Mauritius Sets an Ambitious Medium-Term Fiscal-Health Recovery Plan – Will it Succeed?

CareEdge GLOBAL RATINGS
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Mauritius [rated CareEdge BBB (Unsolicited)] benefits from several underlying strengths that support its credit profile. These include relatively high per capita income compared to regional peers, a well-diversified economy for a small island state, a track record of macroeconomic stability, and its status as an international financial services centre.

In its previous credit update released in January 25, (refer to Republic of Mauritius: Recent Changes to Economic and Fiscal Data could Weaken Fiscal Metrics), CareEdge Global Ratings had highlighted the rising fiscal pressures in Mauritius, driven by restatement of historical economic data, a widening deficit, and a rebasing of public debt. These concerns have since deepened. The FY25 fiscal deficit has now been revised to 9.8% of GDP, sharply higher than earlier estimates, while public debt has reached 90% of GDP, its highest level in recent years.

This deterioration reflects a combination of ongoing challenges, including high recurrent spending on wages, pensions, and subsidies, alongside new pressures from election-related commitments, and a weaker-than-expected revenue performance. At the same time, the government has recognised the growing urgency for fiscal repair.

Our January release mentioned that CareEdge Global will be attentive to the 2025 budget and the plans of the new government regarding Mauritius's fiscal trajectory over the medium term.

The 2025–2026 Budget indeed marks a policy shift, signalling a clear desire for fiscal consolidation, with a focus on deficit reduction through tax reforms, pension restructuring, and a gradual phasing out of broad-based subsidies. As a result, despite a weakened fiscal position till FY25, the future path outlined by the new government offers visibility for a better fiscal trajectory over the medium term. At the same time, while the plan signals intent to rein in deficits and reduce public debt, its success hinges on execution, which remains a challenge amid rising social spending needs, political sensitivities, and external shocks.

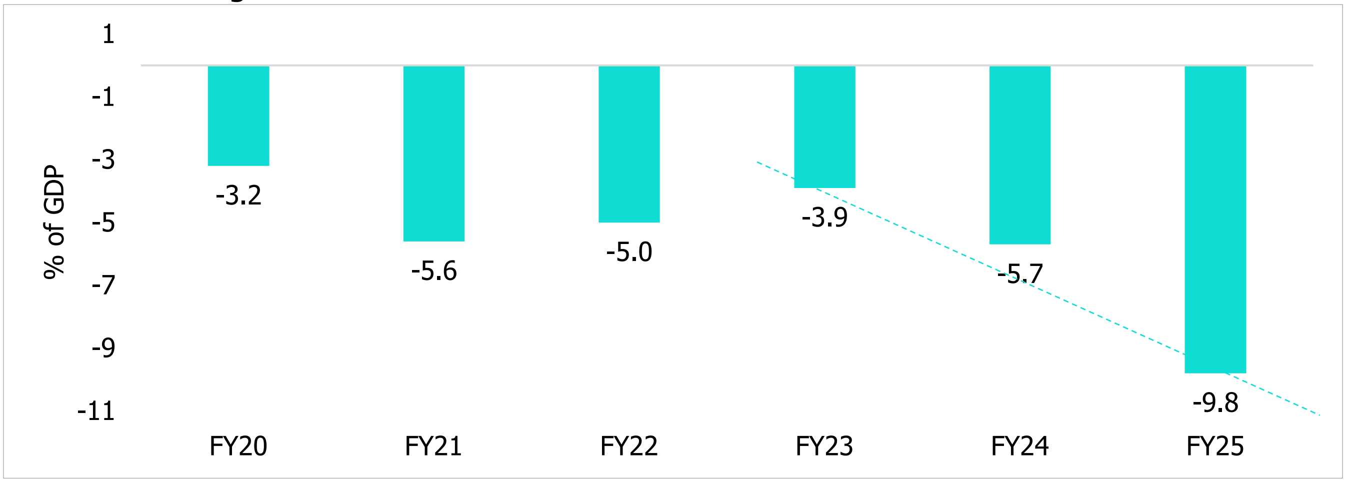
Fiscal Deficit Hits Highs in FY25

The consolidation efforts come at a time when fiscal pressures have intensified. The FY25 budget deficit has been revised to a substantial 9.8% of GDP, compared to the budgeted 3.4% and revised 6.9% in the "State of the Economy" report. This deterioration effectively reverses the gradual consolidation achieved in the years following the pandemic.

