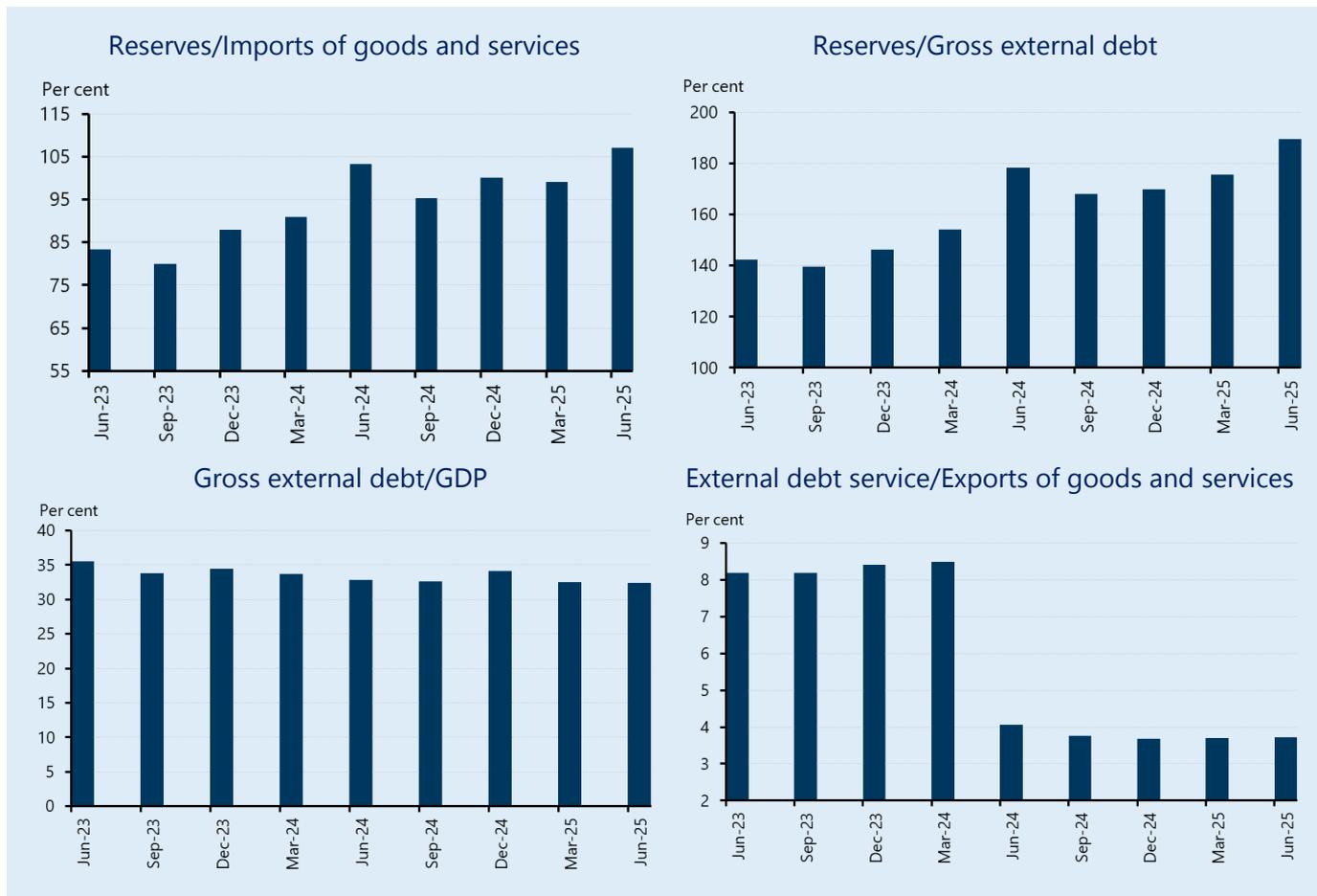
Chart 2.7: Gross Official International Reserves



External vulnerability metrics indicate a moderate risk profile of the current level of gross external debt, proxied by different solvency ratios. As a ratio to GDP, gross external debt declined to 32.4 per cent as at end-June 2025, from 32.8 per cent as at end-June 2024 (Panel Chart 8). While the ratio of gross external debt to exports of goods and services (excluding GBCs) rose from 80.1 per cent as at end-June 2024 to 81.6 per cent as at end-June 2025, external debt servicing as a percentage of exports of goods and services remained stable at 3.7 per cent over the recent quarters.

In terms of reserve adequacy metrics, the ratio of reserves to imports of goods and services (excluding GBCs) improved from 103.3 per cent as at end-June 2024 to 107.1 per cent as at end-June 2025, as a result of a higher increase in reserves relative to imports of goods and services. Additionally, the reserves to gross external debt ratio increased to 189.4 per cent as at end-June 2025, from 178.5 per cent a year earlier.

