SBM insights

Economic Update

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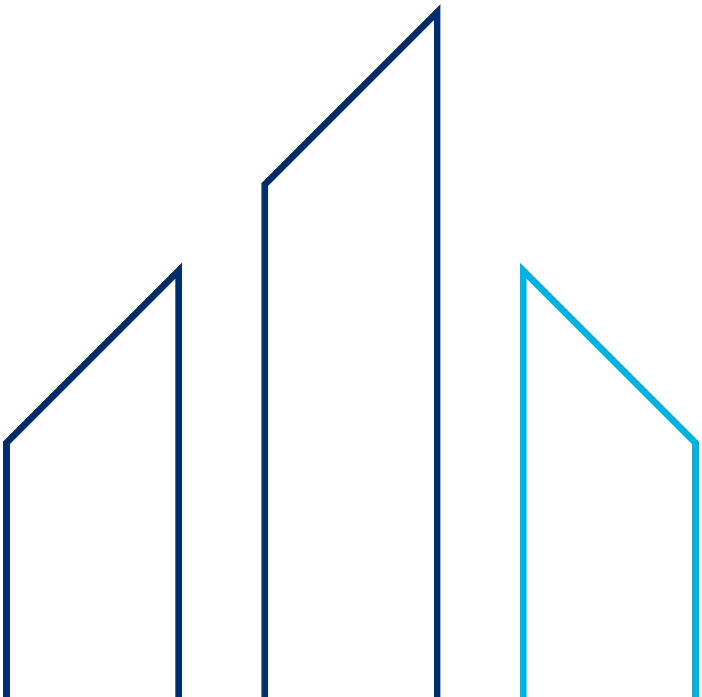

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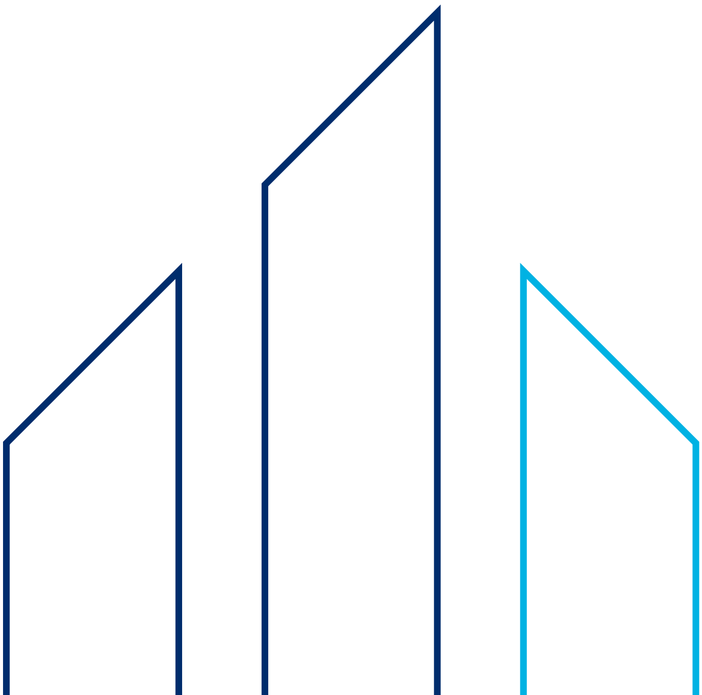


Editorial Note

The current economic environment

In recent weeks, Mauritius has been exposed to an increasingly challenging and volatile global environment, especially in the wake of escalating global trade tensions. Notwithstanding this conjuncture, the Government has maintained its efforts to boost the country's business climate and core fundamentals. Notably, banking sector soundness and resilience have been upheld, in support of macroeconomic stability. The Central Bank emphasised that it has stepped up efforts to restore order in the money and domestic foreign exchange markets, alongside intervening in the domestic money market through open market operations with the aim to contain the excess liquidity in the system. On a general note, it is reassuring to observe that Moody's has in its recent reports: (i) recognised the country's economic resilience and institutional capacity, while expecting the Government to pursue fiscal consolidation to put public sector debt on a more sustainable path; and (ii) argued that the banking sector outlook is stable, with banks to maintain strong capital and profitability to remain solid. Also, S&P Global Ratings has affirmed the investment grade credit rating status of Mauritius with a stable outlook. It observed that the country's growth prospects are strong and acknowledged the implementation of pro-business reforms, though stressing on the impact of global headwinds and climate change risks.

Key challenges and imperatives for the country

The Mauritian economy remains confronted by a volatile, uncertain and ambiguous worldwide environment, with repercussions on its real, financial, fiscal and external sectors. In spite of recent progress made in some instances, international trade tensions have generated high uncertainty levels, acute market volatilities and stymied economic exchanges. As per the IMF Managing Director in the Global Policy Agenda 2025, medium-term global growth prospects have moderated, with sluggish growth reflecting flagging productivity, chronic underinvestment and slowing labour force growth. Overall, this global landscape and prevailing macroeconomic indicators call upon Mauritius to pursue well-engineered policy-making and to resolutely reduce the current high and worrying fiscal deficit over the medium and long terms. This can be achieved by diligently containing the rise in recurrent Government expenditures, though this remains a politically sensitive matter, and boosting Government revenues, which should help to lay the foundations for macroeconomic stability, high growth and social progress. This posture is all the more advocated for as the country is being exposed to multiple transformative forces, including demographic shifts and an ageing population, digitalisation, generative AI, urbanisation, energy and water availability, security and efficiency, and climate transitions. These shifts are coming up with implications in terms of innovation and productivity, economic dynamism, fiscal balance, resource mobilisation and allocation, and employment generation and poverty alleviation. Specifically, climate change warrants close scrutiny, insofar as prolonged droughts and the rising intensity of natural phenomena tend to exert pressures on sector value added, consumer prices, physical infrastructures, etc. S&P Global Ratings mentioned that *"Mauritius' long-term growth potential, particularly in the tourism sector, will partly depend on its ability to mitigate and adapt to climate change."*

As propounded by the authorities and the business community, a key imperative for Mauritius is to achieve high, inclusive and sustainable growth, while promoting a 'green' development path. In this spirit, it is comforting to take cognizance of the Government's intentions to improve the country's economic fundamentals, alongside tackling the challenges and structural issues facing the country. Amongst key trajectories and structural reforms to be pursued, the national economic agenda could cater for the following: (i) boosting the country's economic space and exports, alongside supporting emerging industries, diversifying markets as well as capitalising on regional and cross-regional economic and trade integrations; (ii) accelerating technology adoption in public service administration; (iii) fast-tracking FDI in high-value-generating and climate-resilient projects across sectors; (iv) gearing up infrastructure investments to enhance the quality, efficiency and accessibility of services in relation to electricity (reliability, affordability and consistency of supply, sustainable energy mix, robust infrastructures) and water supply (water capture, retention, treatment and distribution), digital connectivity and the sea port; and (v) addressing structural inefficiencies, with emphasis on shoring up labour activity rates and female labour force participation, to support growth ambitions and help counter the effects of a shrinking workforce. Towards those ends, the key success factors for the reform programme to benefit the country could, amongst various considerations, include the following: (i) embracing a sensible and responsible approach; (ii) achieving an efficient allocation of labour and capital resources; (iii) thoughtfully attracting foreign labour and capital; (iv) reinforcing the capabilities and strategic percussions of public sector bodies, backed by the notions of accountability, independence and integrity; (v) ensuring an effective synchronisation between fiscal and monetary policies; and (vi) strengthening synergies and dialogues with the private sector, while instilling the elements of trust and cooperation. Comfortingly, the Honourable Junior Minister of Finance has underscored the need to strengthen public-private sector collaboration and foster a results-oriented dialogue aligned with national development goals, alongside creating a more conducive environment to attract investment, generate employment and increase foreign currency inflows.