In FY25, expenditure on social benefits accounted for 35% of total expenditure, underscoring the sizable fiscal burden. These recurrent expenditures are driven by legacy pandemic-era support measures, a generous pension system, public sector wages, and broad-based subsidies. Recent policy decisions, such as the introduction of a one-off 14th-month bonus to eligible individuals in FY25, as part of election-related commitments, have further added to the short-term burden on public finances. Meanwhile, revenue mobilisation has lagged behind expenditure growth.

This challenging backdrop underscores the importance of credible fiscal consolidation and effective implementation of the government's planned reforms to stabilise public finances and safeguard macroeconomic stability.

Government Budget Balance

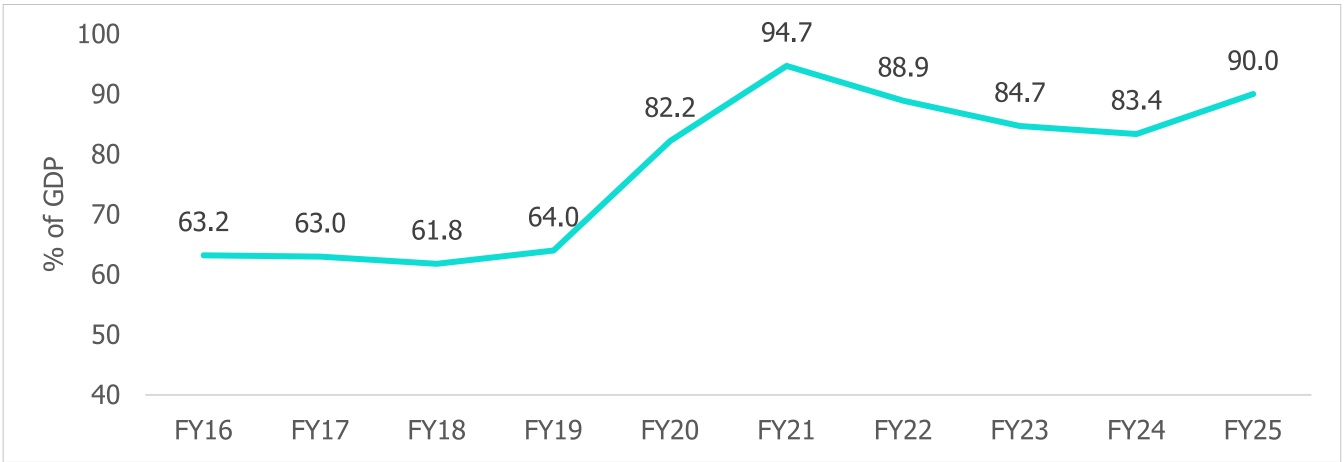


Source: Mauritius Ministry of Finance, Economic Planning and Development (MOFEPD); 'State of the Economy' Report
Note: Data reflects revised estimates

Public Debt Surges to 90% of GDP, Reversing Post-Pandemic Gains

Mauritius' public debt has risen sharply in recent years, reaching 90% of GDP in FY25, a post-pandemic high for the country. This escalation reflects higher budget deficits, though a growing share of debt is now domestically held. However, with over two-thirds of debt maturing by FY30, potential refinancing and rollover risks have risen over the medium term.

Public Debt



Source: Mauritius Ministry of Finance, Economic Planning and Development (MOFEPD); 'State of the Economy' Report

Budget 2025-2026 Announces a Multi-Year Fiscal Consolidation Plan

The government seems to be recognising the urgency of addressing the elevated debt burden. It has outlined a fiscal consolidation strategy in the 2025–2026 Budget, aimed at progressively reducing the debt-to-GDP ratio significantly to below 80% by FY28.

The success of this multi-year plan will be crucial to restoring fiscal health, enhancing debt sustainability, mitigating refinancing risks, and maintaining fiscal flexibility. The strategy combines revenue-enhancing measures, such as tax reforms and new levies, along with expenditure rationalisation efforts aimed at curbing recurrent spending and improving overall fiscal sustainability.