Panel Chart 8: External vulnerability metrics



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

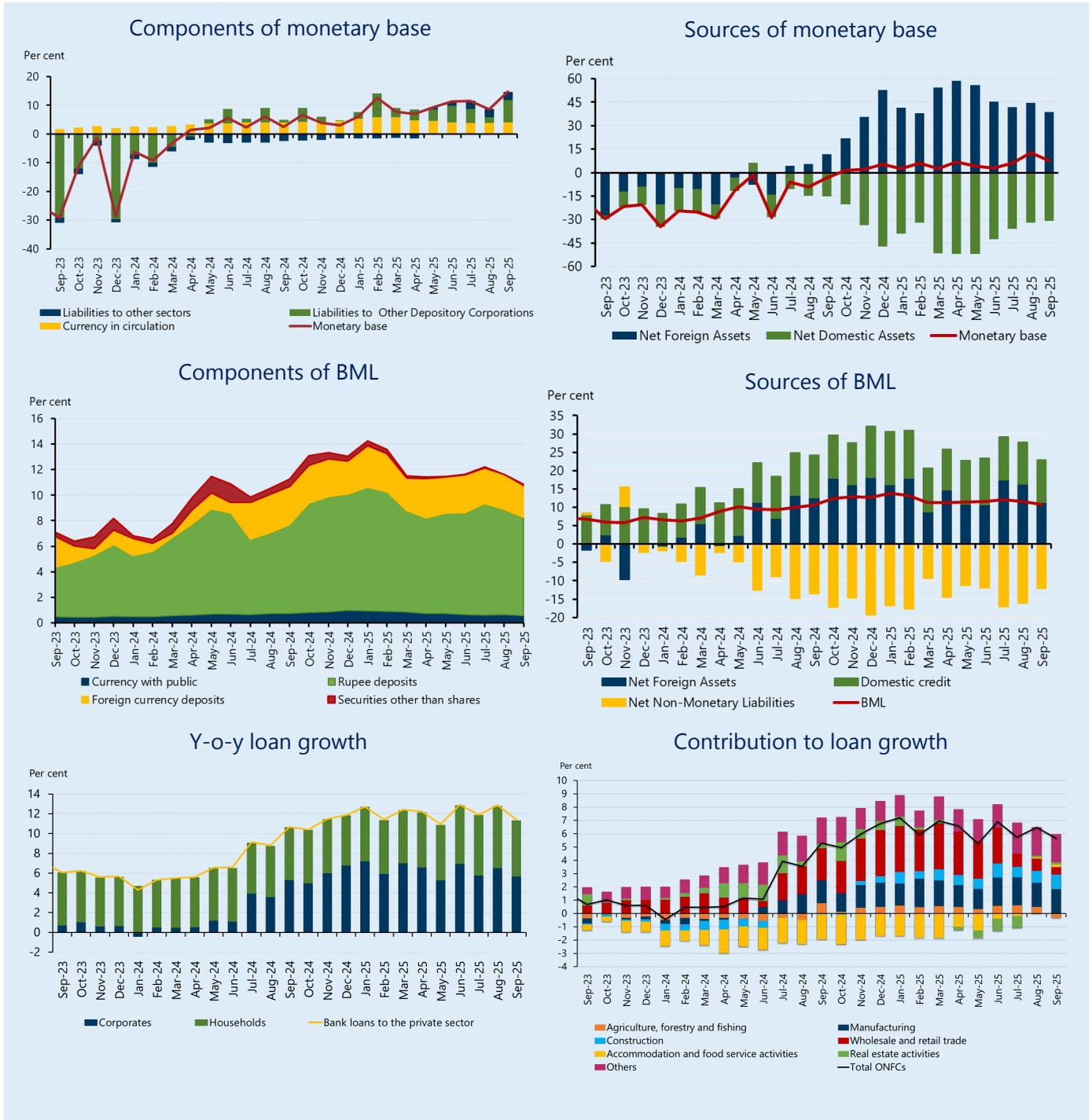
2.6 Monetary developments

Broad Money Liabilities (BML) growth remained in double digits, albeit moderating slightly. In y-o-y terms, BML grew at a slower pace of 10.9 per cent in September 2025, from 11.4 per cent in May. Rupee deposits were the key driver of BML growth, contributing 7.7 pp, with strong inflows from the household and financial sectors (Panel Chart 9).

Annual growth of the monetary base picked up from 9.3 per cent in May 2025 to 14.8 per cent in September 2025. The expansion in the monetary base reflects, to a large extent, the build-up in deposits of commercial banks held at the Bank. The broad money multiplier, defined as the ratio of BML to monetary base, edged down from 5.5 to 5.3 over the corresponding period. The velocity of money, which measures the rate at which money is exchanged in the economy, was also stable at 0.7.

Y-o-y growth in bank loans to the private sector increased from 11.0 per cent in May 2025 to 11.4 per cent in September 2025. Household borrowing continued to expand, with y-o-y growth rising to 11.8 per cent in September, up from 11.5 per cent in May 2025. The household sector contributed 5.7 pp to total y-o-y growth in private sector bank loans, almost at par with the 5.6 pp contribution from the corporate sector. The authorities and banks have implemented a number of targeted incentives for individuals contracting housing loans, which have supported ongoing resilience in the household credit segment. Within the corporate segment, the 'Manufacturing' sector was the primary driver of loan growth, reflecting sustained demand for credit in that sector over the past year.

Panel Chart 9: Monetary developments



The Bank's Survey on Credit Conditions^[8] revealed that credit standards for the approval of both corporate and household loans have remained unchanged in 2025Q3, relative to the previous quarter. Credit standards continue to be influenced by factors such as the general level of interest rates, pressure from competition/market share objectives of financial institutions as well as the general level of economic activity. Similarly, credit demand was broadly stable for both corporates and households. For corporates, credit demand was shaped by expectations regarding the general level of economic activity, capital investment and interest rates. Household credit demand, on the other hand, was primarily driven by spending on durable goods, the general level of economic activity and consumer confidence as well as housing market prospects.

The terms and conditions for availing new loans, both for corporates and households, in 2025Q3 have also remained unchanged. For corporates, this reflects unchanged non-interest charges, margins on riskier loans and collateral requirements. Similarly, the terms and conditions for household loans were kept constant, with interest and non-interest charges as well as margins on average loans remaining steady. Looking ahead, credit standards are expected to remain neutral for both corporates and households. Credit demand is projected to stay broadly unchanged for corporates but is expected to decline for households. The main drivers of this projected slowdown in household credit demand are consumer confidence, housing market prospects and spending on durable goods.

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

3. Financial Market Developments

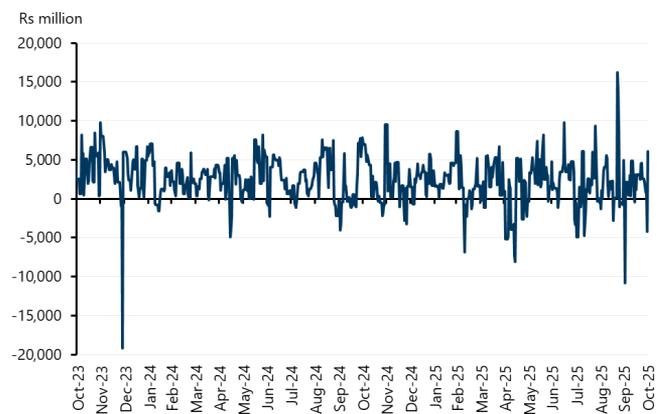
The Bank’s open market operations were broadly aligned with the monetary policy stance of the MPC. The Bank pursued the issuance of its own securities to mop up excess rupee reserves from the banking system, while allowing banks to tap into the Overnight Deposit Facility. Short-term money market interest rates were on an uptrend from January to October 2025.

3.1 Monetary policy operations

The Bank’s monetary operations focused on managing the excess liquidity within the banking system to align short-term interest rates with the policy interest rate. To implement the monetary policy stance, the Bank has deployed a mix of instruments.

Since the beginning of the year, the Bank has issued securities worth Rs74.2 billion to absorb surplus liquidity and undertaken foreign exchange interventions amounting to Rs8.0 billion. In addition, through its Overnight Deposit Facility, the Bank absorbed an average of Rs40.4 billion at rates ranging between 2.50 and 3.00 per cent. Net government issuances, including Treasury Certificates, also contributed to tightening liquidity by around Rs63.4 billion. Combined with the Bank’s own operations, these measures effectively contained rupee excess liquidity at a daily average of Rs2.3 billion (Chart 3.1).

Chart 3.1: Rupee excess reserves



The cost of monetary policy operations continued to weigh on the Bank’s balance sheet. As at end of October 2025, the outstanding amount of Bank of Mauritius (BoM) securities issued to manage excess liquidity stood at Rs119 billion, of which almost 80 per cent would mature within a period of one year (Table 3.1).

Table 3.1: Outstanding BoM instruments

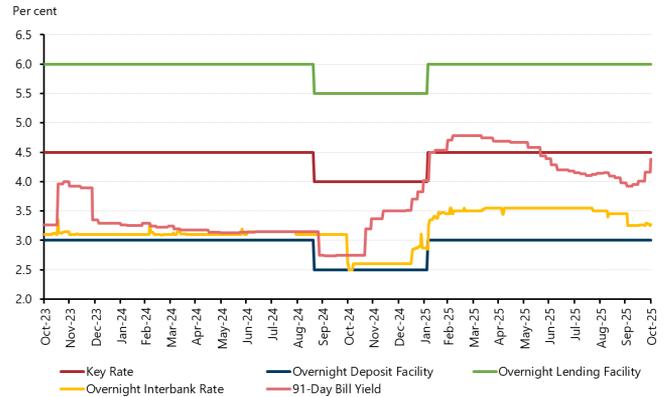
	<i>Rs million</i>		
	As at 31 October 2024	As at 31 December 2024	As at 31 October 2025
BoM Bills	55,113.4	50,183.9	35,990.7
Overnight Deposits	25,760.0	19,702.0	53,964.0
BoM Notes	35,700.0	35,700.0	16,000.0
5-Year Emerald Jubilee Bonds	7,481.2	7,466.2	7,304.5
55th Independence Anniversary Instruments	4,345.7	4,333.6	0.0
Bank of Mauritius Bonds (Long Term)	15,150.0	15,150.0	5,900.0
Total	143,550.2	132,535.7	119,159.2

