STATE OF THE ECONOMY

GOVERNMENT OF MAURITIUS

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Foreword

The new *Alliance du Changement* Government was widely acclaimed by the population on the basis of its principles of transparency, good governance and the consolidation of our democratic values. The people have also entrusted this Government with the urgent and crucial task of redressing the ruinous legacy of the previous Government. They want us to ensure that our development regains its dynamism that it has lost since 2014. To fulfil this task and live up to the expectations of the people, we must first assess the status of the economy.

2. Thus, this document is structured in two parts.

3. Part 1 provides an extensive view of the actual state of economic fundamentals focusing on:

(a) economic growth;

(b) investment and trade;

(c) monetary policy, foreign currency reserves and the Mauritius Investment Corporation Ltd;

(d) inflation;

(e) labour market;

(f) productivity;

(g) budget deficit;

(h) public sector debt; and

(i) contingent liabilities.

4. Part 2 identifies and analyses the constraints and challenges that this Government and, indeed, the whole nation will have to face when reversing the precarious legacy. They include:

(a) structural constraints facing the economy;

(b) challenges of climate change and adaptation;

(c) sectoral challenges; and

(d) pressing social issues.

5. The challenge going forward is clearly mind boggling.

10 December 2024

PART 1

STATE OF ECONOMIC FUNDAMENTALS

Chapter 1

ECONOMIC GROWTH

GDP Growth

It is clear that there has been a deliberate trimming and cooking of data under the previous Government to convey a false sense of economic progress. After a thorough review of the situation, it has been found that GDP growth data have been grossly exaggerated.

2. The real GDP growth rate for 2023 is now estimated at 5.6%, lower than the September 2024 estimate of 7%. The September estimate was obtained following deliberately exaggerated high growth rates for some sectors, particularly the construction sector.

3. The growth rate for 2024 has similarly been inflated to 6.5%. According to updated data from Statistics Mauritius, the new forecast for 2024 is a growth rate of 5.1%.

4. The table below shows the revisions in the figures.

Table 1: Gross Domestic Product

	2022		2023		2024	
	Published in Sept 24	Updated	Published in Sept 24	Updated	Published in Sept 24	Updated
GDP Growth Rate (%)	8.9	8.7	7.0	5.6	6.5	5.1
GDP Deflator (%)	9.6	9.6	8.5	6.5	4.1	3.6
GDP at market prices (Rs bn)	571.2	570.3	662.9	641.3	734.8	698.5

Source: Statistics Mauritius

5. The main changes in growth rates are in the following sectors.

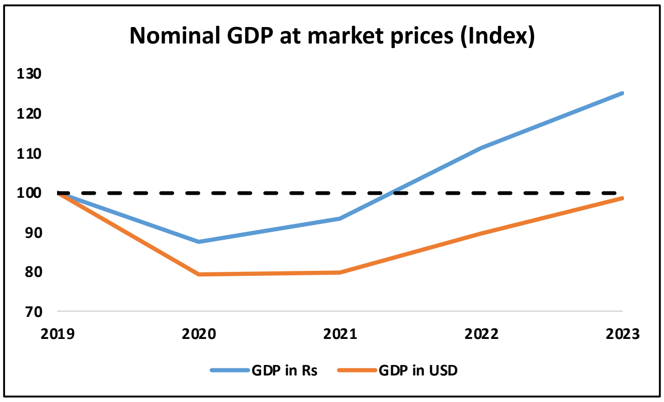
Table 2: GDP Growth – Main Sectors

	2022		2023		2024	
	Published in Sept 24	Updated	Published in Sept 24	Updated	Published in Sept 24	Updated
Construction (%)	1.3	1.3	37.4	21.3	38.8	25.0
Wholesale & retail trade (%)	3.0	3.0	3.6	3.0	3.9	3.2
Accommodation and food service activities (%)	200.8	192.4	26.8	25.7	7.4	7.4
Information & communication (%)	4.0	4.0	6.0	4.0	6.6	4.4
Financial & insurance activities (%)	4.2	4.2	4.3	3.9	4.8	4.4

Source: Statistics Mauritius

6. In 2022, nominal GDP in rupee terms exceeded the 2019 level, mainly due to the depreciation of the rupee. However, in USD terms, nominal GDP was well below the 2019 level even in 2023.