Revenue-Enhancing Measures Critical to Consolidation

The 2025–2026 Budget introduces key tax reforms for individuals and corporations. Personal income tax bands have been streamlined from eleven to three, simplifying the system. A Fair Share Contribution has been introduced for both individuals and companies. This requires individuals and companies with annual chargeable income over MUR 12 million and MUR 24 million, respectively, to pay an additional levy beyond individual and corporate tax. Additionally, an alternative minimum tax regime has been introduced, targeting sectors such as hotels, insurance companies, companies engaged in financial intermediation activities, real estate activities, and telecommunications companies.

This will exclude global business companies and those firms that benefit from existing tax incentives or tax holidays. Another major source of revenue for the government will be the (re)introduction of excise duties on a variety of goods, such as on hybrid and electric vehicles, alcoholic beverages, and tobacco products.

The success of these reforms will depend on robust enforcement and taxpayer compliance, which remain ongoing challenges. The Fair Share Contribution is expected to generate significant additional revenue from large corporations and high-income earners, though it may face resistance from affected stakeholders. For instance, the alternative minimum tax, including the capital gains component, targets sectors with historically complex tax profiles, such as real estate and aims to curb tax avoidance.

While these measures could improve revenue predictability, they may also increase the tax burden on key sectors, potentially impacting investment decisions and growth dynamics. Careful calibration and transparent communication will be crucial in striking a balance between revenue goals and economic sustainability.

Expenditure Reduction Measure Subject to Opposition

On the expenditure side, the government has committed to a gradual rationalisation of spending. These measures aim to reduce the share of recurrent expenditures, particularly those related to ageing demographics and social transfers, while enhancing the sustainability of public finances over the medium term.

Some of the key measures includes the restructuring of pension spending through a proposed shift from the 'Contribution Sociale Généralisée' (CSG) to a new contributory-based National Pension Fund (NPF), and a progressive increase in the Basic Retirement Pension (BRP) eligibility age from 60 to 65 and eventually phasing out broad-based subsidies.

To facilitate the transition in the pension system, the government has recently introduced an income support scheme of MUR 10,000 per month for eligible individuals aged 60 to 65, effective September 25. Although this income support demonstrates the government's effort to balance fiscal consolidation with social protection, it may reduce some of the anticipated savings from pension reform in the short term.

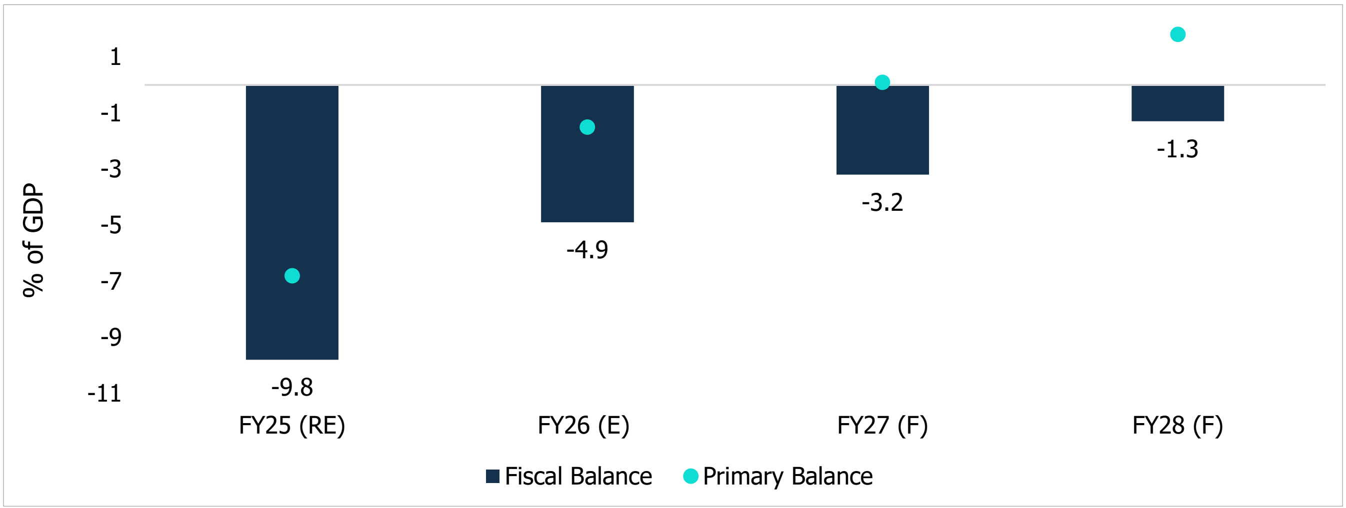
Nevertheless, implementing these reforms is fraught with challenges, including political sensitivities surrounding pension and subsidy adjustments, as well as potential short-term social repercussions. For instance, reducing support schemes such as those in the real estate sector could temper short-term growth in those sectors.