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

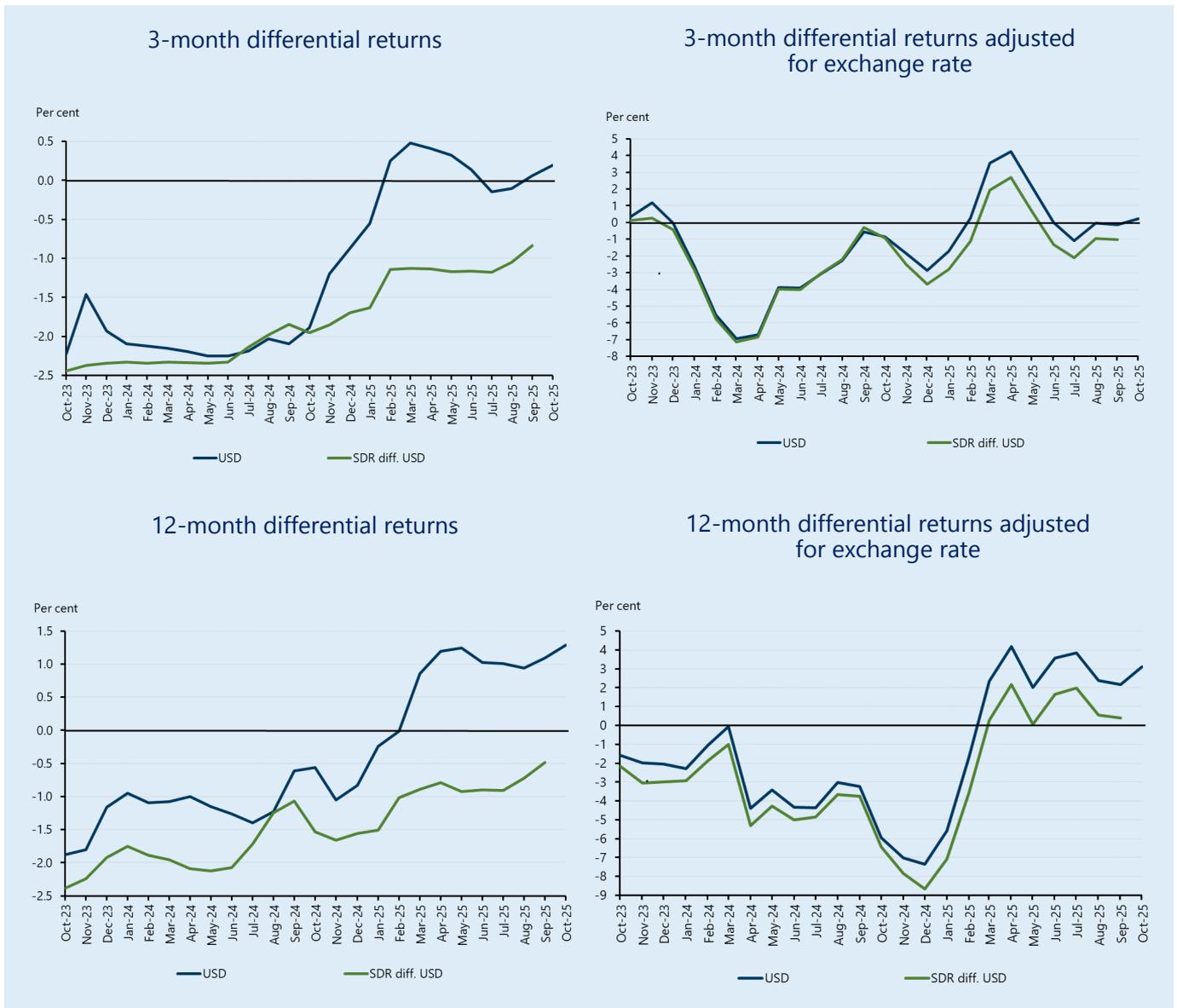
3.2 Short-term money market interest rates

The volume of overnight interbank transactions remained driven by the liquidity conditions of banks. The weighted average Overnight Interbank Rate, which stood at 2.76 per cent in January 2025, gradually rose to 3.27 per cent at end-October 2025, thus evolving within the interest rate corridor (Chart 3.2). In October 2025, the yield on 91-Day, 182-Day and 364-Day Bills rose by 88 bps, 81 bps and 97 bps to 4.38 per cent, 4.61 per cent and 4.97 per cent, respectively.

Chart 3.2: Main interest rates



Panel Chart 10: Interest rate differentials



Interest rate differentials between Government of Mauritius Treasury Bills/BoM Bills and US Treasury Bills, in the 3-month and 12-month maturities, have remained in positive territory in October 2025 (Panel Chart 10). The 3-month yield differential was marginally positive at 0.2 per cent while the 12-month differential was relatively higher at around 1.2 per cent. Adjusted for exchange rate movements, the 3-month spread was also positive at 0.2 per cent in October 2025. The differential for the 12-month tenor was at around 3.10 per cent, pointing towards attractiveness of Government of Mauritius Treasury Bills/BoM Bills relative to US securities. Meanwhile, SDRs continued to diverge from money market rates, with spreads vis-à-vis US yields remaining negative, albeit to a lower extent.

3.3 Retail interest rates

In August 2025, the MPC unanimously maintained the Key Rate at 4.50 per cent per annum. Both the Savings Deposit Rate (SDR) and Prime Lending Rate (PLR) were left unchanged, in line with the constant policy rate. Thus, the SDR and PLR hovered within the ranges of 2.95-3.40 per cent and 6.65-9.00 per

cent, respectively. The SDR remained in level terms more than 100 bps below the Key Rate. The weighted average rupee deposit rate on banks' total outstanding deposits remained stable at 2.55 per cent in September 2025. However, the weighted average rupee lending rate on banks' total outstanding loans stood at 6.84 per cent. Consequently, the spread between the weighted average rupee lending rate and weighted average rupee deposit rate narrowed to 4.29 per cent (Chart 3.3).

Rates on new loans remained mostly unchanged at 6.75 per cent, amid growing demand for loans by corporates and households. The interest rate on new corporate loans reached 6.77 per cent in September 2025, mainly driven by the 'Wholesale and retail trade' and the 'Construction' sectors, which constituted nearly half of the total nonfinancial corporate loans disbursed during the month of September 2025. In parallel, the rate on new loans to households went up to 7.55 per cent, with the interest rate on housing loans at 5.95 per cent (Table 3.2).

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

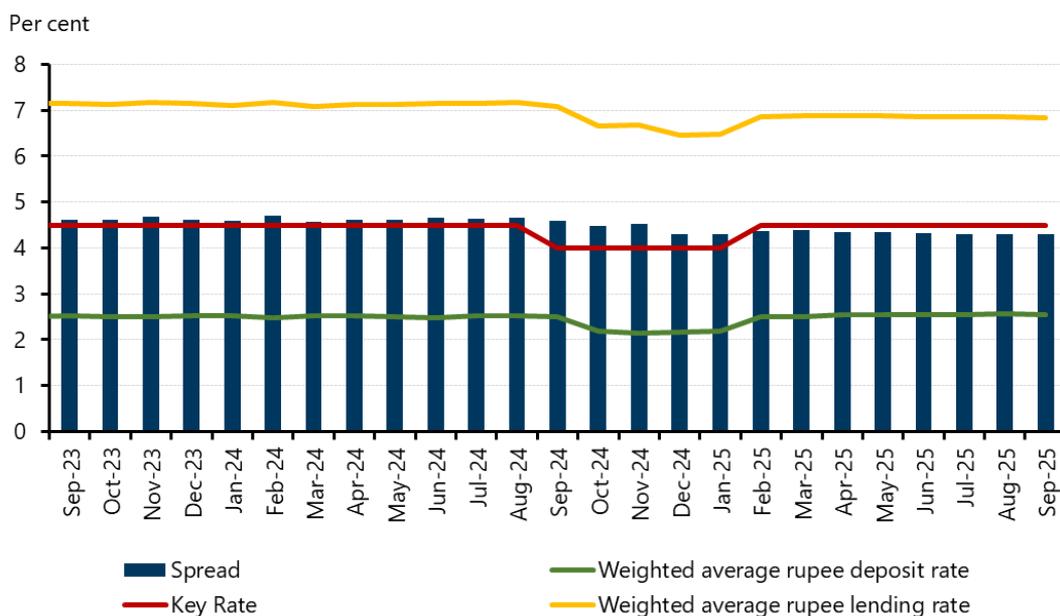


Table 3.2: Weighted average interest rate on new rupee loans* disbursed during the month for selected sectors