Graph 1: Nominal GDP (Index)



Source: Statistics Mauritius

Inclusion of GBC Output in Exports of Services

7. In 2021, Statistics Mauritius received Technical Assistance from the IMF on National Accounts. One of the recommendations of the IMF was to incorporate an estimated value of the output of GBCs in the compilation of Exports of Services. The rationale for this change was that GBCs in Mauritius carry out the majority of their activities vis-à-vis non-residents, implying an export of services.

8. At the same time, an adjustment of primary income from the rest of the world was made in the National Accounts to maintain consistency with the Balance of Payments. The increase in exports was offset by a decrease of investment income recorded under Gross National Income. As a result, the current account balance remained unchanged.

9. However, these changes were not explicitly reflected in the Balance of Payments statistics compiled by the Bank of Mauritius, as it was recording investment income, notably dividends, payable to non-resident GBC owners on a net basis.

10. To address this issue, a joint Working Group was set up in 2022 to review and validate data between the Bank of Mauritius and Statistics Mauritius. Following several meetings and review of the data sources, Statistics Mauritius and the Bank of Mauritius have now agreed on the treatment and preliminary value of GBC services (i.e., Rs 40,085 million in 2023) that will be incorporated as export of GBC services in the National Accounts and Balance of Payments statistics.

11. As a result, the change in Exports of Services as per the Expenditure Approach of the National Accounts is shown in the table below.

Table 3: GDP – Expenditure Approach

Rs million

	2021		2022		2023	
	Published in Sep 2024	Updated	Published in Sep 2024	Updated	Published in Sep 2024	Updated
Final consumption expenditure	**432,528**	**432,528**	**492,025**	**492,025**	**532,288**	**531,232**
Gross fixed capital formation	**93,820**	**93,820**	**112,806**	**112,806**	**158,195**	**140,989**
Change in inventories	**951**	**951**	**3,857**	**3,857**	**-1,304**	**-1,304**
Exports of goods & services	**211,641**	**184,153**	**316,116**	**282,238**	**347,837**	**303,422**
Goods (f.o.b)	81,992	81,992	105,524	105,524	103,895	103,895
Services	129,649	102,161	210,592	176,714	243,942	199,527
o/w GBC services	*69,995*	*42,507*	*84,000*	*50,122*	*84,500*	*40,085*
Less Imports of goods & services	**257,590**	**257,590**	**359,834**	**359,834**	**367,476**	**367,476**
Statistical discrepancies	**-2,544**	**24,945**	**6,224**	**39,209**	**-6,623**	**34,435**
GDP at current market prices	**478,807**	**478,807**	**571,194**	**570,301**	**662,917**	**641,298**

Source: Statistics Mauritius

12. The corresponding changes in the Current Account of the Balance of Payments are as follows:

Table 4: Current Account of the Balance of Payments

Rs million

	2021		2022		2023	
	Published in Sep 2024	Updated	Published in Sep 2024	Updated	Published in Sep 2024	Updated
Current Account	**-62,641**	**-62,641**	**-63,511**	**-63,511**	**-29,345**	**-29,345**
Goods and Services	**-119,582**	**-77,075**	**-134,691**	**-84,569**	**-114,645**	**-74,560**
Goods	**-112,321**	**-112,321**	**-159,880**	**-159,880**	**-162,894**	**-162,894**
Exports	81,992	81,992	105,524	105,524	103,895	103,895
Imports	-194,313	-194,313	-265,404	-265,404	-266,789	-266,789
Services	**-7,261**	**35,246**	**25,189**	**75,311**	**48,249**	**88,334**
Credit	51,943	94,450	115,694	165,816	144,689	184,774
GBC Services		*42,507*		*50,122*		*40,085*
Transport	*3,905*	*3,905*	*13,327*	*13,327*	*18,242*	*18,242*
Travel	*15,253*	*15,253*	*64,846*	*64,846*	*85,993*	*85,993*
Other Services	*32,785*	*32,785*	*37,521*	*37,521*	*40,454*	*40,454*
Debit	-59,204	-59,204	-90,505	-90,505	-96,440	-96,440
Transport	*-20,578*	*-20,578*	*-32,192*	*-32,192*	*-26,646*	*-26,646*
Travel	*-5,210*	*-5,210*	*-16,615*	*-16,615*	*-22,647*	*-22,647*
Other Services	*-33,416*	*-33,416*	*-41,698*	*-41,698*	*-47,147*	*-47,147*
Income	**99,582**	**57,075**	**115,166**	**65,044**	**111,103**	**71,018**
Credit	425,664	425,664	647,535	647,535	379,347	379,347
Debit	-326,082	-368,589	-532,369	-582,491	-268,244	-308,329
Current Transfers	**-42,641**	**-42,641**	**-43,985**	**-43,985**	**-25,803**	**-25,803**
Credit	13,889	13,889	12,369	12,369	14,369	14,369
Debit	-56,530	-56,530	-56,354	-56,354	-40,172	-40,172

Source: Bank of Mauritius

13. In view of the complexity of this issue, Statistics Mauritius and the Bank of Mauritius will seek additional technical assistance from the IMF to further improve both the compilation and integration of GBC services in the National Accounts and Balance of Payments statistics.