In concurrence with reform ambitions and objectives to catalyse growth, a major challenge and an urgent priority for Mauritius is – in light of current fiscal and budgetary ratios – to execute a well-calibrated medium-term fiscal consolidation programme, which will tackle the fiscal deficit, promote budgetary discipline and ensure that public debt is embarked on a sustainable path. In this delicate and demanding fiscal manoeuvring endeavour, the authorities are called upon to address various prerequisites, including (i) to contain Government expenditures in the wake of the dynamic context and to prioritise earmarked projects along with consolidating social welfare; (ii) to materially boost tax and non-tax Government revenues, aided by effective reforms; (iii) to maintain the integrity and transparency of fiscal rules, to reduce macroeconomic risks; (iv) to preserve the attractiveness and predictability of the income tax regime, to uphold the appeal of the business environment and foster capital inflows; and (v) to secure broad-based stakeholder acceptance, backed by judicious communication strategies.

Concluding remarks

Striking the right balance in terms of policy-making

The upcoming National Budget will be an excellent opportunity to set the right priorities and remedies that will underpin the country's sound and sustained advancement, while mobilising the private sector and the population at large around overarching focus areas. In view of this event, the Honourable Junior Minister of Finance has expressed the commitment to come forward with responsible measures, alongside formulating major economic reforms aimed at fostering growth, enhancing the ease of doing business, promoting sustainability and generating employment. In the same spirit, the Government announced the intention to come up with a new economic model that will transform the Mauritian economy to build resilience to external shocks. In this journey, the country is widely expected to maintain the right equilibrium between unleashing immediate growth-inducing initiatives and pursuing fiscal consolidation. Improving our fiscal position is essential to (i) uphold the country's investment grade credit rating status along with gearing up foreign capital inflows and macroeconomic progress; and (ii) garner ample space that will help to achieve long-term gains in GDP and job creation.

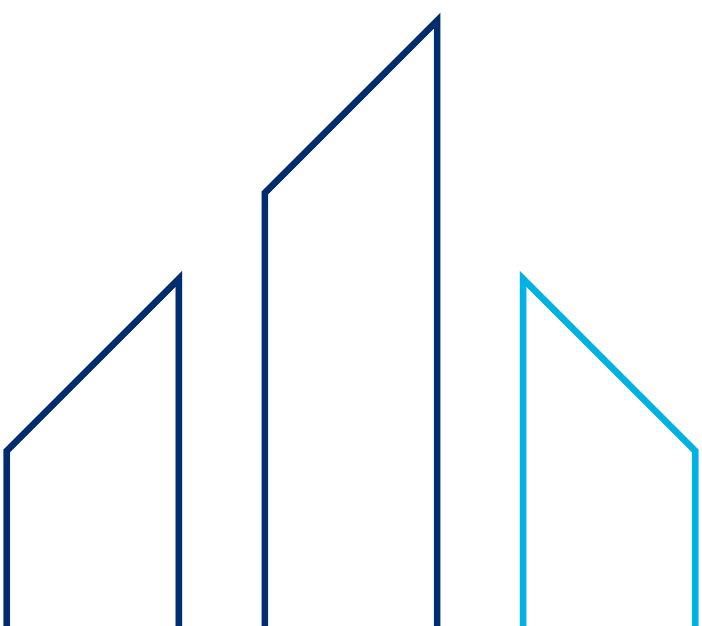
The Chagos Factor: Positive impacts on Mauritius

As it moves ahead, the country has witnessed a historic moment this 22nd of May 2025 when the Governments of Mauritius and UK signed an Agreement which grants Mauritius sovereignty over the Chagos Archipelago including Diego Garcia. The UK has agreed to make substantial annual payments to Mauritius, with (i) an annual sum of £165 million in each of the first three years following entry into force of the treaty; (ii) an annual sum of £120 million, starting in the fourth year following entry into force of the treaty and continuing for the duration of the treaty; (iii) a sum of £40 million to capitalise a Trust Fund established by Mauritius for the benefit of Chagossians; and (iv) an annual grant of £45 million for 25 years to support projects that promote the ongoing economic development and welfare of Mauritius and its people. Of particular significance in the ongoing context, this financial package should provide a slight additional leeway for Mauritius to address its high and worrying fiscal deficit. The Government is simultaneously called upon to create appropriate fiscal space for sound and resilient growth over the medium term. In view of the forthcoming National Budget, the annual income should – in some ways and in conjunction with other initiatives – provide suitable avenues to the Government as it pursues structural reforms and medium-term fiscal consolidation. Comfortingly also, the financial package and accompanying foreign currency inflows would help to achieve better-performing domestic forex markets and an even more resilient banking industry, alongside boosting the availability of foreign currency on the market and relative rupee stability. Looking forward, the onus is on the Government to define the priorities and mobilise the necessary capabilities for the conceptualisation, execution and management of strategic projects and investment undertakings, while maintaining optimal efficiency at all levels.

Nuvin BALLOO

Group Chief Strategy Officer

29 May 2025



Economic growth

The global context

Economic growth

The latest IMF World Economic Outlook's reference forecasts have catered for tariff announcements between February 1 and April 4 by the US and countermeasures by other countries. In this context, projections for global growth have been revised markedly down compared to those contained in the January 2025 World Economic Outlook Update, reflecting effective tariff rates at levels not seen in a century and a highly unpredictable policy environment. Global growth is projected to decline after a period of steady but underwhelming performance, amid policy shifts and new uncertainties. It is projected to drop to 2.8% in 2025 and attain 3.0% in 2026, down from 3.3% for both years as foreseen back in January, corresponding to a cumulative downgrade of 0.8 percentage point and much below the historical (2000–19) average of 3.7%. The downgrades are broad-based across countries and largely reflect the direct effects of the new trade measures and their indirect effects through trade linkage spillovers, heightened uncertainty and deteriorating sentiment. Downside risks to the near- and longer-term global outlook have intensified, with threats including worsening trade tensions, elevated policy-induced uncertainty, further tightening of financial conditions as markets react negatively to diminished growth prospects and increased uncertainty, and accentuated financial markets adjustments. As per the IMF, demographic shifts and a shrinking foreign labour force may curb potential growth and threaten fiscal sustainability. The IMF added that the lingering effects of the cost-of-living crisis, coupled with depleted policy space and dim medium-term growth prospects, could impact social conditions. The resilience shown by many large emerging market economies may be tested as servicing high debt levels becomes more challenging in unfavourable global financial conditions.

Inflation

As per the IMF, global headline inflation is expected to decline at a slightly slower pace than what was expected in January. It is expected to fall to 4.3% in 2025 and to 3.6% in 2026, with notable upward revisions for advanced economies and slight downward revisions for emerging market and developing economies in 2025. Inflation is projected to converge back to target earlier in advanced economies, reaching 2.2% in 2026, compared to emerging market and developing economies. It can be noted that the prices of fuel commodities are projected to decrease by 7.9% in 2025, with a 15.5% decline in oil prices (with supply growth expected to outpace tepid global demand growth through 2025 and 2026) and a 15.8% drop in coal prices, partly offset by a 22.8% increase in natural gas prices, the latter being driven up by colder-than-expected weather and the halt of Russian gas flow to Europe through Ukraine since January 1. As for nonfuel commodity prices, they are foreseen to increase by 4.4% in 2025.