	Per cent per annum								
	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
1. Other Nonfinancial Corporations	5.89	6.83	6.94	6.78	6.74	6.68	6.55	6.99	6.77
A - Agriculture, forestry and fishing	4.66	5.83	6.12	5.25	6.01	6.48	4.77	5.87	6.39
C - Manufacturing	6.49	6.86	6.99	6.80	7.02	6.57	6.89	7.32	6.59
F - Construction	4.92	8.20	7.81	7.71	8.37	7.54	7.48	8.18	8.19
G - Wholesale and retail trade; and repair of motor vehicles and motorcycles	5.91	6.46	6.64	6.48	6.33	6.28	6.56	6.96	6.07
H - Transportation and storage	6.53	7.07	8.14	7.60	7.82	7.71	8.58	8.29	7.83
I - Accommodation and food service activities	6.70	6.46	6.99	6.44	7.52	6.48	6.88	6.24	6.49
J - Information and communication	7.61	7.79	8.05	5.23	6.05	8.25	6.31	8.26	8.73
L - Real estate activities	6.78	7.18	7.43	7.39	6.87	6.53	7.53	6.88	7.61
P - Education	8.67	8.06	8.86	7.79	9.69	9.23	7.64	8.30	8.18
2. Households	6.55	7.19	7.27	7.39	7.09	6.67	7.55	7.43	7.55
Of which: Housing	5.23	5.71	5.87	5.90	5.82	5.62	6.05	5.99	5.95
Overall weighted interest rate on new loans	5.91	6.74	6.85	6.73	6.75	6.54	6.67	7.02	6.75

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

3.4 Foreign exchange market conditions

The exchange rate of the rupee continued to be influenced by global FX market trends and domestic factors of demand and supply. The Bank sold a total amount of US\$175 million through FX interventions on the domestic market between January and October 2025. On a point-to-point basis, between 03 January and 31 October 2025, the rupee appreciated by 3.7 per cent against the US dollar, but weakened by 7.5 per cent against the euro and 1.2 per cent against the Pound sterling. On both a nominal and real effective basis, the rupee depreciated by 1.6 per cent from January to October 2025 (Panel Chart 11).

Since the beginning of the year, FX turnover amounted to US\$12,530 million, representing a rise of 20 per cent compared to the same period in 2024. FX purchases by banks and FX dealers increased by 21 per cent to stand at US\$6,110 million while FX sales rose by 20 per cent to US\$6,421 million during the first ten months of 2025 (Panel Chart 12), in comparison with the same period in 2024.

Activity in the domestic FX market remained driven by the traditional economic sectors. In the first ten

months of 2025, FX purchases by banks and FX dealers were predominantly driven by the 'Financial and insurance activities' (US\$838.7 million or 24 per cent), 'Accommodation and food service activities' (US\$651.3 million or 19 per cent), and 'Professional, scientific and technical activities' sectors (US\$347.6 million or 10 per cent). Concurrently, the highest volume of FX sales were to customers from the 'Wholesale and retail trade' (US\$2,019.8 million or 59 per cent), 'Electricity, gas, steam and air conditioning supply' (US\$270.2 million or 8 per cent), and 'Financial and insurance activities' sectors (US\$267.4 million or 8 per cent).

There was a change in the currency composition of FX transactions, with an increase in FX purchases and sales denominated in currencies other than the US dollar. FX purchases against the US dollar represented 35 per cent of total purchases from January to October 2025 (a drop from 48 per cent during the corresponding period of 2024), and FX sales against the dollar stood at 36 per cent of total sales (down from 57 per cent during the same period of 2024).

