PRE - BUDGET

CRITICAL AREAS FOR ECONOMIC INTERVENTION

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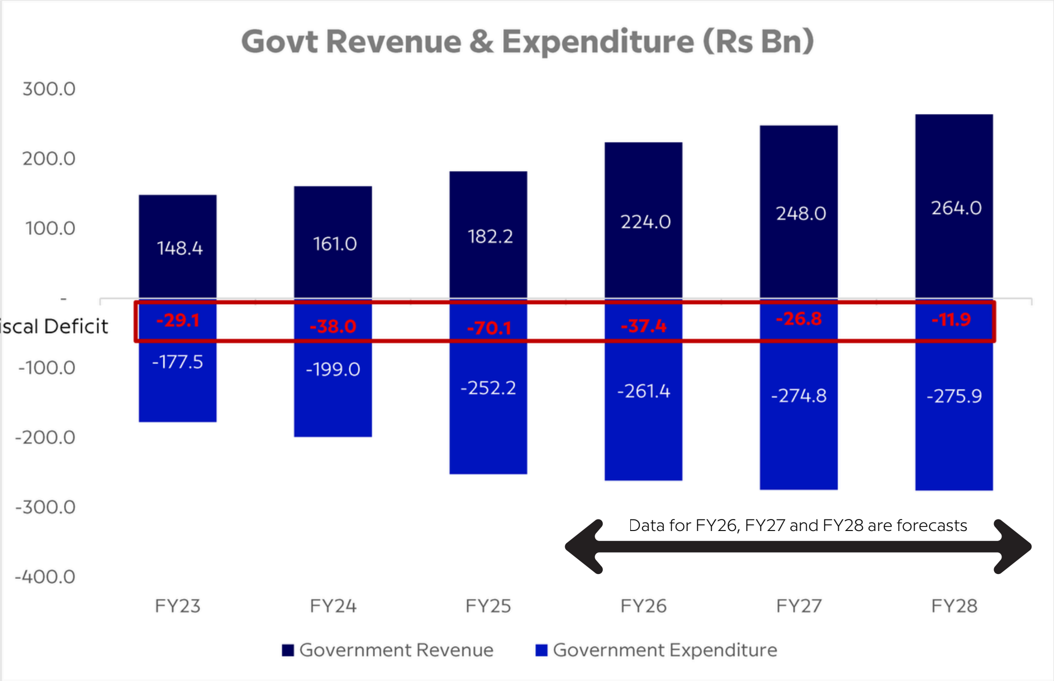
The central issue for Mauritius is not how much the Government spends, but whether budget measures shift the economy toward productivity, exports, investment and resilience.

Below we have outlined 5 key issues that we believe should be tackled in the upcoming budget.

Fiscal Deficit: 9.8% of GDP



- Deficit Surge: The budget deficit widened significantly from **Rs 38Bn in FY24 to Rs 70Bn in FY25, reaching 9.8% of GDP.**
- Missed Fiscal Targets: Despite stringent measures aiming for an FY26 Recurrent Balance of Rs 12Bn, it already overshot to Rs 32.7Bn as of April 2026.
- Skewed Spending: Recurrent expenses dominate, with 60% to 68% of the budget (FY25-FY28) locked into Social Protection and General Public Services.
- Underfunded Growth: Productive sectors like Economic Affairs receive a meagre 5% to 6.6% of the budget, stifling long-term infrastructure and industrial development.
- Mounting Debt: Gross Public Debt climbed to 89.5% as of March 2026, with debt servicing absorbing 10% of total spending and demanding urgent fiscal consolidation.

Gross Public Debt at 89.5% as of Mar-26

The growing expenditure has led to higher borrowing requirements which has pushed Gross Public Debt to 89.5% as of Mar-26. As such, public debt servicing, which consumes about 10% of total spending, continues to squeeze development resources and increases vulnerability to external shocks, highlighting the urgent need for a credible medium-term approach to fiscal consolidation.

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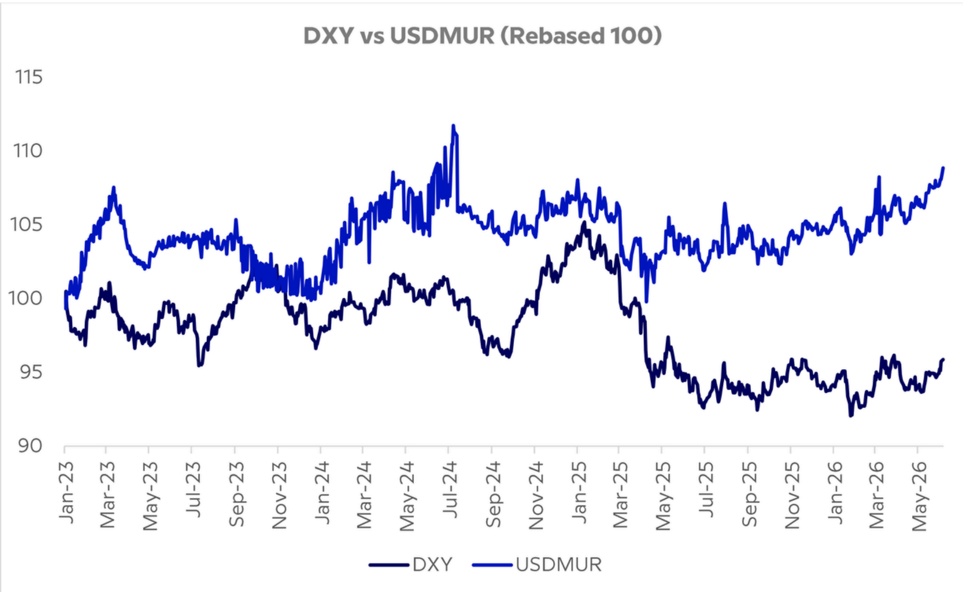
Current Account Deficit & High Import Dependency

