The Republic of Mauritius' outlook revised to 'Negative' from 'Stable'

Long-Term Foreign Currency Rating of 'CareEdge BBB' (Unsolicited) reaffirmed

Issuer rating (Long-Term Foreign Currency)	**CareEdge BBB/Negative (Unsolicited)**

Rating action

CareEdge Global Ratings has revised the Republic of Mauritius' (Mauritius) outlook to 'Negative' from 'Stable', while reaffirming its Long-Term Foreign Currency issuer rating at **'CareEdge BBB'** (unsolicited).

Rationale

The Negative outlook is based on our view that Mauritius' credit profile is constrained by a challenging fiscal environment, as reflected in its elevated gross general government (GGG) debt of 87.8% of GDP, alongside a weakening growth outlook. Although recent fiscal outturns have shown some improvement, the pace of consolidation has been slower than envisaged.

While the government introduced several fiscal measures in Budget 2026-27, including pension reforms, new tax measures and expenditure rationalisation, the fiscal outlook remains under pressure. This is because of the subsequent revision of key pension reform measures following public opposition, which has reduced the expected fiscal savings and highlighted the political and implementation challenges associated with advancing the government's fiscal consolidation agenda. Although the fiscal deficit is projected to narrow to 3.7% of GDP in FY27, the pace of consolidation is slower than previously envisaged and subject to significant execution risks.

Recent fiscal performance illustrates these challenges. The fiscal deficit narrowed to 6.0% of GDP in FY26 from 9.3% in FY25, but the outturn exceeded the budget target of 4.9% of GDP, reflecting a slower-than-expected pace of consolidation, due to revenue underperformance, including the non-materialisation of expected Chagos-related receipts. Fiscal flexibility is constrained by elevated recurrent expenditure, particularly on pensions, wages and rising interest payments, limiting the government's ability to respond to adverse external shocks. In addition, the projected improvement in revenue depends on the successful implementation of new tax measures and stronger economic activity, while expected Chagos-related receipts are uncertain. Consequently, weaker revenue mobilisation, implementation delays or slower economic growth could delay fiscal consolidation and keep public debt elevated over the medium term.

The growth outlook has weakened, with real GDP projected to moderate to 2.8% in 2026, reflecting softer domestic demand, subdued private investment, and heightened external risks. While the services sector is expected to continue providing support, persistent weakness in construction is likely to weigh on overall economic activity. Downside risks to the outlook have increased amid heightened geopolitical tensions, which could dampen tourism, weaken external demand, raise commodity prices, and weigh on investment. Recent economic developments are consistent with this weaker outlook. Real GDP growth eased to 3.2% in 2025, while tourist arrivals declined by 8.4% YoY in June 2026 after remaining resilient earlier in the year. As a small, highly open island economy dependent on imported energy, Mauritius is vulnerable to external and climate-related shocks, which could further constrain economic resilience.

Inflationary pressures have re-emerged, with headline inflation rising from 2.7% in March 2026 to 4.3% in May 2026, before easing to 3.7% in June 2026. The IMF expects inflation to rise further to around 6.4% by end-2026, amid higher global energy prices and heightened geopolitical tensions. At the same time, the external current account deficit (CAD) is projected to widen from 7.1% of GDP in 2025 to 7.4% of GDP in 2026, reflecting higher import costs and weaker external conditions. These developments underscore Mauritius' vulnerability to external shocks and can further constrain macroeconomic and policy flexibility.

Outlook: Negative

The revision of the outlook to Negative reflects increased downside risks to Mauritius' fiscal consolidation and debt reduction trajectory. Although fiscal performance has improved YoY, the pace of improvement has been weaker than anticipated and follows a period of significant fiscal deterioration that resulted in elevated public debt and reduced fiscal space. While the authorities have introduced important fiscal reforms, their effective implementation is uncertain amid moderating economic growth and a more challenging external environment. A failure to place GGG debt on a sustained downward trajectory could further weaken the sovereign's credit profile over the medium term.

Upside scenario

The outlook could be revised to Stable if the authorities demonstrate sustained progress in fiscal consolidation, supported by successful implementation of fiscal reforms, stronger revenue mobilisation and effective expenditure management, resulting in a sustained reduction in GGG debt. An easing of geopolitical tensions, leading to stronger-than-expected economic growth, would also support the outlook revision to Stable.