Chapter 2

INVESTMENT AND TRADE

Declining Investment Rate

14. The average annual investment rate (investment as a percentage of GDP) has declined from 21.9% during the period 2010-2014 to 18.5% during the period 2015-2023. This is a worrying trend the more so that the average annual private investment rate over the same periods has declined from 16.6% to 14.1%.

15. Moreover, the bulk of private sector investment was made in the real estate sector. There is, therefore, a definite lack of investment in productive sectors which explains the sluggish growth of the emerging sectors and very low job creation.

Skewed Foreign Direct Investment

16. Foreign Direct Investment (FDI) inflows amounted to Rs 33.5 billion in 2022 and Rs 37 billion in 2023.

17. However, the distribution of FDI remains very skewed towards the real estate sector, which received more than 70% of total inflows in the first semester of 2024. The multiplier effect of such investments is limited relative to investments in productive sectors. FDI inflows in sectors such as Agriculture, Manufacturing, Tourism, ICT and financial services represent less than 15% of total inflows.

Declining Exports of Goods

18. The average annual ratio of exports of goods to GDP which was 22.9% during the period 2010-2014 declined to 17.4% during the period 2015-2023.

19. In 2021 and 2022, exports of goods in value terms increased but due mostly to the temporary recovery effect as well as the large depreciation of the rupee.

20. In 2023, export of goods in volume terms actually declined by 12%, indicating a weakening of the export sector.

Worsening Trade Deficit

21. The sluggish growth in exports coupled with a more pronounced increase in imports of goods has resulted in a significant worsening of the trade balance from a deficit of 23.4% of GDP in 2019 to a high of 32.7% in 2022.

Current Account

22. On average, the current account registered a yearly deficit of 9.4% of GDP during the period 2020 to 2023.

23. Most worrying is the fact that the overall balance of payments, which has historically been in surplus, was in deficit for the last two consecutive years.

Chapter 3

MONETARY POLICY, RESERVES AND THE MAURITIUS INVESTMENT CORPORATION LTD

Monetary Policy

24. The monetary policy stance adopted by the Bank of Mauritius in the past few years has not been in line with the macroeconomic fundamentals and interest rate trends in other countries, particularly the US.

25. As a result of the interest rate policy pursued by the Monetary Policy Committee during the past three years, the interest rates on USD-denominated financial assets have been significantly higher than on rupee-denominated financial assets. This situation has accelerated the depreciation of the rupee and in the process stoked inflation domestically.

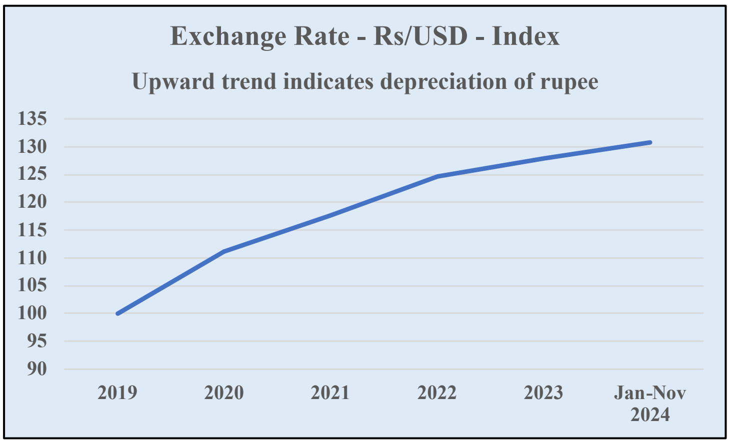
26. This approach to monetary policy must be completely revisited.

Exchange Rate

27. Between end-December 2014 and end-November 2024, the rupee has depreciated by around 46% relative to the US dollar.

28. On a yearly average basis, over the period 2020-2024, the rupee has depreciated by 5.3% annually. The loss in the value of the rupee has been well above historical average whereby the rupee depreciated by less than 2% on average annually which was in line with economic fundamentals.

