

## **Priscilla Muthoora Thakoor: Current economic conditions and outlook**

Statement by Dr Priscilla Muthoora Thakoor, Governor of the Bank of Mauritius, at the post Monetary Policy Committee (MPC) press conference, Port Louis, 20 May 2026.

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Good afternoon, ladies and gentlemen, members of the media.

The Monetary Policy Committee convened today for its 78<sup>th</sup> meeting to evaluate recent economic and financial developments both domestically and internationally, and to determine the appropriate direction for monetary policy.

Following extensive deliberations, the seven members of the Committee who were present unanimously decided to increase the policy rate by 25 basis points.

In making this decision, the Monetary Policy Committee took into consideration the macroeconomic implications that the recent escalation of geopolitical tensions and the US-Iran conflict have for small and highly open economies such as Mauritius.

On the one hand, higher international fuel prices, increased freight and transportation costs, and exchange rate pressures can rapidly transmit to domestic prices through imported inflation channels. On the other hand, the Committee is fully cognizant of the growing uncertainties surrounding the global economic outlook and the related recent moderation in domestic economic activity.

Recent data underscores the domestic economy's vulnerability to external shocks. While headline inflation remained unchanged at 4.2 per cent between March and April 2026, y-o-y inflation showed a notable increase to 3.6 per cent in April, from 2.7 per cent in March, primarily driven by rising energy prices and some second-round effects. Additionally, tourist arrivals by air for April declined by 8 per cent y-o-y, attributable to significant reductions in service by a major airline.

The perspective on the domestic economy has therefore shifted since the previous MPC meeting in February 2026. Considering the highly uncertain environment, staff have based their growth and inflation projections on a range of scenarios with different oil price paths. Under the baseline scenario that assumes an average oil price of USD90 per barrel, the resolution of the conflict and a complete re-opening of the Strait of Hormuz by the end of 2026H1, headline inflation is projected to rise to around 5.5 per cent in 2026 – well above the previous forecast of 3.6 per cent and above the upper end of the inflation target range of 2-5 per cent. In more adverse scenarios, inflation could rise even higher and remain elevated for longer, with substantially stronger second-round effects.

Domestic economic activity is expected to soften this year. Real GDP growth for 2026 is now forecast at 2.8 per cent whereas the MPC had, in February 2026, considered a projected real GDP growth rate between 3.3-3.5 per cent. This downward revision

primarily reflects the adverse impact of higher fuel and electricity costs on activity and household purchasing power, as well as a moderation in tourist arrivals. The growth forecast is also subject to downside risks in the event of a protracted conflict.

Nevertheless, after carefully weighing the balance of risks, the MPC determined that it is necessary to act in a timely and measured manner to preserve price stability, mitigate the risk of second-round inflationary effects becoming embedded in the economy, and safeguard macroeconomic stability over the medium term.

In reaching its decision today, the MPC thoroughly evaluated the evolving risks from both international and domestic standpoints. The MPC remains firmly committed to the objectives of price stability and orderly and balanced economic development.

I will now elaborate on the factors that shaped the MPC's decision during the meeting.

## **Global Economy**

Let me start with an overview of recent global economic developments.

Recent increases in energy prices have raised inflation worldwide and introduced fresh upside risks to inflation trajectories. In the US, consumer price inflation increased from 3.3 per cent in March 2026 to 3.8 per cent in April while in the euro area, inflation picked up from 2.6 per cent in March to 3.0 per cent in April. Oil market conditions remain highly sensitive to geopolitical developments, and market analysts have warned that a prolonged disruption in the Strait of Hormuz could exert significant upward pressure on global energy prices.

Global growth prospects have moderated, with risks tilted to the downside. The IMF, in its World Economic Outlook (WEO) April 2026 report, projected global growth at 3.1 per cent for 2026 under its reference scenario. This represented a downward revision of 0.2 percentage point compared to the January 2026 WEO Update given the impact of the war on commodity markets, inflation expectations and financial conditions. Concurrently, global inflation forecasts were revised upward to 4.4 per cent in 2026, from 3.8 per cent projected in January.

As the conflict persists and global crude inventories decline, the risk of a sharper price correction – and, in some countries, physical supply shortages – is increasing. The longer and the larger the inflation shock, the greater the risk of demand destruction. In this context, the IMF warned that, under more severe conflict scenarios, growth in 2026 could weaken further while inflation could rise higher than under its reference scenario.

Financial markets have also experienced heightened volatility. Investors have become increasingly cautious amid uncertainty regarding the duration and broader economic implications of the conflict. While equity markets continued to focus on corporate earnings and the AI potential, global bond yields remained elevated. Exchange rate movements across several emerging and small open economies have reflected shifts in global risk sentiment.

