CareEdge Global assigns Long Term Foreign Currency Rating of BBB (Unsolicited) to the Republic of Mauritius

Credit Profile

Mauritius' credit profile reflects its established external linkages coupled with its stable and well-regulated financial sector. The country consistently attracts large foreign direct investments (FDI), has a comfortable cushion in the form of foreign currency reserves, and acts as a regional financial hub.

Further, its institutions and quality of governance is strong. However, the country's economic structure has weakened, due to declines in manufacturing export competitiveness, lack of investment in food security, weak diversification efforts away from services, as well as high exposure to climate shocks. Social spending commitments also limit the fiscal space and further weigh on its credit profile.

Strengths

- Regional financial hub consistently attracting large financial inflows
- Stable political environment, with relatively developed institutions
- Effective external profile reflected by favourable net international investment position (NIIP)

Weaknesses

- Dependence on services sector (tourism and Global Business Companies (GBCs)), leaving it vulnerable to external shocks
- Sustained fiscal deficits leading to high debt burden
- Structurally weak trade deficit

Key Monitorables

- Enhancing diversification of economy
- Sustained property price increases
- Fiscal consolidation over the medium term

Key Rating Drivers

Economic Structure & Resilience

Mauritius remarkably transitioned from a low-income monocrop producer of sugar cane to an upper-middle income investment and tourism hub. While the size of the economy is small (estimated at around USD 16.4 billion for 2024), GDP per capita is high (USD 25,629 per capita, constant PPP). The country briefly reached high-income status in 2020, however, the 14.5% contraction in real GDP caused by the pandemic pushed the country back into the upper-middle-income category.

The average annual growth rate has been below 2% for the last 5 years (2019-2023), given the several external shocks over the period, including the pandemic and the Russia-Ukraine war. The tourism sector as well as the countries net food importer status were impacted by these shocks, revealing vulnerabilities. Nonetheless, tourism arrivals have recovered, reaching around 93% of its 2019 level in 2023 and various social spending measures have been introduced by the government to protect consumers purchasing power. Looking ahead, growth is poised to reach around 4.9% in 2024 on the back of various social housing projects and robust services activity. Growth is projected to average around 3.5% over the medium term.

While the economy appears more diversified than it was 40 years ago, diversification efforts away from services are deemed necessary to avert repeat vulnerabilities. Further, the country has also witnessed several weather-related disasters such as cyclones, amongst others. On this note, the governments diversification efforts are geared towards several emerging sectors, such as the biopharmaceutical sector. Furthermore, there are several climate mitigation plans and green infrastructure projects currently underway to deal with climate change. These efforts are essential towards pursuing a more sustainable path to achieving high income status.

Fiscal Strength

Deterioration in fiscal strength has been due to increasing general government (GG) debt-to-GDP (81% in 2023) and exposure to contingent liabilities, where both guaranteed and non-guaranteed debt stock accounts for around 10% of GDP. The government also faces significant domestic debt maturities of around 50% by FY26, which will keep the refinancing as a key focus. However, the government's debt management remains sound.

The fiscal deficit remains higher than pre-pandemic levels at around 3.6% for FY24/25 due to enhanced social spending measures and muted revenue to GDP. Looking ahead, there are consolidation efforts to reign in the deficit over the medium term, where the deficit is expected to reach 2.7% by FY27/28. Although, this remains dependent on expenditure consolidation on the back of completing social housing projects and healthy economic growth such that government's revenues do not disappoint.

External Position & Linkages

The external environment derives support from robust net FDI inflows over the past decade (2013-2023) (average of around USD 8 billion per year) and a comfortable foreign currency reserves position (USD 7.9 billion in July 2024), which translates to around 12.3 months of import cover. The current account deficit (CAD) has been weak, due to a structurally weak trade deficit, averaging around 8.9% over the past five years (2019-2023). However, the CAD is expected to moderate to below 5% from 2025 and over the medium term, due to continued inflows from global business companies (GBCs) and an expected recovery in tourism.

Although the country's externally held debt position has been high, this should be viewed from the lens of the economy's international financial centre (IFC) status and is not entirely driven by domestic financing needs. Mauritius also has a favourable net international investment position (NIIP) of 329% of GDP in 2023.

Monetary & Financial Stability

Inflation has moderated to 7.1% in 2023, from 10.8% in 2022. The Bank of Mauritius (BoM) has recently introduced a new monetary policy framework (January 2023), adopting a flexible inflation target of between

2-5%, which may help in anchoring inflation expectations in the economy. The new framework has facilitated the withdrawal of excess Rupee liquidity from the banking system, although, there remains a disconnect between the key policy rate and market rates (savings deposit rate and the prime lending rate).