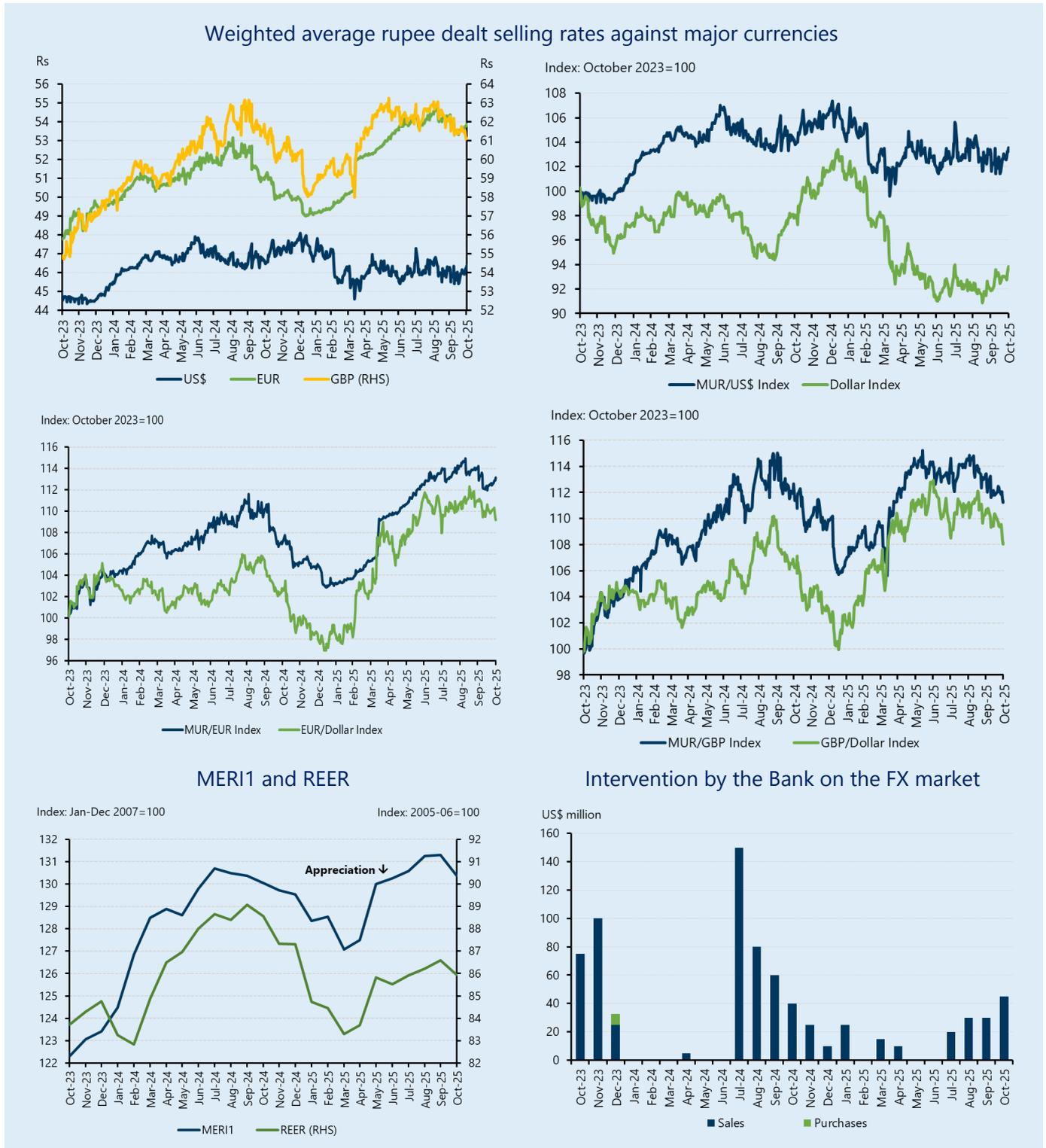
Monetary Policy Report

November 2025

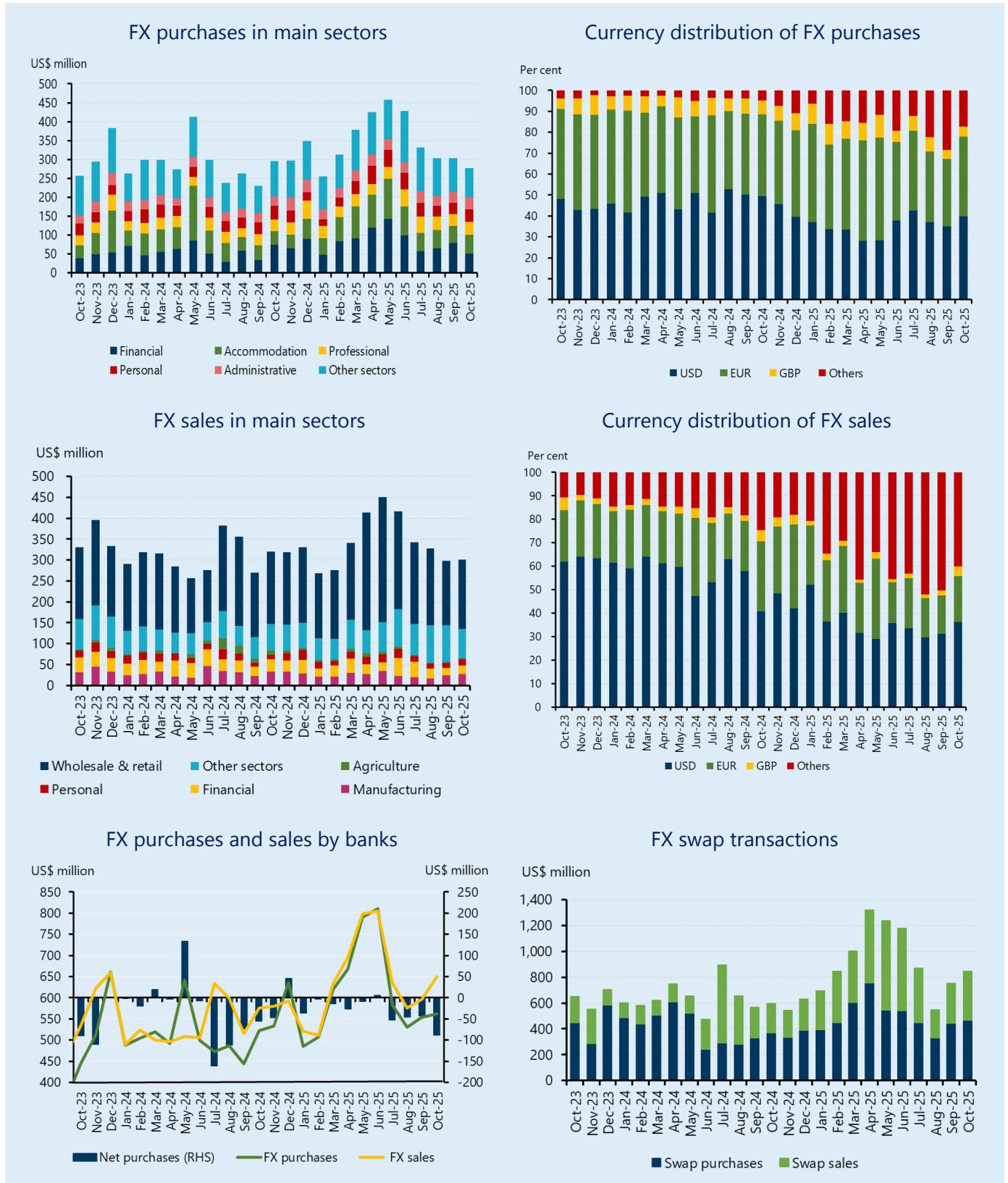
Swap purchases and sales against the rupee aggregated US\$5.0 billion and US\$4.3 billion, respectively, during the first ten months of 2025. The majority of swap transactions against the rupee was in the 'Financial and insurance activities' sector, with purchases of US\$1.8 billion (representing 36 per cent

of total), and sales of US\$3.2 billion (74 per cent of total). Swap purchases and sales against the rupee were mainly denominated in US dollar, to the tune of US\$3.1 billion (62 per cent) and US\$4.0 billion (93 per cent), respectively, from January to October 2025.

Panel Chart 11: Exchange rate developments



Panel Chart 12: FX purchases and sales



4. Growth and Inflation Outlook

The Mauritian economy is projected to expand at a pace consistent with the pre-pandemic average growth rate. Real GDP growth is expected at 3.1 per cent in 2025 and at around 3 per cent in 2026. Headline inflation is forecast to remain within the Bank's target range at 3.7 per cent in 2025 and at around 3.6 per cent in 2026. Risks to the outlook remain significant and may detract inflation and growth from their projected trajectories.

4.1 Model-based projections

The Bank's Forecasting and Policy Analysis System (FPAS), developed by the IMF[10], is the cornerstone for the modelling framework and monetary policy analysis covered in this section. The Quarterly Projection Model (QPM), which is the core macroeconomic model in the system, is conditioned on the analysis of current external and domestic economic developments. Short-term forecasts derived from a suite of near-term forecasting models are also integrated to ensure a consistent medium-term scenario. The QPM provides forecasts for a wide set of variables such as GDP, inflation, interest rate, exchange rate, unemployment and wage growth, among others. The main building blocks that underlie the modelling system were described in the May 2025 Monetary Policy Report[11].

4.2 Conditioning assumptions for external factors

In the QPM, assumptions on the expected trajectories for external drivers play a central role in shaping the baseline forecast (Panel Chart 13). The main defining elements, building on the developments of the global economy provided in Chapter 1, are outlined below:

- **Foreign demand:** Activity in the euro area – our main trading partner – is expected to recover over the medium-term, allowing the foreign output gap to close. Domestic demand in the