Illustration 1. Global economic projections as per the IMF

	Annual percent change			Percentage point differences from January 2025 forecasts	
	2024	**2025**	**2026f**	**2025**	**2026**
World Output	**3.3**	**2.8**	**3.0**	**-0.5**	**-0.3**
Advanced Economies	**1.8**	**1.4**	**1.5**	**-0.5**	**-0.3**
United States	2.8	1.8	1.7	-0.9	-0.4
Euro Area	0.9	0.8	1.2	-0.2	-0.2
Germany	-0.2	0.0	0.9	-0.3	-0.2
France	1.1	0.6	1.0	-0.2	-0.1
Italy	0.7	0.4	0.8	-0.3	-0.1
Spain	3.2	2.5	1.8	0.2	0.0
Japan	0.1	0.6	0.6	-0.5	-0.2
United Kingdom	1.1	1.1	1.4	-0.5	-0.1
Canada	1.5	1.4	1.6	-0.6	-0.4
Emerging Market and Developing Economies	4.3	3.7	3.9	-0.5	-0.4
Emerging and Developing Asia	5.3	4.5	4.6	-0.6	-0.5
China	5.0	4.0	4.0	-0.6	-0.5
India	6.5	6.2	6.3	-0.3	-0.2
Emerging and Developing Europe	3.4	2.1	2.1	-0.1	-0.3
Russia	4.1	1.5	0.9	0.1	-0.3
Latin America and the Caribbean	2.4	2.0	2.4	-0.5	-0.3
Brazil	3.4	2.0	2.0	-0.2	-0.2
Mexico	1.5	-3.0	1.4	-1.7	-0.6
Middle East and Central Asia	2.4	3.0	3.5	-0.6	-0.4
Saudi Arabia	1.3	3.0	3.7	-0.3	-0.4
Sub-Saharan Africa	4.0	3.8	4.2	-0.4	0.0
Nigeria	3.4	3.0	2.7	-0.2	-0.3
South Africa	0.6	1.0	1.3	-0.5	-0.3
Commodity Prices (US dollars)					
Oil	-1.8	-15.5	-6.8	-3.8	-4.2
Nonfuel (average based on world commodity import weights)	3.7	4.4	0.2	1.9	0.3
World Consumer Prices	5.7	4.3	3.6	0.1	0.1
Advanced Economies	2.6	2.5	2.2	0.4	0.2
Emerging Market and Developing Economies	7.7	5.5	4.6	-0.1	0.1

Note: For India, data and forecasts are presented on a fiscal year basis, and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.

Source: IMF - World Economic Outlook (April 2025)

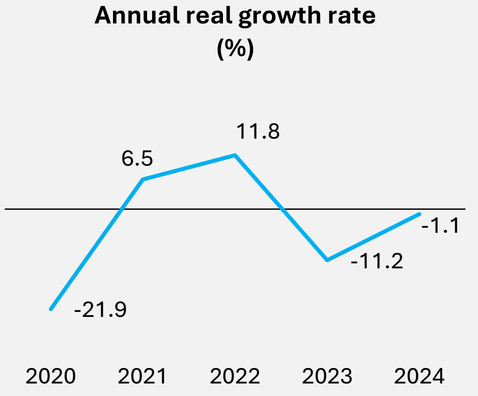
GDP growth

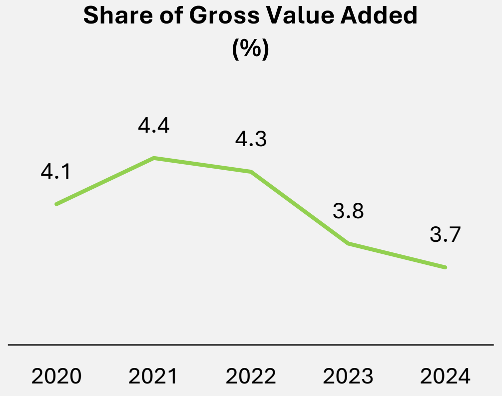
Revised growth estimates for 2024

As per latest figures from Statistics Mauritius, economic growth is estimated at 4.7% in 2024. This is lower than the previous official prediction of 5.1%, owing to more restrained expansion rates for specific sectors, notably manufacturing, tourism (with arrivals standing at 1,382,177 instead of 1,400,000 forecasted before) and construction. A dimmer growth prognosis has been formulated for the latter industry on the back of dampened growth figures for both private sector (10.2% vs 17.6%) and public sector investment (0.2% vs 15.6%), based on updated data regarding projects underway. Overall, whereas the sugar, textile and seafood industries contracted by 7.8%, 6.1% and 0.4% respectively on the back of the testing global landscape and endogenous dynamics, the country's growth path in 2024 has been mainly underpinned by the expansion of several sectors, including non-sugar agriculture, construction, transportation and storage, tourism, financial and business services as well as arts, entertainment and recreation. From an expenditure perspective, private investment has, as mentioned above, expanded by a noticeable margin. This has paved the way for a rise of 8.3% in gross fixed capital formation, thus contributing to the national investment ratio edging up to attain 21.0% of GDP at market prices in 2024 as per official figures, as compared to 20.2% for the preceding year. In the same vein, notwithstanding the challenging context marked by elevated, albeit receding, headline inflation and the evolution of market interest rates, household consumption expenditure has held up resiliently well last year. On the other hand, the exports of goods and services contributed meagrely to the GDP growth performance. Tellingly, the net exports of goods and services stood in a deficit zone, representing 11.6% of GDP at market prices in 2024, with a negative ratio of 9.0% posted over the past decade. In a similar light, official data on Export Oriented Enterprises (EOE) depict subdued trends regarding key performance indicators such as growth patterns, the share in the national economy, export levels, the number of enterprises and the employment base. When measured as a share of Gross Value Added, the significance of EOE in the Mauritian economy has declined to attain 3.7% in 2024, compared to 6.0% in 2015 and 6.3% in 2010. In fact, while it contracted by 11.2% in 2023 and 1.1% in 2024, the EOE sector posted a negative average annual growth rate of 3.2% during the past decade, with the contraction for textile establishments being relatively worse at 5.1%. These figures are a cause for concern given the importance of exports as a chief growth engine. As per empirical evidence, international trade has, over the past decades, helped developing countries to (i) boost investment and productivity, while allowing for economies of scale and fast innovation spread; (ii) spur growth and poverty alleviation; and (iii) reduce the development gap vis-à-vis advanced economies.

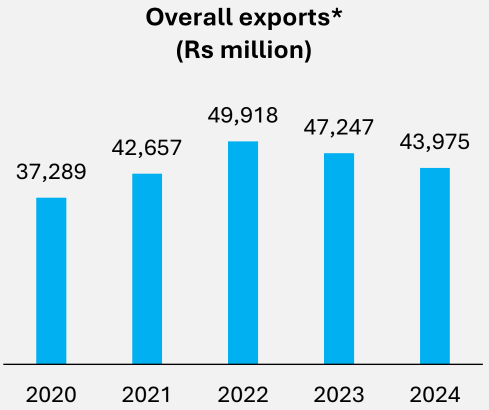
Illustration 2. Export Oriented Enterprises (EOE) sector statistics

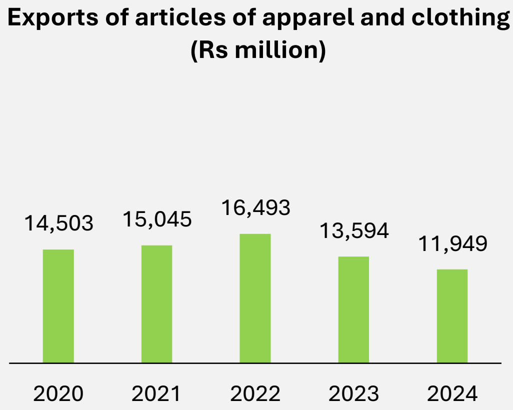
The EOE sector has registered subdued real growth rates in recent years, while its relative significance in the Mauritian economy has dwindled by a non-negligible margin over time.



