

Rama Krishna Sithanen: Current economic conditions and outlook

Statement by Dr Rama Krishna Sithanen, Governor of the Bank of Mauritius, at the post Monetary Policy Committee (MPC) press conference, Port Louis, 13 August 2025.

* * *

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

It is my pleasure to welcome you all to this press conference to brief you on the gist of the 75th MPC meeting held today.

I shall now provide you with an overview of the international and domestic economic developments which the MPC carefully scrutinised during its policy deliberations before taking its decision.

International Economic Developments

Let me start with the international economic developments.

Since the last MPC meeting, developments on US tariffs have remained at the forefront of global economic headlines, reflecting ongoing concerns about trade policy and its broader implications. While several trade deals have recently been finalized, offering some relief and contributing to a decline in uncertainty, apprehension still lingers. The finalized agreements mark progress toward more predictable trade relations, yet the overall landscape remains cautious as stakeholders await further clarity on many unresolved issues. This mix of progress and lingering doubt continues to shape market sentiment and international economic strategies.

The IMF, in its World Economic Outlook Update July 2025 report, revised its growth projections upwards from the April 2025 reference forecast, from 2.8 per cent to 3.0 per cent for 2025, and from 3.0 per cent to 3.1 per cent for 2026. The upgrade reflected positive trade negotiations for some important countries, like China, and front-loading effects. However, the IMF highlighted that uncertainty over the magnitude and impact of the trade shock persists and compared to the pre-April 2 forecast in the previous report, global growth is still revised downwards by 0.2 percentage points for this year.

Meanwhile, the World Bank, in its Global Economic Prospects June 2025 report, had scaled down its global growth forecast to 2.3 per cent in 2025 and 2.4 per cent in 2026. The OECD, in its June 2025 Economic Outlook, also projected global growth to slow to 2.9 per cent in 2025 and 2026.

Risks to the global growth outlook are tilted to the downside. The evolution of trade policy will be a decisive factor for the final global growth outcome. Unfavourable trade developments may dampen growth prospects for major economies, heighten financial stress, and undermine economic confidence, potentially leading to reduced investment spending. Spiralling inflationary pressures, as global value chains unravel, could magnify the potential impact on real disposable income. Fresh bouts of geopolitical conflicts and weather-related events pose additional headwinds to the global economy.

Global inflation remains above many central banks' targets, despite recent declines. However, the lagged effects of the imposition of global trade tariffs and rising trade protectionism are starting to be felt across regions and are expected to drive global inflationary pressures. Some advanced economies such as the US and UK are even confronting a new build-up in inflation, as reflected in their incoming data for inflation. The IMF projects global inflation at 4.2 per cent in 2025 and 3.6 per cent in 2026. Notable upside risks to the global inflation outlook could arise from widespread trade protectionist measures, fragmentation of global value supply chains, and currency manipulations to preserve external competitiveness.

Crude oil prices have broadly stabilized since June 2025, reversing earlier gains from supply disruptions as a result of the conflict in the Middle East region. Oil prices are expected to settle under the US\$65 per barrel mark for the rest of 2025, but uncertainty over the effect of tariffs on demand persists. Global food prices moved up in June 2025, amidst concerns about the repercussions of trade developments on production and demand. By contrast, the Freightos Global Baltic Index, which measures global container freight rates worldwide and used as a bellwether for shipping costs, retreated across the last two months, reflecting softening demand as frontloading pressures dissipated. The freight market remains sensitive to geopolitical developments and tariff policy shifts, with rate corrections expected to continue through year-end.