Downside scenario

The rating could be downgraded if fiscal consolidation materially underperforms expectations, resulting in an increase or a slower-than-anticipated reduction in GGG debt and weakening debt affordability. A downgrade could also result from weaker economic growth, lower-than-expected revenue mobilisation, delays in implementing fiscal reforms, or prolonged external shocks that materially weaken fiscal performance, economic resilience or the external position.

Key rating drivers

Economic structure & resilience

Mauritius has a relatively small economy, with a nominal GDP of USD 16.1 billion in 2025. However, the small size is partly mitigated by its high-income levels, with GDP per capita estimated at USD 28,610 (constant PPP) in 2025. The economy benefits from a relatively diversified production base, supported by tourism, financial services (including global business activities), information and communication technology (ICT), manufacturing and agriculture, which has historically strengthened its resilience to external shocks. Nevertheless, Mauritius is vulnerable to adverse weather events, including cyclones and floods, which could periodically disrupt economic activity and weigh on growth. More recently, macroeconomic conditions have softened as the post-pandemic recovery has moderated amid an increasingly challenging external environment.

The growth outlook has weakened, with real GDP projected to moderate to 2.8% in 2026, according to both the IMF and the Bank of Mauritius (BoM). While public infrastructure projects and continued strength in the services sector are expected to provide some support, growth is likely to be constrained by subdued private investment, with the construction sector projected to contract for a second consecutive year. Downside risks to the outlook have also increased amid heightened geopolitical tensions in the Middle East, which could weaken external demand, raise global commodity prices, and adversely affect business confidence.

Recent economic developments are consistent with this weaker outlook. Real GDP growth eased to 3.2% in 2025, supported by continued strength in tourism and financial services, but underlying growth momentum weakened. Economic activity slowed further in Q1 2026, with real GDP growth moderating to 2.0% YoY from 2.7% in the previous quarter, reflecting weaker domestic economic activity, particularly in the construction sector. The slowdown in construction has been driven by subdued investment activity, with gross fixed capital formation (GFCF) contracting in 2025 and expected to remain broadly stagnant in 2026 as continued weakness in private investment offsets higher public sector investment. While tourism and financial services exports continue to provide support, softer domestic demand has become increasingly evident through weaker household consumption.

Tourism, a key pillar of the Mauritian economy, has also begun to show signs of moderation. Tourist arrivals declined by 8.4% YoY in June 2026, resulting in cumulative arrivals increasing by only 1.5% during the first half of the year. The slowdown reflects elevated airfares, weaker consumer confidence in key source markets and heightened geopolitical uncertainty, which are expected to weigh further on tourism demand over the coming months. Together with Mauritius' dependence on imported energy, these factors expose the economy to external shocks. Reflecting these risks, Statistics Mauritius projects growth could slow to 2.4% under a prolonged disruption scenario, while the IMF estimates growth could weaken to 1.9% in the event of an extended Middle East conflict.

Fiscal strength

The authorities have embarked on a fiscal consolidation programme aimed at restoring fiscal sustainability and placing GGG debt on a gradual downward trajectory. The 2026-27 Budget targets a further reduction in the fiscal deficit to 3.7% of GDP, supported by higher revenue mobilisation and continued expenditure discipline. However, achieving these targets may prove challenging. A significant share of the projected improvement in revenue is expected to stem from new tax measures, the yield of which remains uncertain, particularly if economic activity weakens further. On the expenditure side, fiscal flexibility is constrained by the high proportion of rigid recurrent spending, particularly pension obligations, wages and interest payments. Although the authorities have announced reforms to the pension system to contain future spending pressures, recent revisions to these measures following public opposition illustrate the implementation challenges and raise uncertainty over the extent of the expected fiscal savings.

Recent fiscal performance illustrates these challenges. The fiscal deficit narrowed to 6.0% of GDP in FY26 from 9.3% in FY25, reflecting expenditure restraint. Nevertheless, the outturn exceeded the budget target of 4.9% of GDP, highlighting the challenges associated with restoring fiscal balance amid a weaker economic environment.

The weaker fiscal outcome was primarily driven by revenue underperformance. Total revenue reached 26.2% of GDP in FY26, compared with the budgeted 29.1%, reflecting lower-than-anticipated tax collections as well as the non-materialisation of expected Chagos-related receipts. Although expenditure was also below the budget, supported by lower capital spending and savings in selected expenditure categories, these were insufficient to offset the larger revenue shortfall. These pressures are likely to persist, as slower economic activity arising from heightened geopolitical tensions could weigh on tax collections, while the Chagos-related receipts remain uncertain.