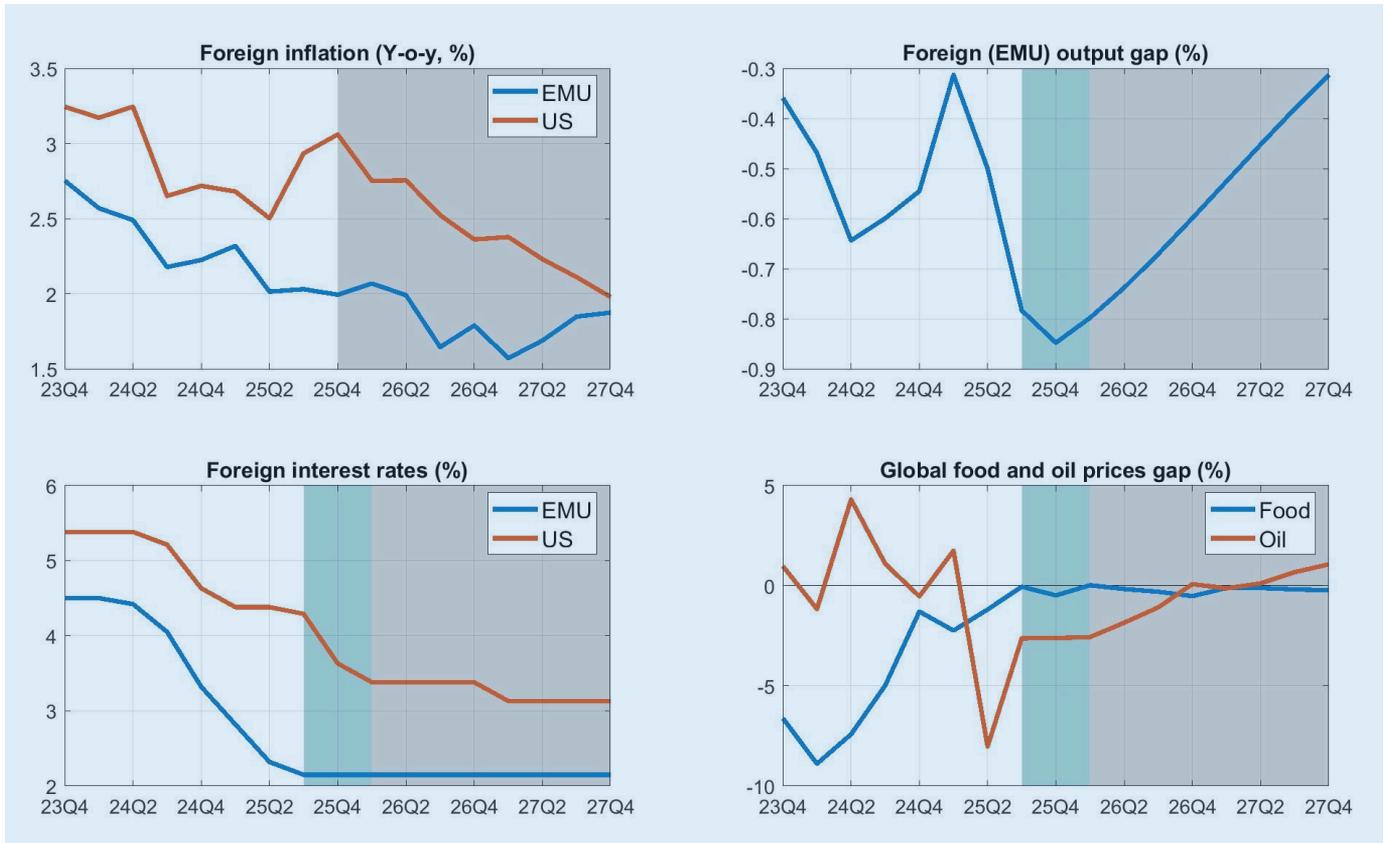
region will be supported by lower inflationary pressures and improved household purchasing power.

- **Foreign inflation:** Inflation in the euro area is expected to miss the 2 per cent target in the near-term. In the US, elevated inflation will persist for some time, although gradually coming down. Nonetheless, inflation in both countries is projected to converge to the central banks' target over the medium-term.
- **Monetary policy:** Foreign central banks are set to diverge in their policy rate trajectories. Interest rates in the euro area are expected to remain unchanged over the forecast interval, with inflation and output risks balanced out. In the US, policy normalisation will gain tract depending on expected progress on disinflation. The baseline forecast assumes a series of interest rate cuts spread out over the near- to medium-term.
- **Commodity prices:** The expected decline in oil prices will allow the negative oil price gap to persist in the near-term. As oil prices eventually stabilise, the gap will gradually narrow. Food prices are projected to be relatively stable, reflected in a broadly neutral food price gap.

[10] Mauritius QPM (2025): A Quarterly Projection Model for the Bank of Mauritius.
<https://www.imf.org/-/media/Files/Publications/WP/2025/English/wpia2025215-source-pdf.ashx>

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

Panel Chart 13: External assumptions



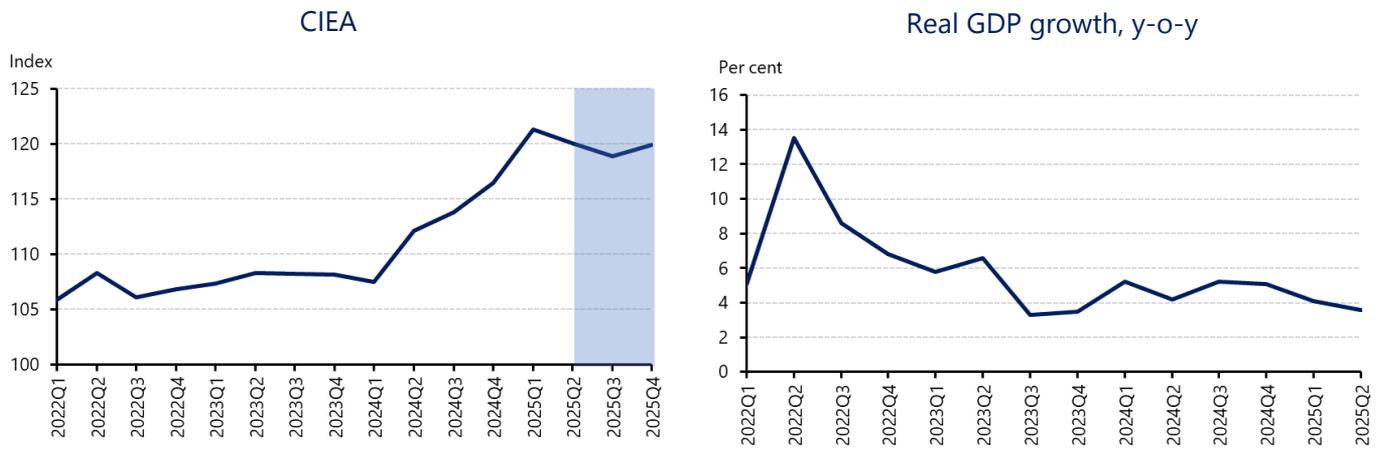
4.3 Growth outlook

The Bank’s baseline forecast assumes that the ongoing economic momentum may have been sustained for the rest of 2025. This corroborates with the latest run of the Bank’s Composite Indicator of Economic Activity (CIEA)[12]. The index, which extracts information from a wide set of high frequency indicators that are seemingly related with actual output, enables us to assess the current state

and immediate direction of economic activity. Conditional on available information, the CIEA is suggesting that GDP growth will likely remain flat in the last two quarters of 2025 (Chart 4.1).

The QPM predicts real GDP growth to be around 3.1 per cent in 2025 – closer to the lower bound of the forecast range in the May 2025 Monetary Policy Report. For 2026, growth would be maintained at around 3 per cent (Chart 4.2). Core sectors of activity,

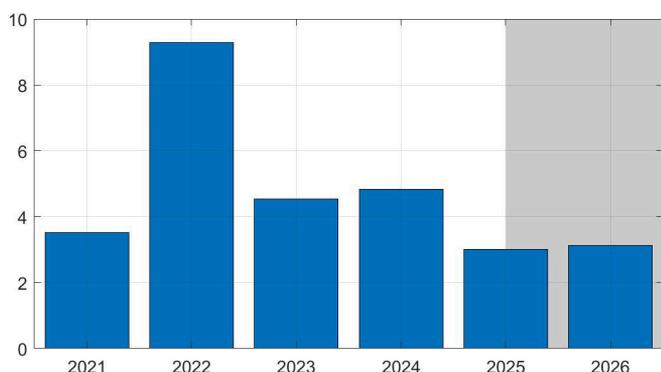
Chart 4.1: CIEA and actual GDP Growth



[12] See May 2025 Monetary Policy Report: Box 5 for a detailed description of the CIEA.

including 'Accommodation and food service activities', 'Financial and insurance activities', 'Wholesale and retail trade' and 'Information and communication', are expected to be resilient. The 'Accommodation and food service activities' sector will remain buoyant as tourism indicators look set for new records. Improved air connectivity, expansion in seat capacity and reinforced marketing strategies will contribute to better outcomes for the sector. The 'Construction' sector is expected to rebound in 2026. A score of infrastructural projects, notably from the public sector, are in the pipeline, although the pace and timing of project implementation remain uncertain. Prospects for the 'Manufacturing' sector appear relatively bleak, given concerns over external demand and the repercussions of rising trade protectionism.