Central banks globally are increasingly inclining towards a forward-looking and data-driven approach towards monetary policy. The ongoing uncertainty has prompted many towards the route of caution. Since the beginning of 2025, a vast majority of policy rate decisions has been to stay put, taking into consideration the balance of risks to the inflation outlook and trade-related uncertainties. The US Fed has so far refrained from taking any policy action in 2025, holding its policy rate steady in the range of 4.25 to 4.50 per cent at its July 2025 meeting, as it weighed growth concerns against inflation risks. The ECB lowered its policy rate by 25 basis points in June 2025 to 2.00 per cent but kept the status quo at its July meeting. The BoE lowered its policy rate by 25 bps to 4.00 per cent at its August 2025 meeting but indicated the likely ending of its monetary policy easing cycle soon.

Domestic Economic Developments

On the domestic front, real GDP growth was lower at 4.2 per cent in 2025Q1, compared to 5.2 per cent in 2024Q4, dragged down by contractions in the '*Accommodation and food service activities*' and '*Construction*' sectors. Other sectors registered positive growth. On the demand side, consumption expenditure was the main driver of growth in 2025Q1 while investment spending remained lacklustre. The output gap continued to narrow as the economy moved closer to its potential.

Incoming data for tourist arrivals suggest that the '*Accommodation and food service activities*' sector bounced back in 2025Q2. Mauritius welcomed 658,909 tourists in 2025H1, up by 2.1 per cent compared to 2024H1. On this trajectory, it is likely that the target of 1.4 million tourists for this year will be met. Reflecting the improvement in arrivals, gross tourism earnings increased by 6.8 per cent y-o-y in 2025H1 to Rs47.4 billion and are forecast to reach around Rs97.0 billion for the year.

Looking ahead, both domestic and trade policy uncertainty are expected to weigh on the economic outlook. The negative effects of further changes in global trade policies and the impact of fiscal consolidation measures will have non-negligible ramifications on key sectors of the economy. Some important sectors, which are already operating in a highly fragile and uncertain economic context, may register lower-than-expected growth rates. Whereas the Bank had projected GDP growth for 2025 to be within a range of 3.0-3.5 per cent at the May MPC meeting, latest developments and lingering uncertainty point towards GDP growth of around 3.0 per cent for this year.

There are some early signs that the labour market is starting to cool off. The unemployment rate increased from 5.7 per cent in 2024Q4 to 6.0 per cent in 2025Q1. Youth unemployment stood at 19.8 per cent while the female unemployment rate rose to 8.0 per cent in 2025Q1. Growth in wages, measured through nominal y-o-y changes in the Wage Rate Index (WRI), moderated to 6.6 per cent in 2025Q1 compared to double-digit growths recorded in the previous four consecutive quarters.

Inflation in Mauritius is on the rise. Headline inflation edged up for the fourth consecutive month to 3.1 per cent in July 2025. Y-o-y inflation remained high at 5.2 per cent. The increase in inflation largely reflected the impact of budgetary measures, which include higher taxes on demerit goods and additional excise duties on cars. CORE inflation, which measures underlying inflationary pressures in the economy, has remained relatively sticky, upheld by higher prices of services and wage increases.

As the one-off effects of budget-related price hikes dissipate, inflation is projected to remain firmly anchored within the Bank's target range of 2 to 5 per cent through the rest of 2025. Y-o-y inflation is projected to subside and headline inflation is projected at around 4.0 per cent for 2025, roughly 0.5 percentage point higher compared to the previous forecast of 3.5 per cent. Nevertheless, the outlook for inflation remains subject to important upside risks, mainly stemming from abroad. Tariff-related price hikes may result in broader price pressures as they feed through global value supply chains. The trajectory of commodity prices is also highly contingent on geopolitical tensions and climatic conditions.

The current account deficit as a ratio to GDP widened to 5.1 per cent in 2025Q1, from 4.8 per cent in 2024Q1, reflecting primarily a larger deficit in the goods and secondary income accounts, as well as lower surplus on the services account. Preliminary estimates show that the current account deficit will continue to widen in 2025Q2, reaching some 7.3 per cent of GDP, mostly due to a higher trade deficit considering the surge in vehicle imports. The external sector situation is expected to improve during 2025H2.