Graph 2: Exchange Rate (Index - Base Year 2019 = 100)



Source: Statistics Mauritius

29. The accelerated depreciation of the rupee has fuelled inflationary pressures. As highlighted in the 2024 IMF Article IV Consultation Staff Report, the effectiveness of the new monetary policy framework adopted by the Bank of Mauritius will have to be strengthened to, amongst others, better align the interbank rate with the key rate and further strengthen monetary policy transmission.

International Reserves

30. The margin of manoeuvre of the Bank of Mauritius with regard to international reserves is limited.

31. In fact, the figure of gross official international reserves published by the Bank of Mauritius (USD 8.4 billion as at end-November 2024) includes balances that are not directly owned by the Bank such as foreign exchange balances of commercial banks, and loans contracted by the Bank of Mauritius from international commercial banks.

Mauritius Investment Corporation Ltd

32. In 2020, the then Government set up the Mauritius Investment Corporation Ltd (MIC) to, among others, assist companies that needed support to ride out the COVID-19 crisis. The MIC was, however, funded by the Bank of Mauritius, which was and still is its sole shareholder through a total equity investment of Rs 81 billion. However, the equity investment did not involve the use of the country's official reserves. Instead, the entire equity investment of Rs 81 billion was done through the printing of money by the Bank of Mauritius.

33. The equity investment of Rs 81 billion was made in 4 tranches over the period August 2020 to June 2021.

34. To date, the MIC has approved total investment of Rs 66.1 billion, of which Rs 57.4 billion have been disbursed, including Rs 25 billion to Airport Holdings Ltd. The MIC has a remaining balance of Rs 23.6 billion.

35. The MIC was set up at a time when the balance sheet of the Bank of Mauritius was already in a weak position due to the transfer of Rs 73 billion to Government (Rs 18 billion in FY 2019-2020 for repayment of external debt and Rs 55 billion in FY 2020-2021 for the budget support).

36. The printing of money by the Bank of Mauritius to fund the MIC was an irresponsible act which has had deleterious effects on the monetary system, the more so that the banking system was already flushed with excess liquidity. It has added to the inflationary pressures in the economy, increased excess liquidity in the system which could have been very destabilising, and put additional pressure on the exchange rate of the rupee.

37. The setting up of the MIC, its funding through the printing of money and some specific allocations of the portfolio have exposed the Bank of Mauritius to a significant credit risk and potential losses in its balance sheet. Any impairment of the investments of the MIC or any loss in its operations that leads to a reduction in MIC capital will impact negatively on the profitability and balance sheet of the Bank of Mauritius.

38. Regarding the future of the MIC, the Bank of Mauritius will come up with appropriate solutions after carrying out an in-depth audit of the situation.

Chapter 4

INFLATION

39. Inflation in Mauritius increased substantially during the past few years reaching a peak of 10.8% in 2022, mainly due to the increase in international prices as well as the significant depreciation of the rupee against major currencies. The inflation rate has dropped gradually to 3.7% for the 12-months ending November 2024, largely due to the base effect of higher prices in the previous years.

40. Notwithstanding the decline in the inflation rate, the level of prices of goods and services remain at an elevated level, thereby eroding the purchasing power of the population.

41. Between October 2019 and October 2024, the prices of several essential commodities have increased significantly, ranging from 10.8% to 114.4% as shown in the table below.

Table 5: Average Prices (Rs) of Selected Commodities

Commodity	Oct-19	Oct-24	% Change
Trader's Rice	60.17	80.77	34.3%
Trader's packed flour	17.29	21.00	21.5%
Dry noodle	8.25	9.14	10.8%
Frozen beef	261.04	429.64	64.6%
Frozen Mutton	333.39	527.94	58.4%
Fresh Chicken whole	137.58	210.23	52.8%
Frozen chicken whole	151.44	257.83	70.2%
Corned Beef	81.95	175.71	114.4%
Fresh Beef	461.65	598.51	29.6%
Frozen fish La Perle	223.38	322.78	44.5%
Salted fish Snoek	317.14	385.71	21.6%
Sardines in vegetables oil	22.84	32.81	43.6%
Pilchards tomato sauce	72.57	118.65	63.5%
Tuna solid in oil	47.48	60.08	26.5%
Powdered milk (whole)	176.80	254.10	43.7%
Cheese	68.94	100.13	45.2%
Cooking oil	42.81	71.87	67.9%
Margarine	88.76	118.17	33.1%
Potato	32.83	50.00	52.3%
Garlic	160.00	202.29	26.4%
Broad beans	38.63	45.98	19.0%
Black lentils	19.11	32.32	69.2%
Split peas	15.61	24.12	54.5%
Sugar white	36.08	57.05	58.1%
Baby milk powder	170.00	288.44	69.7%
Baby Cereal	101.32	116.86	15.3%
Salt Refined	12.64	20.96	65.8%
Tea	44.68	69.05	54.5%
Cooking gas	210.00	190.00	-9.5%
Gasolene	44.00	66.20	50.5%
Diesel	35.00	63.95	82.7%
Laundry soap	72.15	150.85	109.1%