GGG debt is expected to decline gradually over the medium term under the government's baseline projections but is likely to stay well above the authorities' debt anchor of 80%. In addition, Mauritius continues to face sizeable refinancing requirements in FY27, exposing the sovereign to interest rate risks amid rising debt servicing costs. Consequently, any shortfall in revenue mobilisation, weaker-than-expected economic growth or delays in expenditure reforms could slow the pace of fiscal consolidation and keep debt levels elevated for longer than currently projected.

External position & linkages

Mauritius' external position continues to be supported by its diversified services sector, particularly tourism and the Global Business Companies (GBCs), together with comfortable foreign exchange reserves. The current account deficit narrowed sharply to 0.6% of GDP in Q1 2026, from 8.7% of GDP in the previous quarter, reflecting a stronger services surplus driven by robust tourism earnings, which increased by around 28% YoY, as well as continued strength in financial services exports. The country's external position also continues to be supported by healthy capital inflows, with gross FDI inflows into the economy increasing to 5.0% of GDP in 2025 from 4.3% in 2024. Gross official international reserves remained comfortable at 12.3 months of import cover in 2025, providing an important buffer against external shocks.

Nevertheless, the external outlook has weakened amid heightened geopolitical tensions and rising commodity prices. While the current account improved in Q1 2026, the IMF projects the deficit to widen to 7.4% of GDP in 2026, from 7.1% in 2025, reflecting a higher fuel import bill and continued pressures on the merchandise trade balance. The deterioration in the merchandise trade balance has already become evident over the past two months. Following a significant widening in April, the merchandise trade deficit remained elevated in May 2026, reaching MUR 22.4 billion compared with MUR 16.8 billion a year earlier, as imports grew 18.3%, led by fuel, while exports contracted by 6.2%. Consequently, the cumulative trade deficit widened to MUR 92.4 billion during the first five months of 2026, from MUR 82.2 billion over the corresponding period of 2025, underscoring mounting pressures on the external balance. Furthermore, after remaining resilient earlier in the year, tourist arrivals declined by 8.4% in June, reflecting the seasonal low period as well as travel disruptions associated with the Middle East conflict.

Mauritius' external position continues to benefit from its well-established global business sector, which is a key source of services exports, foreign exchange earnings, and external financing. The country also maintains a sizeable positive net international investment position (NIIP), estimated at 230% of GDP in 2025, despite declining from 299% in 2024 due to lower foreign direct investment assets held by GBCs. While Mauritius' large external balance sheet reflects its status as an international financial centre, sizeable external assets continue to mitigate vulnerabilities associated with elevated gross external liabilities. Nevertheless, developments in global financial conditions, evolving international tax frameworks, and changes in the competitiveness of the GBCs could weigh on capital inflows and external financing over the medium term.

Monetary & financial stability

The Mauritian Rupee operates under a floating exchange rate regime, although the BoM does intervene in the foreign exchange market to smooth out excessive exchange rate volatility and maintain orderly market conditions. During the first six months of 2026, the BoM sold a total of USD 65 million in the foreign exchange market, compared with USD 40 million over the corresponding period in 2025, reflecting increased intervention amid heightened external pressures. Over the 12 months to June 2026, the Mauritian Rupee depreciated by 5.1% against the US dollar and 4.7% against the euro, elevated global uncertainty and rising commodity prices. Despite these pressures, the monetary policy framework remains credible and continues to support macroeconomic stability, underpinned by the BoM's commitment to maintaining price stability.

However, inflationary pressures have re-emerged in recent months following the easing observed earlier in the year. Headline inflation accelerated from 2.7% in March 2026 to 4.3% in May before moderating to 3.7% in June. Nevertheless, underlying price pressures remain elevated, with core inflation at 5.9% in June, indicating persistent domestic cost and wage pressures.

The inflation outlook has deteriorated amid heightened geopolitical tensions and rising global commodity prices. The BoM revised its average headline inflation forecast for 2026 upwards to around 5.5%, from 3.6%, placing inflation above the upper bound of its 2-5% target range. With underlying inflation remaining high, there are already signs that supply-side shocks are feeding through into broader domestic prices and wage dynamics, increasing the risk of more pronounced second-round effects. The IMF projects inflation to rise to 6.4% YoY by end-2026, primarily reflecting higher global energy and commodity prices. In response to these heightened inflationary risks, the BoM raised the Key Rate by 25 basis points in June 2026, demonstrating its commitment to containing inflationary pressures and preserving price stability.