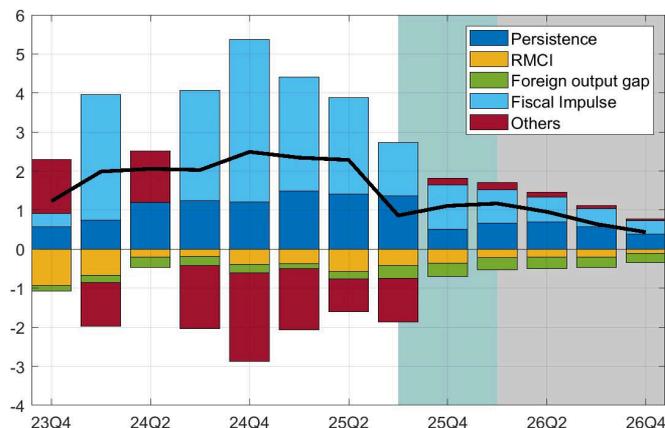
Chart 4.2: Real GDP growth (%)



The baseline scenario is predicated on continued strength in aggregate demand. Robust consumption expenditure will remain the locomotive of growth. Improved consumer sentiment and moderating inflationary pressures are anticipated to bolster spending by households. An upturn in investment spending is foreseen, as the implementation of major infrastructure projects gets underway. Dynamism in the tourism and financial services activities will, to some extent, contribute positively to exports of services. However, some layers of uncertainty over prospects for goods exports remain. Delays in the renewal of AGOA and the full impact of US trade tariffs on trading partners may dent external demand, exerting a drag on the domestic growth momentum.

The output gap – the difference between actual GDP and the economy's potential output – is estimated to remain slightly positive in the short-term. This indicates that some modest demand pressures are present in the economy. Lasting effects of past output expansions and impetus from previous fiscal stimulus are expected to support domestic demand. However, offsetting pressures will arise from muted foreign demand (assessed from the negative foreign output gap) and moderately tight real monetary conditions (reflecting the real exchange rate appreciation and positive real interest rate gap). The output gap is assumed to close over the medium-term as the main drivers gradually normalise (Chart 4.3).

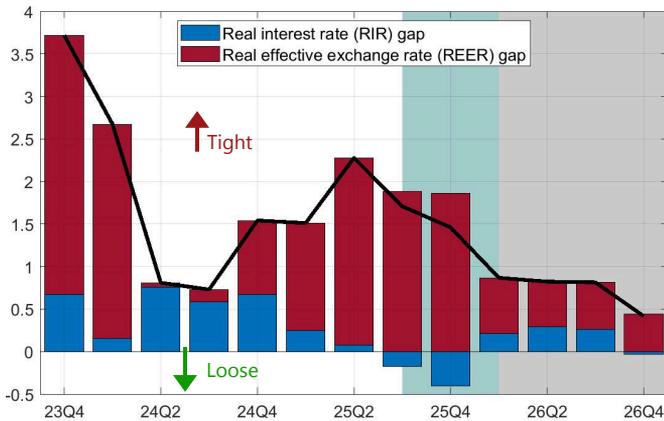
Chart 4.3: Output gap (%)



Real monetary conditions, as gauged by the real monetary conditions index[13], are assessed to remain moderately tight. As the real interest rate returns to its neutral level, the interest rate gap will be closed. Given the nominal appreciation of the rupee in the preceding quarters, the real exchange rate gap will likely remain negative. This will exert dampening effects on demand. Going forward, as the real exchange rate moves towards its trend value, monetary conditions will become less tight (Chart 4.4).

[13] The real monetary conditions index is a weighted average of the deviations of the domestic real interest rate and real effective exchange rate from their neutral (non-inflationary) equilibrium levels.

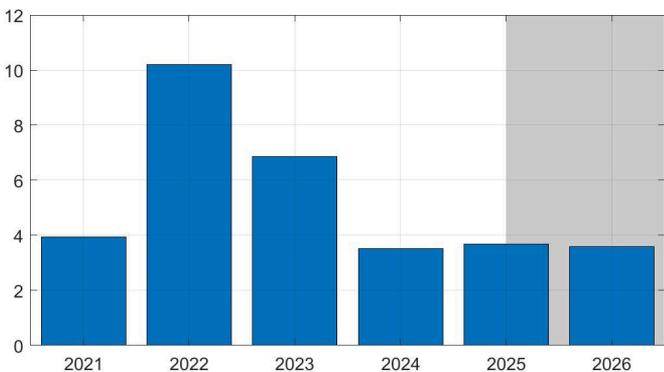
Chart 4.4: Real monetary conditions index (%)



4.4 Inflation outlook

The Bank’s baseline forecast suggests that inflation will remain within the 2-5 per cent target range. Headline inflation is expected to close 2025 at 3.7 per cent – marginally lower than anticipated in the May 2025 Monetary Policy Report and the August 2025 MPC meeting. For 2026, inflation is projected at around 3.6 per cent, just above the mid-point of the target range. Developments in global commodity prices are assessed to be favourable. Inflation in key trading partners will decline further, converging towards their targets. These will be complemented by an easing of cost push factors and moderately tight monetary conditions. In the absence of supply-related and policy shocks, overall price pressures will be broadly contained (Chart 4.5).

Chart 4.5: Headline inflation (%)



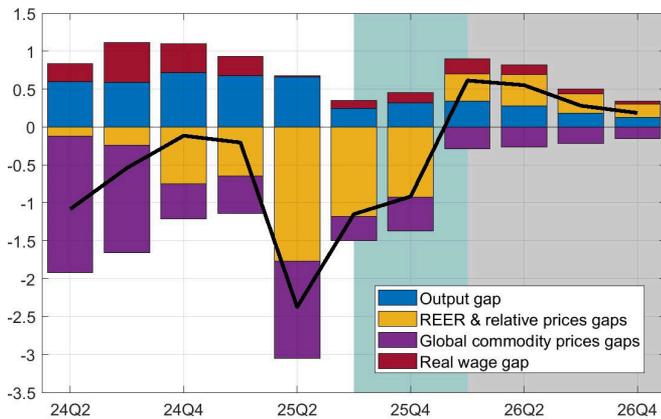
Headline inflation is primarily driven by the CORE2 component. This signals that some demand pressures are persisting in the economy, as captured by the positive output gap. Food will contribute positively to overall inflation but to a lesser extent, given benign pressures from global food prices. The energy component will dampen inflation, reflecting both low international oil prices and the downward adjustment in domestic fuel prices. Going forward, the inflation outlook for Mauritius remains exposed to external-driven upside risks. Rising protectionism and geopolitical tensions may disrupt global supply chains and impact global commodity prices. Given Mauritius’ high dependence on imported goods, the passthrough of foreign inflation to domestic prices constitutes a concern (Chart 4.6).

Chart 4.6: Drivers of headline inflation (%)



Cost pressures in the Mauritian economy, as measured by the real marginal cost, suggest relatively contained price pressures over the short-to-medium-term. Domestic cost factors, including output gap and real wage gap, are assessed to be broadly benign. Some deflationary effects will be felt through imported input costs. A lower than trend real exchange rate and lower global commodity prices will keep a tab on producers’ costs. As these factors normalise, real marginal cost pressures will become negligible (Chart 4.7).