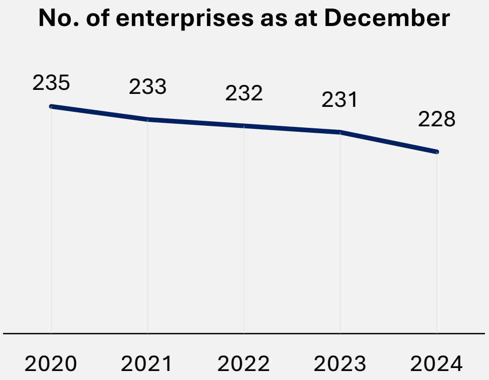


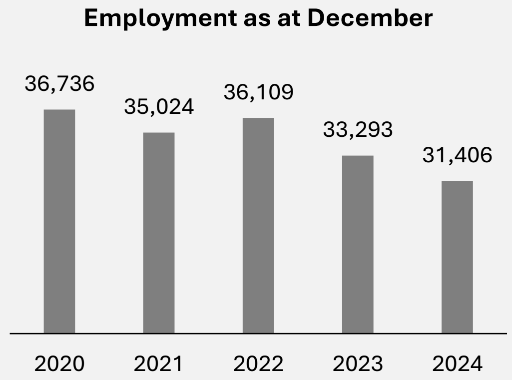
The exports of goods by the EOE sector have continued to evolve at a relatively sub-par pace over the years, with major declines being specifically posted by articles of apparel and clothing.





The performance depicted by the EOE sector can, in addition, be reflected by the gradual decline in the number of enterprises and the fall in the overall employment base.





** f.o.b., excluding sales to Freeport*

Sources: Export Oriented Enterprises (Q4-24), External Trade and National Accounts, Statistics Mauritius

Growth outlook for 2025

Projection

In light of latest indications, the Mauritian economy is, as per our baseline scenario, projected to register a real GDP growth rate of 3.2% in 2025. This figure makes allowance for recent observations by the Bank of Mauritius that data available so far suggest that GDP growth has slowed in the first quarter of this year. Whilst still depicting the country's resilience and sound fundamentals amidst challenges faced, our growth forecast is lower than the estimate for 2024 and undershoots the 3.3% figure formulated by Statistics Mauritius for this year, with the latter figure having been formulated towards the end of March, that is a few days before the US tariffs announcement. Our current growth prognosis is lower than initial predictions, with this changing projection being generally aligned with international trends and circumstances, whereby a wide range of countries are being subject to non-negligible downgrades in their respective growth forecasts, due to escalating trade tensions and real sector ramifications.

Key factors

General observations

Growth for this year would be largely impacted by global headwinds, particularly on the back of announced import tariffs, disruptions in trade patterns as well as the ensuing multi-layer repercussions on financial markets and the real sector. In essence, the uncertain, albeit gradually healing, international trade environment warrants consistent scrutiny, owing to the potential direct and knock-on implications for Mauritius, mainly in terms of inflation, household consumption, net exports, foreign capital flows, currency movements and sectorial value added. Of note, whereas a fair degree of normalisation is yet to be achieved and concerns are still to be resolved, the global trade environment has somewhat improved in recent weeks, amidst earmarked deals and a gradual de-escalation of disputes in specific areas. Moreover, the Mauritian economy is being impacted by the challenging conditions confronting our main trading partners which are being mired in sluggish growth, with subsequent inhibiting effects on our exports of goods and services. For instance, France grew by a meagre 0.1% in the first quarter of 2025, against the backdrop of stagnant household spending and declining investment. As for the euro area, the European Commission has, last week, reviewed the growth forecast for this year to 0.9%, which is a considerable downgrade from the earlier figure of 1.3%, largely attributable to the effects of increased tariffs and the heightened uncertainty caused by the recent sudden changes in US trade policy and the unpredictability of the tariffs' final configuration. Domestically, the expansion of the Mauritian economy would be affected by the frequent and prolonged droughts that the country has witnessed, with impacts on consumer prices, production and trade.

At the same time, it is worth noting that our growth prediction factors in efforts being deployed by the Government to bolster the business climate, which would, in some respects, support activity levels, while we also wait for the pronouncements of the forthcoming National Budget. Yet, as it seeks to ensure proper resource mobilisation and allocation, the Government is expected to unleash growth initiatives and investment projects at a rather gradual pace over the short term, mindful of the operating environment, current execution capabilities and pressures linked to prevailing fiscal ratios. Nonetheless, assuming a timely, comprehensive and effective implementation of envisioned structural reform and fiscal consolidation measures by the Government, this impetus should, on a favourable note, materially boost the country's GDP growth trajectory over the medium term, barring any significant global shocks.

Focus on the global trade context

As per the Managing Director of the IMF, rising trade barriers – which led to notable downgrades in global short to medium-term macroeconomic growth outlooks – threaten to hit output growth upfront, fuel uncertainty and financial market stresses as well as trigger tightened financing conditions, while protectionism erodes productivity over the long run, especially in smaller economies. As the situation stands, we await to see and dissect how the international trade environment will unfold in the coming months, with perspectives to be gathered in terms of (i) the level of tariffs that the US will end up imposing on trading partners (amidst negotiations and any deals to be forged) and the extent of any retaliation by specific nations; (ii) the implications of continued uncertainty levels engendered by trade policy hesitations and U-turns on investor sentiment and consumer confidence; and (iii) the reverberations of the evolving situation on (a) international financial, commodity and currency markets as well as broad-based investment flows, (b) the underlying health of the US economy and the movement of the greenback, and (c) global macroeconomic conditions. These repercussions – depending on their scale, depth and directions – are *ceteris paribus* likely to have unfavourable effects on Mauritius. The baseline scenario underpinning our growth forecast for 2025 assumes the following: (i) relatively higher tariffs would prevail internationally compared to last year, though mitigants could emerge in some cases; (ii) our export oriented manufacturing industry would face increased challenges when entering into the US market; (iii) our main export markets would witness dampened growth rates, thus affecting the demand for our goods and services; and (iv) capital flows into Mauritius, both direct and portfolio, would, in specific respects, be impacted, in view of a less predictable and more confused global environment in terms of policy-making, asset price volatilities and real sector performances. Encouragingly, the global trade landscape has shown some signs of mending recently, especially with (i) the US–UK Economic Prosperity Deal aimed at making bilateral trade fairer, easier and more substantial; and (ii) the bilateral trade discussions and agreements between the US and China.