To achieve substantial expenditure cuts, it will be essential to have a robust political determination, transparent communication, and a gradual approach that balances fiscal goals with social stability.

The Fiscal Balance Expected to Improve, with Primary Balance to be in Surplus

The government's multi-year fiscal consolidation strategy combines ambitious revenue-enhancing initiatives with targeted expenditure rationalisation measures. If implemented as planned, these efforts are expected to significantly narrow the fiscal deficit, from 9.8% of GDP in FY25 to 1.3% by FY28, according to the Ministry of Finance. At the same time, the primary balance is projected to swing from a deficit of 6.8% in FY25 to a surplus of 1.8% in FY28.

Fiscal Balance and Primary Balance Future Trajectory



Source: Mauritius Ministry of Finance, Economic Planning and Development (MOFEPD)

Note: RE=Revised Estimates; E=Estimates; F=Forecast

To be credible, the ability to achieve the outlined fiscal path will be critical, despite any potential pressures, like the recently announced income support scheme.

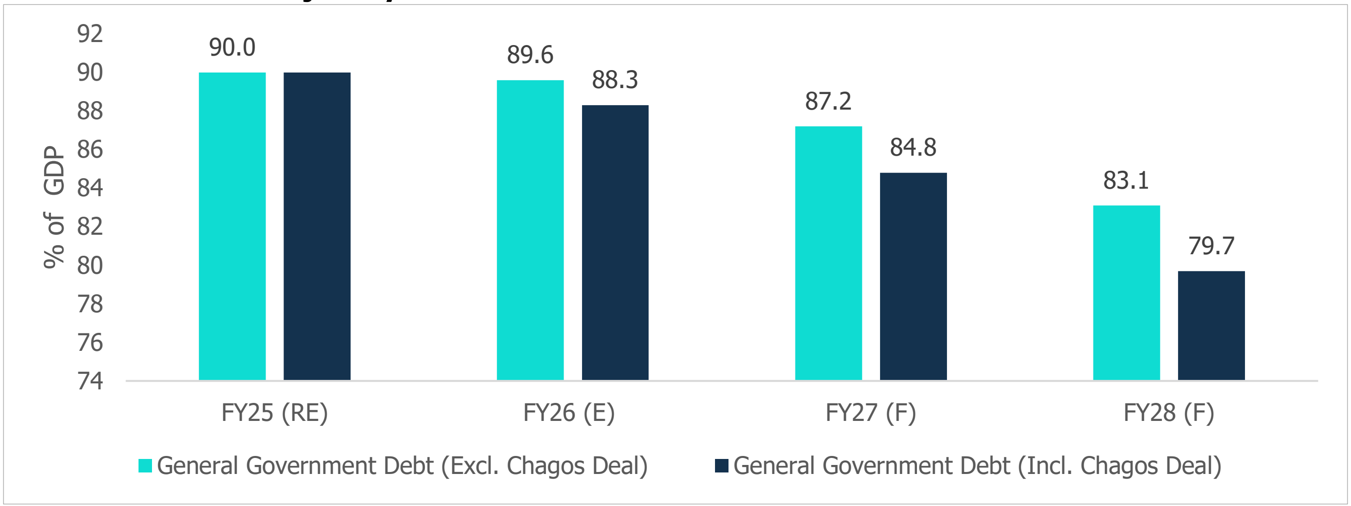
Chagos Deal to Further Ease Government Debt

On 22nd May 2025, Mauritius signed a landmark agreement with the United Kingdom (UK) concerning the Chagos Archipelago. This agreement is a major step toward restoring Mauritius's sovereign rights over the territory and includes provisions for annual lease payments from the UK for the use of Diego Garcia. These payments represent a significant and predictable non-tax revenue stream for the Mauritian government.