Current Account Deficit Breakdown (Rs M)[1]	2023	2024	2025
Balance of Goods	(163,175)	(180,681)	(188,893)
Balance of Services	48,249	88,898	115,512
Balance of Goods and Services	(114,926)	(91,783)	(73,381)
Primary Income	111,103	84,930	73,505
Secondary Income	(25,803)	(37,891)	(53,185)
Current Account Deficit	(29,626)	(44,744)	(53,061)

- Trade Deficits: A massive visible trade deficit of Rs 211Bn drove the current account deficit to Rs 53Bn, caused by surging imports (Rs 319Bn) and a -6.9% contraction in domestic exports (failing to capitalise on a 2M Km sq EEZ).
- Import & Energy Vulnerabilities: Deficits are heavily fueled by refined petroleum (driving 30.2% of 10-year import growth) and surging vehicle registrations (rising from 486,144 in 2015 to 746,961). Meanwhile, grid reliance on fuel oil jumped to 50.6% as renewables plummeted to an all-time low of 16.7%.
- Strategic Interventions: Narrowing this gap requires an urgent transition to domestic renewable energy, a full audit of the national import bill, and a targeted import substitution strategy backed by Production-Linked Incentives.

Currency Depreciation : -8.8% vs USD since 2023

- Currency Decline: The Rupee depreciated by -8.8% against the USD (from Rs 44.00 to Rs 47.90) between 2023 and 2026.
- Domestic vs. Global Factors: This drop is driven by the domestic current account deficit, not global trends. The global US Dollar index (DXY)[2] actually weakened during this time. The index dropped -4.12%, with a weak correlation of 0.1757.
- FX Strain: A heavy reliance on imports creates a chronic structural demand for foreign exchange that outpaces export earnings.



[1] Source: Bank of Mauritius

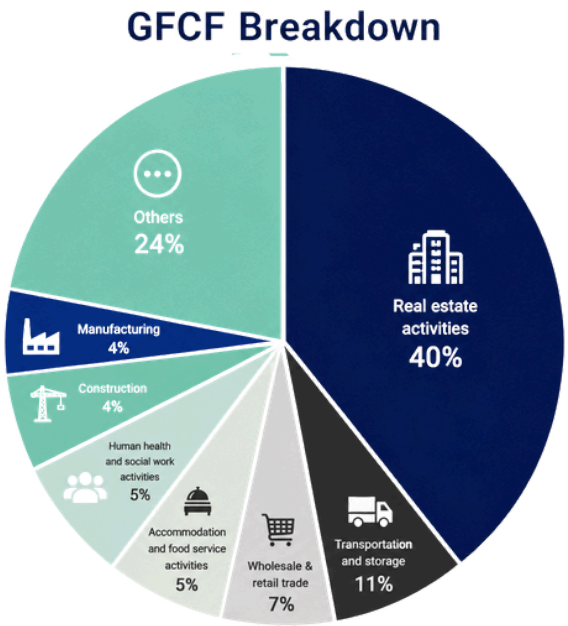
[2] DXY is a benchmark used to measure the strength/weakness of the USD against a basket of 6 major hard currencies.

Biased FDI and Investment:

- Headline Growth vs. Reality: An annualized FDI growth of 13.9% signals external confidence but masks deep flaws in capital allocation.
- FDI Real Estate Dominance: Over 50% of incoming foreign capital is locked in luxury property frameworks (IRS/PDS).
- Domestic Real Estate Concentration: Mirroring FDI trends, domestic investment is highly skewed toward property, with real estate accounting for 41.3% of total Gross Fixed Capital Formation and 49% of all private sector investment in 2025.
- Shrinking Productive Base: When excluding real estate, the actual national investment rate has eroded to just 11.7% of GDP (down from 12.7% in 2023).
- FDI Sector Volatility: Capital flowing into potentially productive sectors lacks stability, evidenced by Financial Services Industry FDI swinging drastically from 0.3% to 38.8%.
- Technical Sector Starvation: High-multiplier, knowledge-based industries (Professional, Scientific & Technical activities) remain critically underfunded, capturing <1% of total FDI and only 0.8% of overall domestic investment.

Capital Market Underperformance & Liquidity Flight

- Lagging Market Depth: The Market Capitalisation to GDP ratio stands at a mere 49.3%, falling far behind global hubs like the US (237%), UAE (190%), and Singapore (96.8%).
- Stock Market of Mauritius (SEM) Eroding Liquidity: Trading turnover steadily declined from Rs 18.1Bn in 2015 to Rs 14.1Bn in 2025.
- Foreign Capital Exodus: The SEM experienced net foreign sell-offs in 10 of the last 11 years, peaking at a Rs 1.8Bn net outflow in 2025 alone.
- Domestic Institutional Allocation Shift: The National Pension Fund (Rs 160Bn asset base) raised its foreign equity allocation from 17% in 2019 to 31% in 2024.
- Structural Impact: Driven by currency depreciation risks, this combined capital flight deprives the local exchange of the depth needed to channel domestic savings into long-term economic development.



References

Statistics Mauritius
Bank of Mauritius

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