Source: Statistics Mauritius

42. A comparative analysis of the headline inflation rate in a number of countries shows that the level of inflation in Mauritius has been relatively higher and it is taking longer to return to the pre-pandemic level.

43. These countries have been able to control the inflationary pressures as shown in the table below. Over the period 2022 to 2024, cumulative inflation in Seychelles was only 2.4% while in Mauritius it was 23%. Seychelles even reported a deflation of 1% in 2023, i.e., a decrease in the general level of prices of goods and services, indicating that prices have in fact fallen in absolute terms.

Table 6: Inflation - International Comparison (%)

Country	2021	2022	2023
Mauritius	**4.0**	**10.8**	**7.0**
Botswana	6.7	12.2	5.1
Fiji	0.2	4.3	2.3
Jamaica	5.9	10.3	6.5
Madagascar	5.8	8.2	9.9
Maldives	0.2	2.6	2.6
Seychelles	9.8	2.6	-1.0
South Africa	4.6	6.9	5.9

Source: World Economic Outlook Database, October 2024

44. The fact that inflationary pressures were not effectively contained compelled the previous Government to award a high salary compensation and introduce various financial support schemes. These have not only impacted negatively on public finances but also given rise to a price spiral in the country, thereby affecting the purchasing power of the most vulnerable groups as well as middle-income households.

45. The debt-fuelled and consumption-driven growth model of the previous Government has resulted in surging inflation, a sharp depreciation of the rupee and money illusion.

Chapter 5

LABOUR MARKET

46. The unemployment rate, which was 6.3% in 2023, is high considering that most sectors are facing labour shortages. There are some 37,600 unemployed men and women in the country while there are 26,700 foreign workers employed across almost all sectors of the economy. This is due mostly to a lingering problem of skills mismatch on the labour market.

47. Moreover, around 23% of the labour force were underutilised in 2023, up from 20% in 2022. Labour underutilisation comprises the unemployed, the potential labour force, the skills-related underemployed (i.e., those who have more skills than their job requires) and the time-related underemployed (i.e., those who were in employment and were available for extra work).

Table 7: Labour Underutilisation

	2021	2022	2023
Unemployed	48,400	43,200	37,600
Potential labour force	14,900	1,500	3,900
Skills-related underemployed	48,000	33,900	46,400
Time-related underemployed	93,000	35,000	49,600
Labour underutilisation	**204,300**	**113,600**	**137,500**
% of Labour Force	***38.3%***	***20.2%***	***23.2%***

Source: Statistics Mauritius

48. Female activity rate in Mauritius remains relatively low. In 2023, female activity rate was 47.5% (16 years and above), well below the average of 67% in OECD countries (15-64 years).

49. Unemployment among women and the youth is also high when compared internationally. Female unemployment rate stood at 8.7% in 2023 compared to an average of 5.2% among OECD countries.

50. Moreover, women stay unemployed for a longer period of time than their male counterparts, despite the fact that they may be more qualified. On average, women remain unemployed for 15 months compared to 10 months for males.