That said, the impact of the evolving global trade landscape on Mauritius would partly depend on the extent to which Mauritius manages to successfully negotiate with the US and other trading partners in the periods ahead, while also hinging on the timeliness of any moves and decisions taken in these respects. Reassuringly, the Honourable Prime Minister has recently mentioned that dedicated consultations are being held with relevant public and private stakeholders with a view to charting the way forward and mitigating the fallouts on the Mauritian economy. The following courses of action have been identified: (i) to discuss possible avenues with the US at the bilateral and regional levels; (ii) to work with like-minded groups of countries – including AGOA eligible countries and the African Union mission in Washington D.C. – in order to devise a strategy to open up discussions with the US; and (iii) to negotiate a bilateral Trade Agreement with the US which would provide the necessary predictability to our trading relations. As a key step envisioned, the Government has announced its intention to engage directly with the US and to request for the suspension of the announced import tariff on Mauritius, alongside forging a stronger and more balanced relationship between the two countries.

Risks to the growth outlook

Our growth forecast for 2025 is a preliminary figure which has been formulated on the basis of current and expected future economic and market trends. It might, thus, be subject to adjustments as the context evolves. Notably, growth would depend on the speed and extent to which public and private sector investment projects will unfold and materialise in the months ahead, alongside being shaped up by value added generated by key sectors. In these respects, it is encouraging to take cognizance of the setting up of a High-Level Steering Committee by the Government to monitor the implementation of the Government Programme 2025-2029, while adopting a coordinating approach across Ministries to achieve set objectives and identifying necessary measures in favour of the accelerated and efficient execution of public sector projects. Our growth prognosis is, furthermore, subject to heightened uncertainties and non-negligible downside risks triggered by the global context, insofar as the latter is being exposed of threats of lingering trade distortions, acute geopolitical tensions, tightening financial conditions, and pressures on fiscal sustainability and policy buffers. On the domestic front, a key downside risk pertains to further climate hazards, which could negatively affect production and exports.

Sectorial and investment prospects

In 2025, real GDP growth is, in the first place, likely to be underpinned by the appreciable performances of financial and insurance activities as well as professional and business services, which would benefit from their generally healthy business models, sustained headway being realised in terms of market expansion and deepening as well as the supportive domestic economic environment. Conspicuously, the Mauritius International Financial Centre should preserve its standing as a trustworthy and competitive jurisdiction, in line with efforts by the authorities and the business community to uphold its underlying credentials, while adhering to advocated international standards and enriching the depth of the value proposition. Furthermore, the ICT sector should continue to fare well on the back of its competitiveness and diversified business activities. Of note also, reflecting efforts made to spearhead the development of entrepreneurship and the local economy as well as to boost import substitution, the non-sugar agriculture and domestic oriented manufacturing sectors are expected to witness comforting growth rates this year, in spite of pressures on the cost of living as well as higher input prices and production costs in some instances. On the other hand, GDP growth would be hindered by the expected tepid expansions of textile manufacturing and seafood. Whereas both sectors have contracted during the past two years, they would still post meagre growth rates in 2025, in view of (i) the dimmed global trade landscape and associated vulnerabilities, with a major element remaining the uncertainty about the applicability of the African Growth and Opportunity Act; and (ii) subdued private demand in key export markets. As for tourism, Statistics Mauritius expects a no-growth scenario this year, with total arrivals foreseen to be nearly the same as in 2024. It can be reminded that Mauritius had welcomed 1,382,177 tourists in 2024, which rose compared to 2023, but continued to undershoot (albeit slightly) the pre-pandemic level of 1,383,488 tourists recorded in 2019. For the first four months of 2025, tourist arrivals posted a year-on-year decline of 1.2%, though a noticeable improvement was registered in April compared to the same month of last year. While facing up to challenges such as labour supply constraints, currency movements and upward pressures on operating expenses, the tourism sector is confronted by a demanding market environment, in the wake of geopolitical conflicts and the sluggishness of private demand in our main source markets. Regarding construction, notwithstanding ongoing/upcoming public and private sector projects in various fields, it would post a flat evolution in value added this year, after making allowance for (i) the statistical impact of the past two years' elevated growth rates; and (ii) the current delicate fiscal ratios, with effects on capital spending by the Government. On the heels of this projection, the country's gross fixed capital formation is foreseen to contract this year, thus leading to a decline in the national investment ratio to close to 20% of GDP.

Key macroeconomic indicators

Labour market

As per latest official estimates, the country's unemployment rate attained 6.0% in 2024, compared to 6.3% in 2023. Though gradually improving, labour statistics still reflect market inadequacies at some levels and restrained job creation in specific industries. As we look forward to an efficient labour force, it is encouraging to take stock of recent comments by the Honourable Junior Minister of Finance, who highlighted the importance of upskilling the local workforce and widening job opportunities through the adoption of advanced technologies, including Artificial Intelligence.

In its Article IV Consultation document for Mauritius, the IMF has advocated the need to advance structural reforms in the labour market, alongside addressing skills mismatches and increasing women's labour force participation, which would help to secure resilient and sustainable long-term growth. As a matter warranting the attention of both public and private stakeholders, the female unemployment rate remained relatively high at 8.3% in 2024, while youth unemployment rate stayed elevated at 17.5%, with the rates for male and female standing at 15.1% and 20.4% respectively. The labour activity rate in the country – which is calculated as the ratio of the labour force to the population aged 16 years and above – stood at 58.5%, with the corresponding rate for women (at 48.6%) deserving policy focus given the constant need to speed up the labour supply in the economy and gear up growth prospects. In the same vein, the population aged 15 to 64 years – a basic, yet broad, indicator for employment – has declined in recent years and reached 869,922 as at 1 July 2024. This metric is expected to edge further down in the decades ahead as per projections made by Statistics Mauritius, in line with ageing population forecasts. Overall, these trends deserve policy scrutiny since they could *ceteris paribus* turn out to be a non-negligible challenge for Mauritius if not properly addressed, since sustained pressures on labour force participation rates could adversely impact economic output over the medium to long term.

In a similar light, the level of labour underutilisation, which refers to mismatches between labour supply and demand, requires close examination, as it is, according to the International Labour Organization, a key measure of the extent to which an economy (i) is fully utilising its available human resources; or (ii) provides opportunities to employ its population to its full potential. While marginally improving compared to 2023, the level of labour underutilisation prevailing in the Mauritian economy – comprising the unemployed, the potential labour force as well as people found in skills-related and time-related underemployment – stood at 135,600 in 2024, which represented 13.3% of the population aged 16 years and above and 22.7% of the labour force, thus calling for continued initiatives to further boost human capital and productivity in favour of GDP growth.

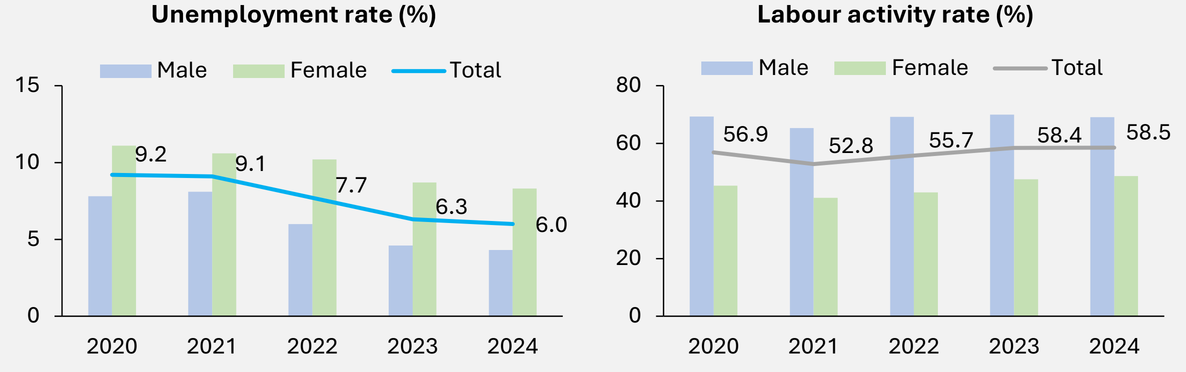
Notes:

1. Potential labour force represents persons not in employment and who were not actively looking but were available for work or those who were actively looking but were not available for work.