On a calendar year basis, the current account deficit is projected to improve to 6.2 per cent of GDP in 2025, from a deficit of 7.0 per cent of GDP in 2024, as higher surpluses in the services and primary income accounts are expected to mitigate the impact of the widening trade deficit. An overall balance of payments surplus of Rs9.3 billion is expected in 2025.

The Mauritius IFC continues to attract healthy financial flows as global cross-border investment activities remain resilient despite the challenging global conditions brought about by the growing global uncertainty amid US new tariff policy.

The Gross Official International Reserves (GOIR) of the country remain comfortable, providing adequate buffers against potential external shocks. The GOIR stood at US\$9.7 billion as at end-June 2025, representing 13.2 months of import cover (based on import bill of calendar year 2024), compared to USD 8.2 billion at end-June 2024. The GOIR has risen while the Bank has started to refund the external borrowings (Swaps and Repos) contracted during the Covid pandemic.

Money Market

Let me now turn to latest developments in the money market. The Bank has been issuing BoM securities to address the excess liquidity situation. Since the beginning of the financial year, a total amount of Rs12 billion was mopped up through BoM Bills issued in the 91-Day tenor, at weighted yield ranging between 4.13 to 4.29 per cent. As at 1 August, outstanding BOM securities amounted to Rs128 billion.

The overnight deposit facility remained an effective monetary policy tool absorbing the bulk of rupee excess remaining in the system. Since last MPC, on average, an amount of Rs52 billion was placed on overnight deposit with the Bank at the rate of 3 per cent.

Foreign Exchange Market

On the domestic FX market, there was a noticeable improvement in FX flows. From 03 January to 11 August 2025, banks purchased a total amount of US\$4.6 billion, that is, about US\$866 million more than what they were able to during the same period of 2024. They also sold US\$4.8 billion to the market over this period, approximately US\$972 million more than in 2024.

Significant inflows were seen from the accommodation and financial sectors during the last week of June 2025. Holders of FX disposed of FX mainly to meet end of financial year requirements but also benefitted from favourable market movements with the appreciation of the Euro against the USD. However, USD remained under pressure with increased demand from importers seeking to benefit from the appreciation of the rupee against the USD.

In May and June 2025, there were exceptionally high sales of FX by banks and FX dealers to importers of motor vehicles. For instance, in June 2025 only, 6,926 motor vehicles was sold in Mauritius. This represented an amount of around USD200 million of FX outflows.

Since the beginning of the year, CEB and STC have purchased USD145 million and USD365 million, respectively, from the market to meet both, their current payment obligations and, concurrently to reduce their outstanding swaps/lines of credit. The backlog has been significantly reduced but there are still new requirements on a daily basis.

Since the last MPC, the Bank intervened twice to sell US\$40 million on the market. Total FX interventions by the Bank since the beginning of the year amount to US\$90 million, compared to US\$195 million between 03 January and 12 August 2024.

The rupee continues to reflect key economic fundamentals of demand and supply, as well as international currency movements. Between 07 May and 05 August 2025, the rupee exchange rate appreciated by 0.42 per cent against the US dollar but depreciated by 2.66 per cent against the euro and 0.56 per cent against the Pound sterling.

Financial Stability

I will now highlight the main developments in respect of risks to financial stability, as a resilient financial system enhances the transmission of monetary policy and supports macroeconomic stability.

Risks to financial stability were at a moderate level in the first half of 2025 and are expected to stay so for the rest of 2025. The banking sector remains resilient to an array of potential adverse events, propelled by its strong capital and liquidity buffers complemented by the robust prudential regulatory regime. The banking sector holds strong solvency buffers, with a Capital Adequacy Ratio of 21.8 per cent in March 2025. The sound liquidity buffer is evidenced by the Liquidity Coverage Ratio of 281.6 in June 2025, hovering well above the minimum threshold of 100 per cent.