Most major central banks, including the US Federal Reserve, the European Central Bank and the Bank of England, have held policy rates unchanged in recent meetings.

The conflict has intensified the policy trade-offs faced by central banks, with renewed inflationary pressures amid weakening growth prospects prompting a more cautious and data-dependent approach to interest rate decisions. Markets, on their part, are already pricing in the rising probability of an interest rate increase by the US Fed and a 50 basis points increase by the ECB by the end of 2026.

## Domestic Economic Activity

Domestic economic activity remains broadly supported by sustained performance in key sectors. However, amid weaker external demand and heightened global uncertainty growth is expected to moderate across 2026. War-related pressures could weigh on some sectors, including *Accommodation and food service activities*, *Manufacturing*, *Agriculture*, and *Construction*, mainly through higher costs and supply chain disruptions. The Bank has therefore revised its baseline growth forecast down to 2.8 per cent, from the 3.3–3.5 per cent range presented at the February 2026 MPC meeting.

Tourist arrivals increased by 4.0 per cent y-o-y to 464,208 in the first four months of 2026, highlighting the sector's resilience to external shocks and its swift adaptation through alternative travel routes to Mauritius. Tourism earnings also rose by 28 per cent y-o-y in 2026Q1 to Rs30.2 billion. However, the decline of 8 per cent in air arrivals in April, higher airfares, and softer global consumer confidence linked to the Middle East conflict indicate headwinds to the sector going forward, with spillover effects to the broader economy.

The unemployment rate fell to a record low of 5.4 per cent in 2025Q4, reflecting stronger labour force participation among young people and women. Despite this improvement, nominal wage growth remained moderate, while real wages declined in the last two quarters of 2025.

Lending to the private sector continued to support economic activity. Private sector credit grew by 11.5 per cent in March 2026, driven by household credit growth of 12.0 per cent and corporate credit growth of 11.1 per cent. Asset quality remained sound, with corporate sector risks subdued and household debt serviceability metrics still above their long-term trends. The latest stress test results also confirmed that, overall, the banking sector remains sound, liquid and well-capitalised.

## Inflation

Domestic inflation has evolved as expected considering the repercussions of the Middle East crisis. Price hikes in petroleum products, bread and other products were clearly reflected in the April 2026 y-o-y inflation figure, which increased to 3.6 per cent from 2.7 per cent in March. Price pressures were most evident in key divisions such as *'transport'*, *'restaurants and accommodation services'*, *'food and non-alcoholic beverages'*, and *'housing, water, electricity, gas and other fuels'*. In contrast, headline inflation remained unchanged at 4.2 per cent in April compared to March due to its 12-month averaging methodology, although it was higher than the 3.7 per cent recorded in December 2025.

Core inflation, which indicates underlying price pressures in the economy, remained elevated. On a y-o-y basis, CORE1 and CORE2 inflation rose to 5.5 per cent and 6.1 per cent, respectively.

Domestically-generated inflation – particularly services inflation – continued to contribute substantially to price pressures although imported inflation, driven by higher energy prices and elevated freight and logistics costs, has strengthened.

The Bank's Inflation Expectations Survey conducted in March 2026 indicate that near-term inflation expectations have drifted upwards – in line with expectations of higher fuel and other supply costs. However, medium-term inflation expectations have remained broadly anchored within the Bank's target range.

The outlook for inflation is influenced by fuel price pass-through, persistent core inflation and geopolitical developments, with risks firmly tilted to the upside. Under the baseline scenario, headline inflation is expected to reach around 5.5 per cent in 2026 – higher than the Bank's 2-5 per cent inflation target range – but could go back to within target during 2027 as the impact of the oil shock dissipates. The MPC remains vigilant to the possibility that renewed increases in global energy and freight costs may gradually pass through into domestic prices over the coming quarters and that inflation expectations become unanchored.

## **Money Market**

The Bank maintained open-market operations to remove excess liquidity from the system. Since the last MPC meeting, the Bank has issued BoM Bills for an aggregate amount of Rs47.5 billion in the 91-day and 182-day tenors, as well as Two-Year BoM Notes for an aggregate amount of Rs6.0 billion.

The Bank also continued to operate the overnight deposit facility which allows banks to place their surplus liquidity at the end of the day. On average, an amount of Rs28.4 billion has been placed on overnight deposit with the Bank at the rate of 3.00 per cent since the last MPC meeting. The amount of outstanding BoM securities issued for liquidity management purposes, excluding overnight deposits, stood at Rs91.6 billion as of 12 May 2026.