Chapter 6

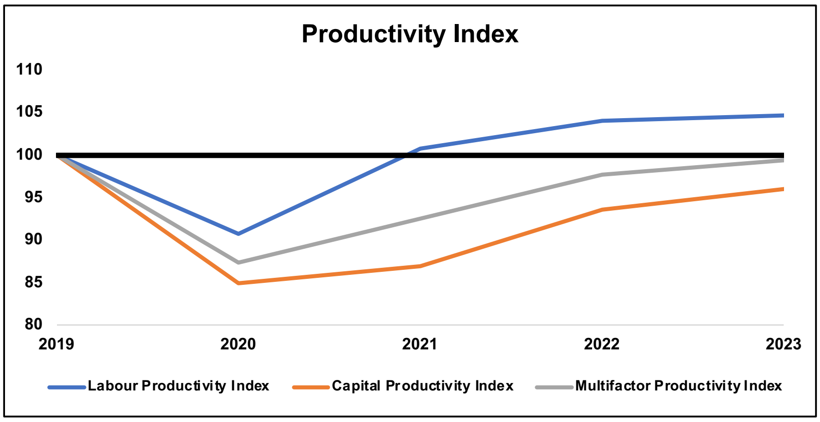
PRODUCTIVITY

51. The level of productivity for the whole economy in 2023, particularly with regard to capital and multifactor productivity, still remained below the pre-COVID 2019 level.

52. Capital productivity in 2023, which measures the real value added by one unit of capital input, was below the 2019 base year level by around 4%.

53. Moreover, multifactor productivity in 2023, which reflects productive efficiency from better management and improved quality of inputs through training and technology, was under the 2019 base year level by 0.6%.

Graph 3: Productivity Index (Base Year 2019 = 100)



Source: Statistics Mauritius

54. On the other hand, while labour productivity increased by 1.4% on average annually from 2019 to 2023, average compensation of employees grew at a higher rate of 7% annually. This has resulted in an annual increase in unit labour cost by 5.6%.

55. The increase in unit labour cost affects negatively our international competitiveness, although slightly mitigated by the weakness of the rupee.

Chapter 7

BUDGET DEFICIT

Budget Deficit for FY 2023-2024

56. The actual budget deficit for FY 2023-2024 turned out to be Rs 38 billion, representing 5.7% of GDP (on basis of updated GDP). This is much higher than the revised estimates of Rs 27.4 billion, or 3.9% of GDP, published in the 2024-2025 Budget Estimates document.

57. The higher budget deficit of Rs 10.6 billion is explained by:

(a) a shortfall in revenue by Rs 13.8 billion, mainly under:

- Corporate tax (-Rs 4.8 bn);
- VAT (-Rs 3 bn);
- Excise duties on alcoholic and tobacco products (-Rs 1.3 bn);
- Land transfer tax (-Rs 0.9 bn);
- Registration duty on transfer of immovable property (-Rs 0.7 bn);
- Dividends mainly from AHL and FSC (-Rs 0.9 bn);
- Passenger fee on air tickets (-Rs 0.4 bn); and
- Individual income tax (-Rs 0.4 bn);

(b) which was partly offset by lower expenditure of Rs 3.1 billion, mainly under:

- capital expenditure and transfers (-Rs 1.2 bn);
- staff and operations cost (-Rs 0.7 bn);
- interest payments (-Rs 0.6 bn); and
- grants to public bodies such as the RRA and Mauri-Facilities (-Rs 0.3 bn).

Budget Deficit Outlook for FY 2024-2025

58. On the basis of the budget performance in FY 2023-2024 and the first 5 months of the current financial year, it is expected that, on a no-policy change basis, the budget deficit for FY2024-2025 would amount to around Rs 48.5 billion, as against the estimates of Rs 26.8 billion.

59. The budget deficit to GDP ratio for FY 2024-2025 is expected to reach around 6.7%, compared to the budget estimates of 3.4%.

60. The higher budget deficit of Rs 21.7 billion is explained by the following factors:

(a) lower than expected revenue by Rs 16.7 billion, mainly due to:

- the shortfall in recurrent revenue in FY 2023-2024 that will recur in the current financial year (-Rs 13.5 bn). The 2024-2025 Budget figures were worked out on the basis of the revised estimates for FY 2023-2024 published in the 2024-2025 Budget Estimates document;
- lower excise duties on motor vehicles & petroleum products (-Rs 1 bn);
- lower dividends from AHL and FSC (-Rs 2 bn), given their current financial situation;

(b) higher expenditure than estimated by Rs 5 billion, resulting mainly from:

- policy decision to award salary relativity adjustment (+Rs 1.5 bn) and increase the allowance for Free Travel Scheme (+Rs 350 m);
- higher provision required for:
  - basic retirement pensions (+Rs 325 m);
  - CSG Income and Child Allowances (+Rs 1.3 bn);
  - payment of costs to Patel Engineering Ltd (+Rs 310 m);
  - support to bus operators (+Rs 300 m);
  - medical supplies and other operating costs (+Rs 450 m);
  - grants to public bodies financially dependent on Government (+Rs 1.4 billion);
  - interest payments as proposed reform of the primary market and the expected savings therefrom are not likely to materialise in this financial year (+Rs 1.5 bn);
- higher transfers to Special Funds (+Rs 2 bn) particularly following the policy decision to support SMEs for payment of the salary relativity adjustment; and
- partly offset by lower capital expenditure (-Rs 2.8 bn) because of delay in project implementation.