The banking sector remains resilient, supported by strong capital and liquidity buffers. The sector's capital adequacy ratio was around 19.9% at end-2025, comfortably above regulatory requirements, while banks maintain sound profitability and liquidity. Nevertheless, given Mauritius' role as an international financial centre, continued monitoring of banks' exposure to the global business sector and evolving global financial conditions remains important.

Institutions & quality of governance

Mauritius continues to benefit from strong institutional quality, supported by a stable democratic framework, well-established public institutions, and a robust legal and regulatory environment. The country maintains high standards of transparency and statistical dissemination through its adherence to the IMF's Special Data Dissemination Standard Plus, reinforcing the timely publication and quality of macroeconomic and financial data.

Mauritius' political environment is broadly stable, supported by a well-established parliamentary democracy and strong institutional safeguards. Although the resignation of the Deputy Prime Minister in March 2026 highlighted tensions within the governing coalition, the orderly transition in leadership suggests that policy continuity and institutional effectiveness are unaffected.

Mauritius also continues to demonstrate strong institutional capacity through its commitment to international regulatory standards, including ongoing efforts to strengthen its anti-money laundering and counter-terrorism financing framework, as well as public financial management. These strengths support policy implementation, investor confidence, and the sovereign's credit profile despite a challenging macroeconomic environment.

Selected indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	11.4	11.5	12.9	14.1	14.9	16.1	17.0	18.2
GDP per capita (constant-PPP)	USD	11,171	22,932	25,014	26,326	27,687	28,610	29,658	30,750
Real GDP growth	%	-14.2	3.3	8.3	4.7	4.9	3.2	2.8	3.2
GFCF/GDP	%	18.2	19.8	19.8	20.3	21.0	19.7	21.2	21.6
Gross domestic savings/GDP	%	12.2	11.1	16.9	20.7	21.1	20.1	21.1	21.4
Exports (G&S)/GDP	%	56.2	61.5	67.2	69.0	67.2	65.0	65.4	65.6
Working age (15-64) population (% share in total)	%	72.2	72.2	72.1	71.9	71.7	71.3	71.0	70.6
Old age (65+) population (% share in total)	%	11.4	11.9	12.4	12.9	13.5	14.1	14.7	15.3
Fiscal indicators – general government									
Fiscal balance/GDP*	%	-10.5	-4.1	-3.1	-4.5	-6.9	-4.8	-4.0	-3.5
Revenue/GDP*	%	21.6	24.2	24.5	24.0	25.8	26.0	26.2	26.1
Expenditure/GDP*	%	32.1	28.3	27.6	28.5	32.7	30.8	30.2	29.6
GG gross debt/GDP	%	91.9	86.1	81.8	81.5	86.3	87.8	88.4	88.1
GG external debt (by creditor)/GG gross debt	%	18.3	20.2	19.8	18.6	18.0	16.4	-	-
Interest/revenue*	%	9.0	12.6	10.5	10.5	11.1	11.8	12.9	11.4
External indicators									
Current account balance/GDP	%	-8.2	-12.3	-10.1	-4.4	-6.6	-7.1	-7.4	-5.9
FDI, net inflows/GDP	%	-11.4	-88.4	119.7	23.7	66.4	59.6	-	-
Outstanding FII liabilities/GDP	%	569.9	793.0	671.1	650.8	540.8	501.5	-	-
NIIP/GDP	%	161.2	363.9	279.2	333.7	299.0	230.0	-	-
Foreign exchange reserves	USD billion	7.2	7.8	7.7	7.3	8.5	10.3	10.3	10.5
Import cover	Months	14.0	11.5	11.3	9.9	11.5	12.9	12.3	11.9
External debt/GDP	%	1,458.8	1.488.8	1,434.7	1,365.7	1,266.5	1,132.8	-	-
Monetary and financial indicators									
CPI inflation	%	2.5	4.0	10.8	7.0	3.6	3.7	4.7	5.5
Exchange rate (average)	LC per USD	39.7	42.0	44.5	45.5	46.7	46.3	-	-
Non-performing loans/total gross loans	%	6.2	5.8	4.9	5.3	3.7	3.5		
Private debt, loans and debt securities/GDP	%	100.3	86.4	75.9	-	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal*/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. Latest available data for 2025

Solicitation status
The rating is unsolicited

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB/Negative	July 30, 2026
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB/Stable	September 29, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB	October 03, 2024

Criteria applied
[CareEdge Global Sovereign Rating Methodology]

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