The issue of BoM Bills together with the maintenance of the overnight deposit facility have contained the rupee excess reserves at a daily average of Rs2.4 billion.

Yields on the 91-D, 182-D and 364-D Bills were at 3.93, 4.12 and 4.41 per cent, respectively, as of 14 May 2026. The overnight interbank rate evolved close to the lower bound of the interest rate corridor, at 3.25 per cent amid a slowdown in interbank market activity.

## **External Sector Developments**

The MPC also reviewed developments in the domestic foreign market and external balances. Despite rising external risks, the domestic FX market functioned smoothly and reserves stayed strong, offering a buffer against external shocks and heightened volatility.

Turnover on the FX market amounted to US\$5.5 billion since the beginning of 2026, that is, an increase of around US\$196 million compared to the same period of 2025.

Most of banks' FX purchases were from the financial and accommodation sectors while banks' sales were to the wholesale and retail trade sector. The Bank's intervention on the domestic FX market between January and mid-May 2026 amounted to US\$40 million compared to US\$50 million during the corresponding period of 2025.

The rupee reflected domestic demand and supply conditions, as well as international currency movements. Given particularly volatile international markets, the rupee exchange rate depreciated by 2.9 per cent against the US dollar, 1.0 per cent against the euro and 1.5 per cent against the Pound sterling since the February MPC meeting.

The current account deficit, which was estimated at 7.1 per cent of GDP in 2025, is projected to narrow to 6.7 per cent of GDP in 2026, mainly on account of higher expected surplus in the primary income account. The goods account deficit is forecast to widen further, driven by higher oil prices and freight costs, although this could partly be offset by higher bunkering activity.

The Gross Official International Reserves (GOIR) of the country stood at US\$9.8 billion as at end-April 2026, representing 13.6 months of imports (excluding GBC services imports) and 10.0 months of imports (including GBC services imports).

## **Risks to the outlook**

Looking ahead, we need to remain vigilant in a context of prevailing uncertainties. The economic outlook will be shaped by the evolution of geopolitical tensions, developments in global energy markets, the duration of disruptions to shipping and supply chains, and the policy responses of major central banks.

A prolonged escalation of the conflict in the Middle East could weaken global growth prospects further while simultaneously exerting renewed pressure on inflation worldwide. A more severe deterioration in global risk sentiment could also trigger tighter financial conditions, capital flow reversals and exchange rate pressures in emerging markets, including Mauritius.

As a small and highly open economy, Mauritius remains particularly exposed to imported inflation through fuel prices, transportation costs, food imports, and exchange rate developments. With inflation expectations recognized as a critical anchor of macroeconomic stability, there is a heightened risk that persistent increases in energy and import prices could broaden into more generalized inflationary pressures if policy action is delayed.

According to the Bank's alternative scenarios which involve prolonged conflicts and higher oil and commodity prices, these developments would materially alter the balance of risks to the inflation outlook, reduce households' purchasing power, and put additional pressure on the rupee exchange rate.

At the same time, these alternative scenarios show that while several sectors would continue to demonstrate resilience, overall economic activity would moderate further. Downside risks to the growth outlook have increased.

The MPC assessed that the risks to the inflation outlook outweighed the risks to the growth outlook and that failure to respond to rising inflationary risks at this stage could ultimately prove more costly for the economy. Allowing inflationary pressures to become entrenched could undermine purchasing power, weaken investor confidence, distort economic decision-making, and ultimately necessitate more aggressive policy tightening in the future.

## **Concluding Remarks**

To conclude, there was consensus within the MPC that raising the Key Rate by 25 basis points was best aligned with the Bank's mandates of price stability and orderly and balanced economic development.

The MPC viewed that a timely and measured adjustment would help maintain monetary policy credibility and reinforce the central bank's commitment to price stability, while contributing to preserving confidence among households, businesses, and investors.

It further assessed that domestic economic conditions remain sufficiently resilient to absorb a moderate increase in interest rates. Financing conditions are expected to continue supporting productive economic activity, while the banking sector remains liquid, sound, and well-capitalised.

The MPC wishes to emphasise that the decision to raise rates is a calibrated response intended to reinforce price stability at a time of elevated external risk while maintaining support for sustainable economic growth over the medium term.

The MPC will continue to closely monitor the evolution of the Middle East conflict and its spillovers to global energy markets, supply chains, financial conditions and domestic price dynamics. Monetary policy decisions will remain data-dependent and will continue to be guided by evolving inflation dynamics, domestic economic conditions, financial market developments, and the external environment.

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

Thank you for your attention.

With that, I shall be pleased to take any questions you may have on monetary policy.