Borrowing Requirements

61. In recent years, Government borrowing requirements have been far above the budget deficit.

62. Government borrowing requirements, which is more relevant from the perspective of sound public finances, have been surging in recent years. The higher the borrowing requirements, the higher will be the increase in Government debt.

63. The surge in the Government borrowing requirements has been caused mainly by loans extended by Government to as well as equity injection in public bodies.

64. Government borrowing requirements for the financial year 2024-2025 is expected to reach a high of around 8.2% of GDP, i.e., well above the 4.8% that was published in the Budget document.

Table 8: Statement of Government Operations

Rs million

	2023-2024			2024-2025	
	Estimates	**Rev. Est.**	**Actual**	**Estimates**	**Rev. Est.**
Total Revenue	179,160	174,751	160,998	210,500	193,839
o/w Taxes	156,241	153,545	141,133	182,640	167,627
Total Expenditure	200,178	202,127	199,029	237,319	242,320
Budget Deficit	**-21,018**	**-27,376**	**-38,031**	**-26,818**	**-48,481**
As % of GDP	***-2.9%***	***-3.9%***	***-5.7%***	***-3.4%***	***-6.7%***
Net Acquisition of Financial Assets	3,619	4,415	3,928	11,510	11,400
Adjustment for difference in cash and accrual interest	-325	-1,100	-1,243	-300	-300
Government Borrowing Requirements	**24,312**	**30,691**	**40,716**	**38,028**	**59,580**
As % of GDP	***3.4%***	***4.4%***	***6.1%***	***4.8%***	***8.2%***

Source: Ministry of Finance

Special Funds

65. The available cash balances in the Special Funds have depleted significantly from around Rs 36.8 billion as at end-June 2022 to only Rs 14.1 billion as at end June 2024, and with almost no funds available by end June 2025 for financing projects and schemes.

66. For FY 2024-2025, a total amount of Rs 10.3 billion has been voted to be transferred to the Special Funds. In view of the expenditure commitments for the different projects and schemes, it is now expected that an additional sum of Rs 2 billion will be required. This will require a Supplementary Appropriation by the National Assembly.

67. With this additional transfer of Rs 2 billion, it is expected that total cash balances in the Special Funds would be further reduced to only Rs 1.6 billion by end June 2025.

68. Going forward, additional funds will have to be transferred to the Special Funds in order to finance the projects and schemes currently being implemented under the Funds. This will negatively impact the Consolidated Fund, thus putting additional pressures on public finances.

69. The financial position of the main Special Funds is summarised in the table below:

Table 9: Special Funds

Rs million

	NRF[1]	PDF[1]	NEF[1]	CSF[1]	PRF[1]	Total
Opening balance – July 2024	141	13,446	478	-	69	14,134
Add: Receipts	4,806	1,475	8	3,252	2,700	12,241
- Transfers from Budget (as Voted)	*4,600*		-	*3,200*	*2,500*	*10,300*
- Other Revenue	*206*	*1,475*	*8*	*52*	*200*	*1,941*
	4,947	14,921	486	3,252	2,769	26,375
Less: Payments	7,427	13,461	921	1,747	3,219	26,775
	-2,480	**1,460**	**-435**	**1,505**	**-450**	**-400**
Add: Additional Transfers required	2,500		500	-1,500*	500	2,000
Closing Balance – June 2025	**20**	**1,460**	**65**	**5**	**50**	**1,600**

** Lower amount being transferred as expenditure for some projects are being met under the NEF and PDF.*

Source: Ministry of Finance

Budget Deficit and Government Borrowing Requirements consolidated with Special Funds

70. Significant Government operations are being carried out through the Special Funds. In order to have a complete picture of the fiscal situation, an exercise has been carried out to estimate the budget deficit and Government borrowing requirements if there were no Special Funds, i.e., if all expenditures in the Special Funds were made in the Consolidated Fund.

71. On that basis, given the expenditure commitments taken in the Special Funds, it is estimated that the budget deficit of 6.7% of GDP and the Government borrowing requirements of 8.2% for FY 2024-2025 would be around 1.7 percentage points higher, i.e., 8.4% and 9.9%, respectively.