At a time when fiscal consolidation is a central policy priority, this agreement offers timely support. Mauritius' public debt has reached MUR 642 billion in FY25, equivalent to 90% of GDP, marking one of the highest levels in recent history, following the pandemic. To ease the debt burden, the government plans to channel a portion of the Chagos-related lease proceeds toward debt repayment over the initial three years. This strategy is expected to improve debt sustainability by gradually reducing the debt-to-GDP ratio to approximately 79.9% by FY28, thereby creating much-needed fiscal space over the medium term.

CareEdge Global Ratings believes that this decision reflects the government's commitment to fiscal consolidation.

Public Debt Future Trajectory



Source: Mauritius Ministry of Finance, Economic Planning and Development (MOFEPD)

The government's efforts towards fiscal consolidation, including addressing the budget deficit, meeting borrowing needs, and reducing the national debt, will help lower debt levels within the next three years. These initiatives reflect a strategy aimed at achieving long-term economic stability and growth.

In Summary

Mauritius' 2025–2026 Budget marks a step toward fiscal repair, with the government laying out a multi-year consolidation plan anchored in tax reforms, pension restructuring, and tighter expenditure controls. If implemented effectively, these measures could help stabilise public finances, gradually reduce debt ratios, and create fiscal space to rebuild buffers over the medium term.

However, execution risks remain significant. Any delays or dilution of the planned reforms, particularly in politically sensitive areas such as pension restructuring and subsidy rationalisation, could further deteriorate fiscal and debt metrics. Persistently high deficits and rising refinancing pressures could weigh on debt sustainability and could adversely impact the country's credit metrics.

Mauritius' history of sound policymaking, resilience to shocks, and a clear plan outlined for fiscal consolidation offers comfort. Still, the coming years will test the government's ability and resolve to deliver on difficult reforms while balancing socio-political considerations and growth objectives.

CareEdge Global will closely monitor the implementation of the 2025–2026 Budget and the credibility of the outlined medium-term adjustment path over the next couple of quarters, as greater clarity emerges on reform execution and its economic impact.

Government Statement of Operations (Figures in MUR million unless stated otherwise)

	FY21 (RE)	FY22 (RE)	FY23 (RE)	FY24 (RE)	FY25 (RE)	FY26 (E)	FY27 (F)	FY28 (F)
Total Revenue	155,500	136,485	153,230	174,751	182,170	224,020	247,955	263,999
% of GDP	35.3	27.4	25.0	24.8	25.5	29.1	29.9	29.6
Total Expenditure	180,099	161,618	177,468	202,127	252,236	261,375	274,785	275,874
% of GDP	40.8	32.4	28.9	28.7	35.3	34.0	33.2	30.9
Fiscal Balance	-24,599	-25,133	-24,238	-27,377	-70,067	-37,355	-26,830	-11,884
% of GDP	-5.6	-5.0	-3.9	-3.9	-9.8	-4.9	-3.2	-1.3
Government Borrowing Requirement	40,025	18,067	24,194	30,692	75,881	39,585	31,477	15,941
% of GDP	9.1	3.6	3.9	4.4	10.6	5.1	3.8	1.8
Public Sector Gross Debt	419,094	435,714	485,323	524,261	641,997	679,670	702,606	710,862
% of GDP	95.0	87.4	79.0	74.5	90%	88.3%	84.8%	79.7%
Nominal GDP	441.1	498.6	614.0	704.0	713.6	769.6	828.4	891.7
Real GDP Growth Rate (%)	-5.4	6.9	8.0	7.0	3.9	3.7	4.0	4.0

Source: Mauritius Ministry of Finance, Economic Planning and Development (MOFEPD)

Note: RE=Revised Estimates; E=Estimates; F=Forecast

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