2. Skills-related underemployed are those who are in employment and having tertiary qualifications and are engaged in occupations such as clerical support workers, service and sales workers, skilled agricultural workers, plant and machine operators and elementary occupations.

3. Time-related underemployed are those who are in employment and are available for extra work.

Illustration 3. Selected labour market statistics



Source: Labour Force, Employment & Unemployment, Statistics Mauritius

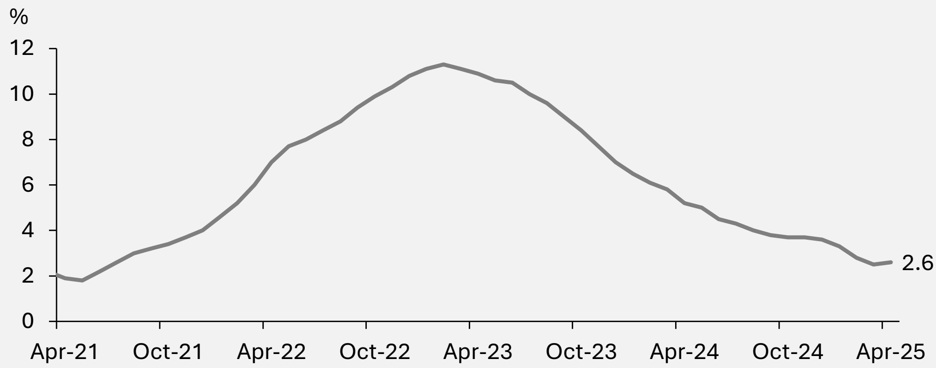
Inflation

As per the IMF, inflation has, on the international scene, come down from multidecade highs and followed a gradual, though bumpy, decline toward central bank targets. More recently however, the IMF has stressed that, amidst shifts in the global trade system and high uncertainty levels: *“Progress on disinflation has mostly stalled, and inflation has edged upward in some cases, with an increasing number of countries exceeding their inflation targets. Services inflation, though still on a downward trend, remains above levels prior to the inflation surge, and core goods inflation has seen an uptick since November 2024.”* In Mauritius, after reaching a peak of 11.3% more than two years ago and even though underlying prices pressures have somewhat lingered in a few instances, headline inflation has – line with international tendencies and notwithstanding the evolution of the rupee exchange rate – pursued a broadly sustained downtrend and reached 2.6% in April 2025, on the back essentially of a favourable statistical base effect, falling global commodity prices (with oil prices generally declining in recent periods to attain around USD 60 a barrel lately, in spite of staying quite volatile), domestic price movements and monetary policy orientations.

Looking forward, while the global trade and economic landscape remains relatively unsteady and complicated, headline inflation in Mauritius is, as per current baseline projections, anticipated to resume an upward trajectory in the coming months and to hover at around 3.6% in December 2025, barring any exogenous price shocks. In addition to the kicking in of statistical impacts, price movements would, to some extent, be influenced by higher imports prices amidst tariffs impositions as well as domestic circumstances, following adverse weather conditions and higher nominal wages. On the other hand, the country should benefit from a favourable commodity price outlook. As per the April 2025 edition of the World Bank’s Commodity Markets Outlook, commodity prices are set to fall sharply this year, by about 12% overall, as weakening global economic growth weighs on demand. The Brent oil price is projected to average USD 64/bbl in 2025 – almost USD 17/bbl lower than in 2024 – before declining further to USD 60/bbl in 2026. These forecasts are predicated on slowing global growth amidst rising trade tensions and elevated uncertainty. Besides, global oil supply is expected to increase as per observers, thus exerting downward pressures on market prices. Also, inflation would be partly influenced by the performance of the rupee against the greenback. While the rupee is, in some ways, likely to benefit from generally favourable interest rate differentials and evolving domestic forex market conditions in the periods ahead, it will also rely on how the US dollar will fare internationally. This will, in turn, hinge on the future course of the US economy, amidst a confluence of factors therein, mostly those pertaining to the macroeconomic climate (growth, inflation, labour market conditions, fiscal landscape, trade decisions) and the monetary policy stance, in view of expectations of further rate cuts by observers.

By virtue of the country's high level of international openness, inflation in Mauritius could, in the months ahead, be exposed to upside risks that are beyond the assumptions contained in the baseline scenario, with potential further challenges including the following: (i) worse-than-expected global trade dynamics, amidst higher-than-anticipated levels of protectionism and tariffs, which could affect even more the prices of imported goods and lead to spillover effects on the prices of other consumer goods; (ii) heightened pressures on commodity prices, in view of accentuating wars in Ukraine and the Middle East and any extreme weather occurrences; (iii) acute increases in global shipping freight rates in the advent of complex crises affecting key trade routes and supply-side disturbances engendered by geopolitical tensions and the trade context; (iv) climate-related disruptions domestically, with adverse effects on agricultural prices; and (v) rising unit labour costs, after being adjusted for productivity increases, thus triggering added strains on consumer prices.

Illustration 4. Evolution of headline inflation



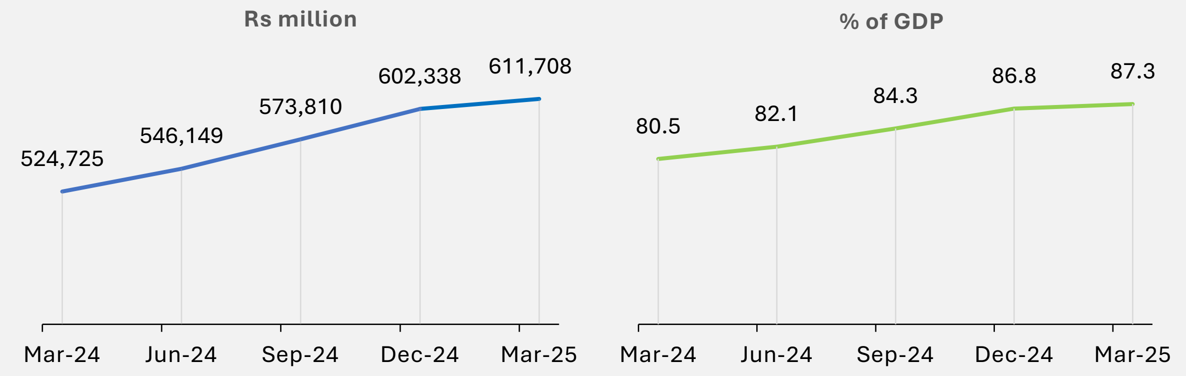
Source: Consumer Price Index, Statistics Mauritius

Public finance

As per official figures, the budget deficit for FY 2023/24 is estimated at 5.7% of GDP, which overshoots the previous estimate of 3.9% mentioned in the earlier Budget Estimates document, partly on the back of the shortfall in tax revenue. Latest figures from the Government indicate that the budget deficit would deteriorate and attain 9.5% of GDP in FY 2024/25 (compared to the former figure of 3.4% for this period), on a no-policy change basis. Against this backdrop, the public sector gross debt as a percentage of GDP is estimated at 86.8% as at end December 2024, which represents a worsening from the 59.4% figure depicted as at end December 2014, partly explained by specific spending items and rupee depreciation, with the latter having engendered a rise in the value of the external debt of the Government. While the ratio reached 87.3% as at March 2025, the authorities expect the public sector gross debt to hover above 90% of GDP as at end June 2025.