Chart 4.7: Real marginal costs (%)



4.5 Monetary policy path

The MPC, at its November 2025 meeting, kept the policy rate unchanged at 4.50 per cent per annum. This will allow time to assess the impact of earlier policy rate changes, adjustments in inflation expectations and shifts in the balance of risks to the growth and inflation outlook.

This policy move is consistent with the policy rate path implied by the QPM, conditional on the projected trajectories for growth and inflation. Headline inflation is seen converging to the mid-point of the target range in the course of 2026. Demand-side pressures are relatively modest, with the domestic economy operating close to its potential. The baseline forecast thus warrants no significant policy rate change for the rest of the year.

Based on the projected path for the nominal interbank rate – which is the operating target of the Bank’s framework – the monetary policy stance will gradually turn neutral. The outlook for growth, inflation and interest rates remains subject to uncertainty.

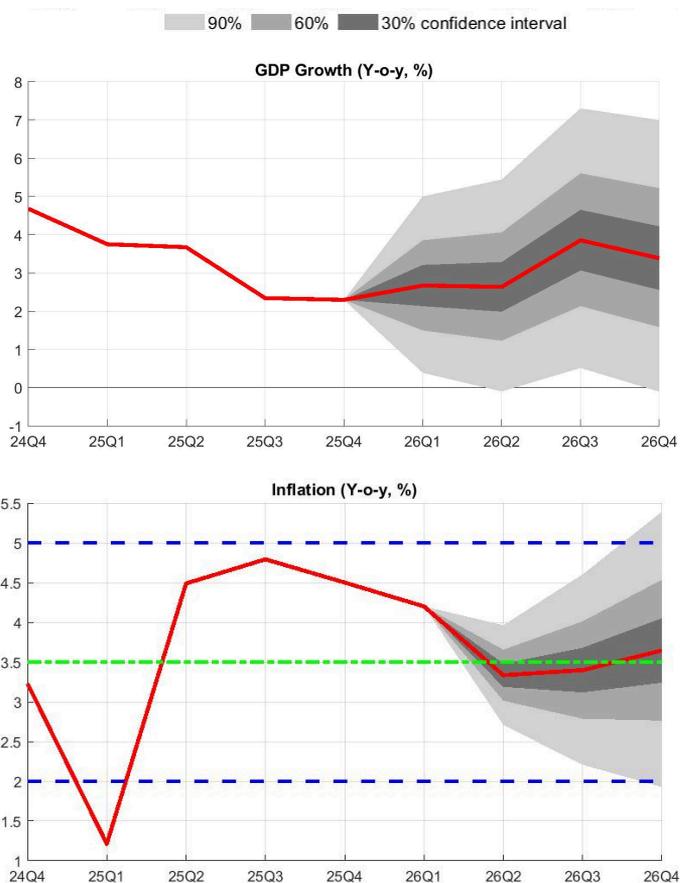
The latest monetary policy decision takes into account the current context of lingering economic uncertainty. Global growth, although resilient, remains fragile. Trade tensions have dissipated but continue to shape policy discussions. The risk of a reversal in commodity prices cannot be discounted.

These factors have an important bearing on domestic growth and inflation. A premature adjustment of the monetary policy stance may risk worsening the output-inflation trade-off. Accordingly, the Bank deems it more judicious to maintain a data-driven approach in reviewing its policy stance, rather than committing to a pre-determined policy rate path.

4.6 Risks to the growth and inflation outlook

An element of uncertainty is inherent in forecasts, and actual outcomes may differ from projections. Historical forecast errors derived by comparing past forecasts with actual data contain the necessary information required to build confidence intervals around projections. This is useful for the illustration of the potential range of future scenarios. The fan chart depicts the range around the baseline projections for growth and inflation (Chart 4.8).

Chart 4.8: Fan charts for growth and inflation outlook

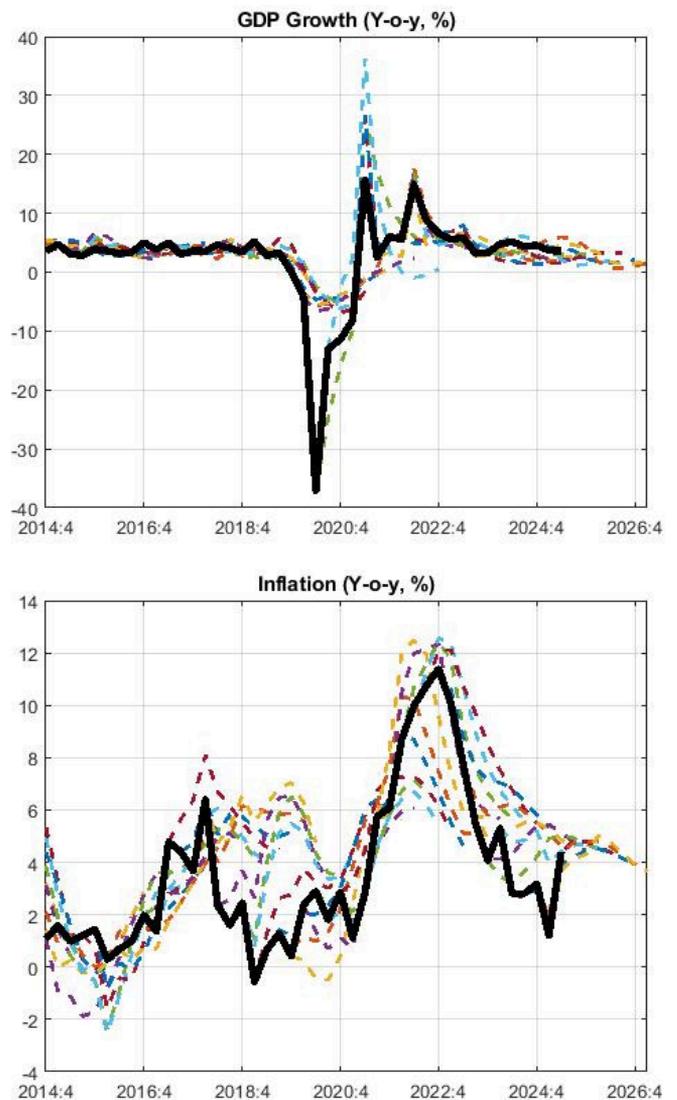


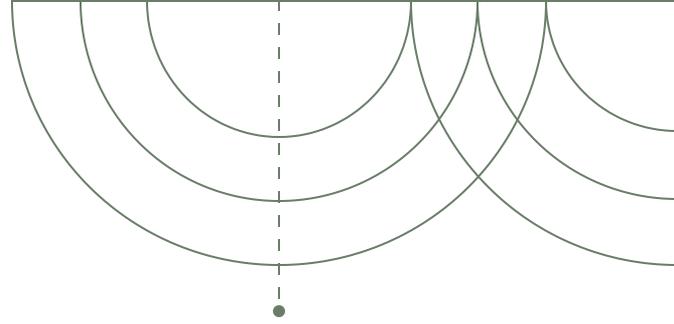
Assuming future errors resemble historical patterns, the confidence interval indicates that about 90 per cent of outcomes are expected to fall within the light-shaded area. The central band indicates the most probable path, while the widening outer bands signal growing uncertainty over time. This exercise is complemented by the Bank’s qualitative assessment of risks to the growth and inflation outlook.

4.7 Forecasting accuracy of the Quarterly Projection Model

The in-sample forecast demonstrates the robustness of the Bank’s QPM, as previous projections were largely accurate. The model seems to effectively replicate past growth and inflation trends within its confidence range. Key structural factors inherent in actual data are well captured by the model. The exercise thus validates that the model parameters are well-calibrated. The exercise also confirms the QPM’s strong predictive power and stability of the underlying specification. In this regard, the exercise reinforces confidence in the model-based outcomes (Chart 4.9).

Chart 4.9: In-sample forecast







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