The assessment of risk to financial stability from the household sector indicates a marginal increase in the second quarter of 2025. The indebtedness of the household sector went up slightly to reach an estimated 39 per cent of GDP in June 2025. Still, the capacity of households to service their debt obligations remains healthy. The debt servicing costs relative to GDP is projected to be around the historical trend level. As a result, credit risk from the sector is anticipated to remain low. The ratio of non-performing loans (NPL) for the household credit portfolio to total bank credit lingered around historical lows at 1.7 per cent in March 2025. In addition, favourable labour market conditions and subdued inflation are buttressing the financial capacity of the household sector.

The financial soundness of the corporate sector is broadly stable, though some sectors exhibited vulnerabilities notably in the agro-industrial and construction segments. The asset quality of the corporate credit portfolio of banks registered a deterioration in the first quarter of 2025, with the NPL ratio going up to 5.1 per cent. Nonetheless, debt sustainability in the sector is sound as business leverage relative to GDP hovers around its lowest levels in the last 15 years.

The banking sector continued to support the economy with sustained credit flows. The annual growth of bank credit to the private sector was 11.0 per cent in June 2025, driven by growing household and corporate credit portfolios. Credit to the corporate sector went up by 10.1 per cent while household credit rose by 12.3 per cent in June 2025.

The quality of the credit portfolio of the banking sector remained broadly sound, despite a rise in the NPL ratio to 3.6 per cent in March 2025, from 3.4 in December 2024. Banks held sufficient provisions to cover for potential losses, with a coverage ratio of

62.5 per cent. This prudent provisioning strategy highlights the preparedness of banks to absorb credit-related shocks.

The Bank conducts regular stress tests to evaluate the resilience of the banking sector to potential macroeconomic, credit, interest rate, exchange rate and liquidity shocks. The latest stress test results confirm the soundness of the banking sector to adverse but plausible shocks. The sound buffers maintained by the banking sector are broadly adequate to mitigate potential risks as they arise.

The Bank continues to proactively monitor potential threats in the evolving macro-financial landscape to maintain price and financial stability.

MPC Decision

I will now focus on the decision of the MPC.

The MPC discussed latest observations on the global and domestic economy.

The MPC noted that, despite announced breakthroughs in trade talks, the international trade ecosystem is still marred with uncertainty. The fallout of new tariffs on growth and inflation across markets and regions remain highly unpredictable.

The Bank has to balance its responsibility to control inflation against concerns that rising tariff and global trade war may slow economic growth. On the domestic front, growth prospects are highly delicate and surrounded by downside risks. Inflation has been on the rise recently, although on account of some transient factors. Upside risks to the inflation outlook dominate.

From a pragmatic standpoint, considering the prevailing economic uncertainties, it was deemed more judicious to maintain the status quo as a prudent course of action. While the current uptick in y-o-y inflation may be viewed as transitory, with the impact from the budgetary measures fading gradually, the risks from higher prices due to tariffs may be more pernicious and long-lasting than expected, especially in a context where domestically-generated inflation and services inflation remain sticky.

Moreover, with regard to the domestic FX market, it has been found that the increase in the policy rate engineered during the first MPC of this year and parallel rise in money market rates through supporting money market liquidity management operations had a positive impact on interest rate differentials, FX flows and the rupee exchange rate. The measures rolled out by the Bank to restore order in the FX market have borne their fruits as well.

Additionally, global uncertainties against the backdrop of evolving trade policies, ongoing geopolitical tensions and uneven recovery across major economies warrant a cautious and data-dependent approach to monetary policy.

As a result, the MPC unanimously decided to keep the Key Rate unchanged at 4.50 per cent per annum at its meeting today.

It is a finely balanced decision due to global uncertainties

The MPC will continue to closely monitor economic developments and stands ready to meet in between its regular meetings and take appropriate actions to achieve its dual mandate of maintaining price stability and of promoting orderly and balanced economic development.

Thank you.