That said, it is essential to highlight that the Government has expressed its intentions to achieve sound fiscal consolidation and strengthen macroeconomic fundamentals, which should, plausibly, allow the country to uphold the investment grade credit rating status assigned to it by Moody's, after concomitantly giving due attention to the economy's entrenched credentials and historical track record of stable growth, political stability, investment-friendly business environment and sound financial sector. Lately, the Honourable Prime Minister has, at the National Assembly, underscored that the Government is fully committed to a responsible approach to fiscal stewardship, with a chief priority being to implement a credible medium term fiscal consolidation plan that will bring the fiscal ratios to sustainable levels and rebuild the fiscal space, alongside promoting economic growth and ensuring macroeconomic stability. Encouragingly, Moody's has, in its latest Rating Action, observed that *"In response to the deterioration in fiscal metrics, we expect the government to pursue a comprehensive fiscal consolidation plan that includes revenue-enhancing measures and spending cuts aimed at reducing the fiscal deficit and putting government debt on a more sustainable path. Over the next 12 to 18 months, we will assess the implementation of such a plan and the ultimate likelihood of success in reversing the fiscal position and eventually lowering the debt burden."* Similarly, S&P Global Ratings expects the Government to focus on fiscal consolidation going forward, though it noted that implementation risk exists and spending pressures are likely to remain.

Illustration 5. Public sector gross debt (after consolidation adjustment)



Source: Ministry of Finance

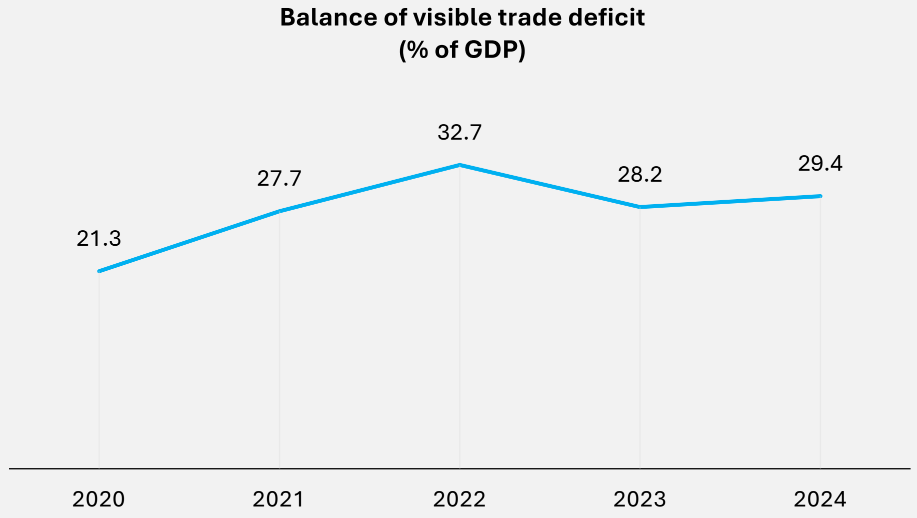
External balances

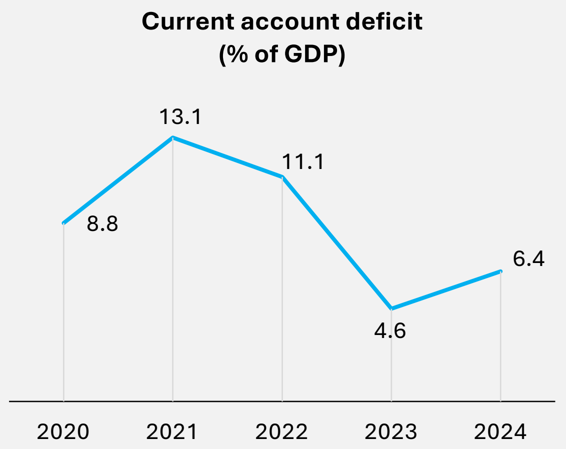
Partly explained by the economy's sub-optimal productivity and competitiveness positions notwithstanding currency dynamics, Mauritius has, over the past few years, registered an unsteady performance with regard to the level of its exports and recorded significant imbalances on its external accounts. These depictions have been viewed with concern as they tended to (i) exert downward pressures on the rupee's evolution; and (ii) instigate sustained leakages from the economic system, thus yielding dampening impacts on GDP and job creation endeavours. Conspicuously, despite forex interventions by the Bank of Mauritius, large external imbalances have – together with domestic factors and the impact of interest rate differentials vis-à-vis global financial centres – led to the rupee weakening by important margins in recent years when measured against the US dollar and other currencies, thus contributing, in some instances, to higher consumer prices.

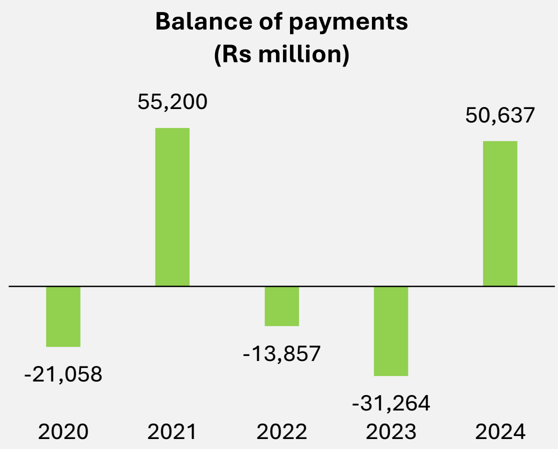
On account of the major rise in export revenue generated by ship's stores and bunkers, total exports of goods increased by 6.2% to reach Rs 110.3 billion in 2024. This performance should, however, be analysed in the context of a significant decrease in re-exports, while domestic exports remained flat, notably impacted by the fall in revenue from articles of apparel and clothing (-12.5%) as well as fish and fish preparations (-1.0%), partly due to tepid foreign market conditions, heightened competitive pressures on the global scale and rising production costs. In view of expanding economic activities, the unfolding of investment projects and the impetus to household consumption, mainly in the context of rising disposable incomes, total imports edged up by 10.6% to stand at Rs 314.1 billion in 2024, essentially supported by broad-based increases at the level of food products, beverages, refined petroleum products, chemicals and related products, manufactured goods, and machinery and transport equipment, predominantly in terms of road vehicles. These trends have led to a major deterioration in the balance of trade deficit. The latter increased by 13.2% to attain Rs 203.7 billion in 2024, which corresponds to 29.4% of GDP at market prices, compared to 19.3% a decade ago. For the current year, despite export-boosting measures being deployed by the authorities, the balance of trade deficit is likely to further deteriorate on account of (i) the still-challenging global environment, including subdued private demand in key export markets, enduring trade tensions and the rise in protectionism, and other factors; and (ii) higher import spending to support nationwide growth, investment projects and business development endeavours. The value of imports will also be dependent on international prices of food, energy and other commodities, after considering geopolitical tensions, supply conditions and climate change, while the momentum gained by the domestic renewable energy sector and the evolution of global freight rates could, in their respective capacities, also weigh in the balance.