Officially, Mauritius is classified as having a floating exchange rate regime. However, in practice, the regime exhibits some interventions by the BoM and resembles a crawl-like arrangement.

The banks are quite liquid and considered well-capitalized with adequate capital buffers. At the same time, there exist interlinkages of the banking system with the GBC sector, and about half of banks' total deposits are from GBCs, in foreign currency. Although, these risks are well managed.

Institutions & Quality of Governance

The country exhibits a stable political environment, with relatively developed institutions. Policy focuses on a business-friendly environment and financial sector regulation is in line with international standards. Notably, the management of the country's exit from the Financial Action Task Forces (FATF) grey list in a timely manner resulted in continuous inflows from GBCs.

Elections are expected to be held in November 2024. Mauritius has been governed by coalition governments of at least two parties since its independence. These coalitions have historically been consistent and effective, as such, we expect policy continuity to persist.

Mauritius – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	14.7	14.4	11.4	11.5	12.9	14.4	16.4	17.7
GDP Per Capita (Constant-PPP)	USD	23,017	23,686	20,232	20,956	22,865	24,439	25,629	26,574
Real GDP Growth	%	4.0	2.9	-14.5	3.4	8.9	6.9	4.9	3.7
GFCF/ GDP	%	18.0	19.1	17.1	19.6	19.7	23.5	-	-
Gross Domestic Savings/ GDP	%	13.0	11.9	9.8	9.7	13.9	18.2	-	-
Exports (G&S)/GDP	%	46.1	44.7	39.3	44.2	55.4	53.3	-	-
Working-Age (15-64) Population (% Share in Total)	%	71.2	71.2	71.2	71.1	70.9	70.7	70.4	70.0
Old-Age (65+) Population (% Share in Total)	%	10.8	11.3	11.8	12.3	12.8	13.3	13.8	14.4
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	-2.2	-8.2	-10.5	-4.1	-3.1	-3.2	-3.6	-3.0
Revenue/ GDP	%	21.0	21.1	21.1	23.6	24.0	23.9	23.1	22.9
Expenditure/ GDP	%	22.3	28.6	30.4	26.7	25.9	25.7	25.2	24.4
GG Gross Debt/ GDP	%	64.0	82.2	94.7	88.8	84.2	81.1	81.0	80.8
GG External Debt (by Creditor)/ GG Gross Debt	%	15.0	13.6	18.3	20.2	19.8	18.6	-	-
Interest/ Revenue	%	7.3	8.0	9.0	9.5	8.0	10.6	-	-
External Indicators									
Current Account Balance/ GDP	%	-3.8	-5.0	-8.8	-13.0	-11.5	-5.9	-5.3	-4.8
FDI, Net Inflows/ GDP	%	90.6	-11.4	-88.4	119.7	23.6	67.7	-	-
Outstanding FII Liabilities/ GDP	%	219.8	218.4	569.9	793.0	668.9	544.2	-	-
NIIP/ GDP	%	217.5	187.8	161.2	363.9	278.4	329.1	-	-
Foreign Exchange Reserves	USD Billion	6.3	7.4	7.2	7.8	7.7	7.3	7.6	8.0
Import Cover	Months	10.3	16.9	14.3	11.6	9.6	9.7	9.5	9.5
External Debt/GDP	%	1,590.4	1,529.7	1,458.8	1,488.8	1,459.5	1,353.3	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.2	0.4	2.6	4.0	10.8	7.1	4.9	3.6
Exchange Rate (Average)	LC per USD	34.0	35.5	39.3	41.7	44.2	45.3	-	-
Non-Performing Loans/ Total Gross Loans	%	6.5	4.9	6.2	5.8	4.9	5.81	-	-
Private debt, loans and debt securities/ GDP	%	76.2	80.5	100.4	86.4	76.8	-	-	-

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 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BBB	October 3, 2024

Analytical Contacts

Zaakirah Ismail
zaakirah.ismail@careratingsafrica.com

Girisha Algoo
girisha.algoo@careratingsafrica.com

Kiran Kavala
kiran.kavala@careedgeglobal.com

Media Contact

Mradul Mishra
mradul.mishra@careedge.in

Criteria Applied

CareEdge Sovereign Rating Methodology

About Us
CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise.** As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
CIN-U66190GJ2024PLC151103