It can be recalled that the current account deficit as a percentage of national income had improved significantly from 11.1% in 2022 to 4.6% in 2023, essentially supported by the considerable rise in gross tourism earnings, a major decline in import freight costs and an important surplus on the primary income account. However, the current account deficit deteriorated and attained an estimated 6.4% of GDP in 2024, as a result of the widening balance of trade deficit, which outweighed the surpluses in the services (mainly due to higher gross tourism earnings) and primary income accounts (amidst a higher interest rate environment). In terms of the capital account, a key observation is that gross direct investment flows in Mauritius stood at nearly Rs 33 billion in 2024, compared to around Rs 37 billion in 2023. Of note, such flows have remained largely concentrated in real estate activities, with limited injections being, therefore, witnessed in established and emerging sectors that could have more directly and unequivocally shored up the country's productivity and competitiveness levels. This FDI outturn, coupled with significant net inflows with respect to portfolio investment, contributed to an overall balance of payments surplus of Rs 50.6 billion in 2024. That said, it is worth underscoring that the continued volatility of the balance of payments situation deserves attention, owing to the potential impacts on exchange rate stability and inflationary pressures. Nonetheless, the authorities have strengthened the focus on securing resilient and sustained capital flows into Mauritius and supporting the global business industry. As mentioned by the Bank of Mauritius, *"Despite the challenging global conditions brought about by heightened geopolitical and geostrategic uncertainty amid the imbroglio around the US new tariff policy, the Mauritius IFC is expected to continue to be resilient by attracting global financial flows."*

Illustration 6. External balances







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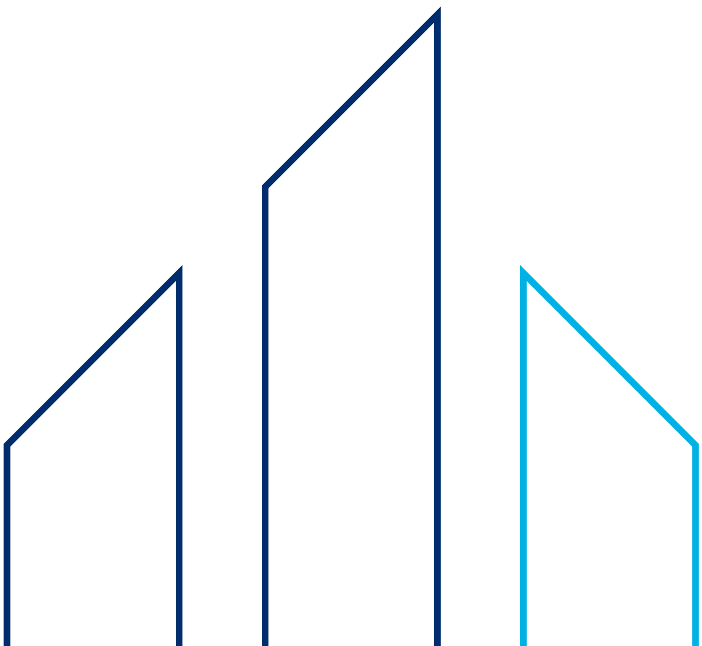

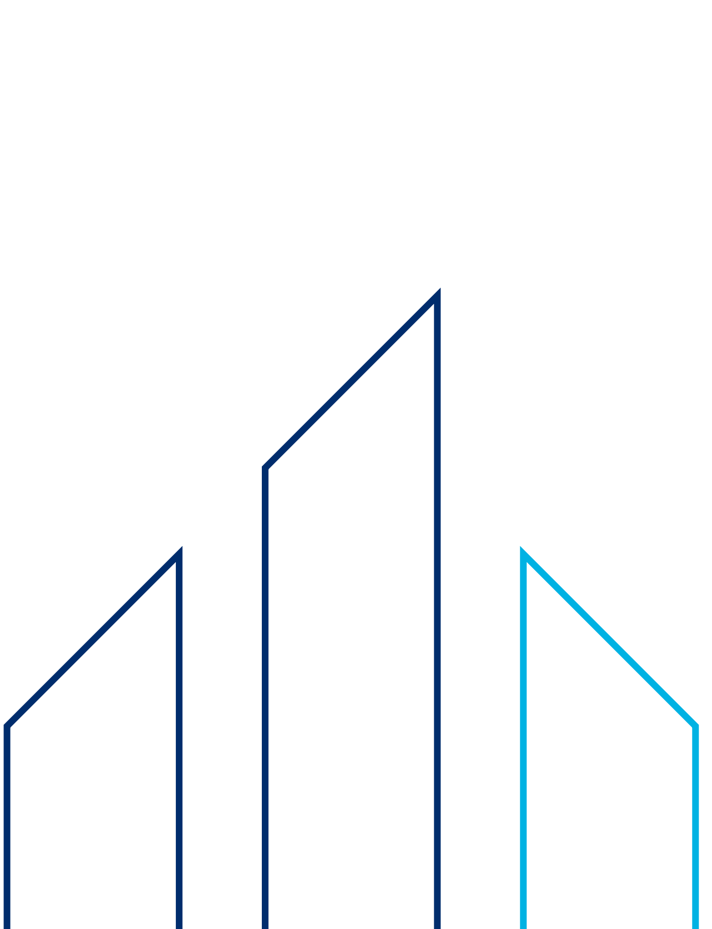

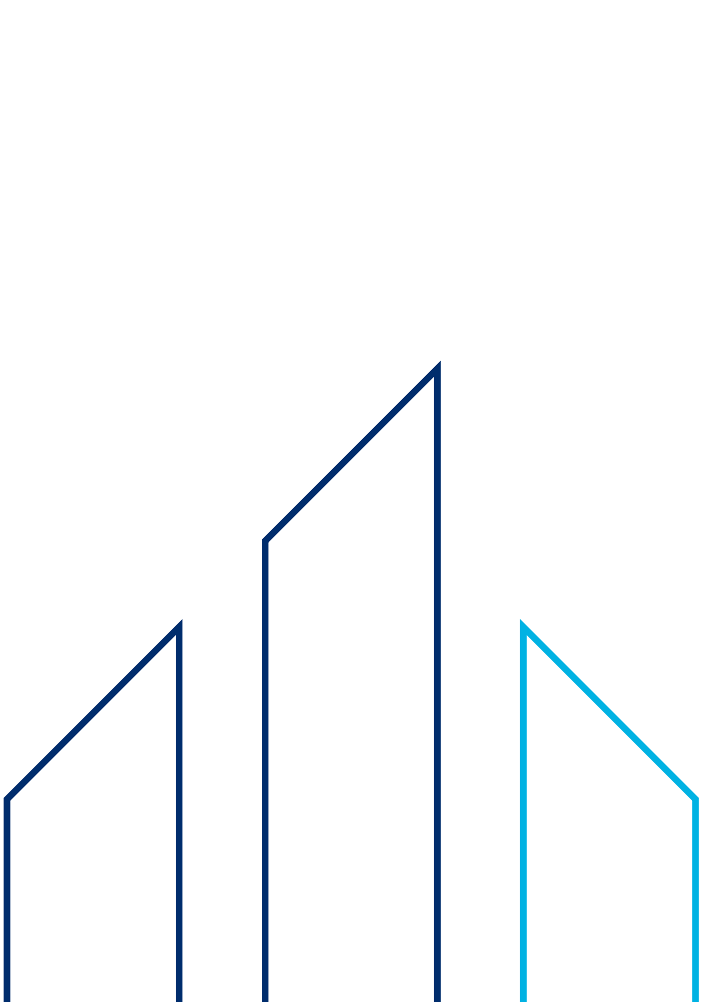

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