CSG Budgeting

72. The *Contribution Social Généralisée* (CSG) was introduced in September 2020. It replaced the National Pension Fund (NPF) contributions. All collections under CSG are credited to the Consolidated Fund. The CSG has become unsustainable.

73. In fact, since FY 2023-2024, the payments effected under the CSG far exceed the contributions being collected by Rs 3.2 billion. This gap is expected to increase to Rs 9 billion in FY 2024-2025, putting extreme pressure on public finances.

[1] NRF – National Resilience Fund; PDF – Projects Development Fund; NEF – National Environment Fund; CSF – Climate and Sustainability Fund; PRF – Poverty Reduction Fund

74. The table below shows the CSG contributions and payments, and the financing gap which is increasing over time.

Table 10: Contribution Social Généralisée (CSG) Budgeting

Rs million

	2020/21	2021/22	2022/23	2023/24	2024/25
Receipts	**5,247**	**8,348**	**9,508**	**10,902**	**12,900**
CSG - Public Sector Employees	1,281	262	467	485	530
CSG - Private Sector Employees	1,400	2,008	2,323	2,700	3,245
CSG - Public Sector Employers	2,562	1,930	1,917	2,110	2,355
CSG - Private Sector Employers	3	4,061	4,647	5,400	6,520
CSG - Self-Employed	-	87	154	207	250
Payments	**2,562**	**1,943**	**8,914**	**14,111**	**21,859**
CSG Income Allowance			4,308	7,314	10,980
CSG Retirement Benefits (Social Benefits)			2,208	2,843	3,575
Industrial Injury Benefit		13	21	19	25
Disability Allowance			2	18	33
CSG Child Allowance				868	1,250
Independence Scheme				451	350
CSG School Allowance					2,153
Maternity Allowance					75
Pregnancy Care Allowance					50
Revenue Minimum Garantie Allowance					360
Equal Chance Allowance					100
Allowance - Children with Disabilities					3
Government CSG Contribution	2,562	1,930	1,917	2,110	2,355
Public Employees CSG Contribution			458	487	550
Net Position	**2,685**	**6,406**	**595**	**-3,209**	**-8,959**

Source: Ministry of Finance

Chapter 8

PUBLIC SECTOR DEBT

Public Sector Gross Debt

75. Public sector debt is composed of disbursed loans and debt securities of Government, extra budgetary units, local authorities (municipalities, district councils and Rodrigues Regional Assembly) and public enterprises (including SPVs). Public enterprises debt, both guaranteed by Government and non-guaranteed, are accounted for in public sector debt.

76. Currently, Government securities being held by non-financial public sector entities, such as the Mauritius Ports Authority and the Projects Development Fund, are being netted out in the computation of the public sector debt figures.

77. In line with international best practices, the IMF has highlighted that such netting out should be done after the computation of public sector gross debt, which gives a true picture of the actual level of public sector debt.

78. Moreover, the publication of the public sector net debt figure, i.e., by netting out cash and cash equivalent and equity investment held by Government and non-financial public sector bodies in private entities from the gross debt figure, gives an erroneous picture of the actual debt situation.

79. The table below shows that the actual public sector gross debt figures are higher than the debt figures as well as the net debt figures currently being published.

Table 11: Public Sector Debt

	Net* PSD as published	PSD as published	Actual PSD	PSD as published	Actual PSD
	Rs billion			% of GDP	
Dec-14	-	237.7	238.0	59.4%	59.5%
Jun-16	-	273.4	274.4	63.0%	63.2%
Jun-17	-	288.0	290.1	62.6%	63.0%
Jun-18	-	298.1	300.2	61.3%	61.8%
Jun-19	-	320.7	325.2	63.1%	64.0%
Jun-20	322.2	381.8	387.2	81.0%	82.2%
Jun-21	345.0	419.4	432.2	91.9%	94.7%
Jun-22	385.5	449.3	464.4	86.0%	88.9%
Jun-23	427.7	495.6	513.4	80.2%	84.7%
Jun-24	494.4	546.3	559.1	77.6%	83.4%

* Computed as from March 2020

Source: Ministry of Finance

Increase in Debt since 2014

80. The level of public sector gross debt has increased from Rs 238 billion as at end-December 2014 to Rs 559.1 billion as at end-June 2024, i.e., more than doubled over a decade or a surge of around Rs 32 billion on average annually.

81. One of the main factors contributing to the significant increase in the debt level is the compensation that the previous Government has had to pay in relation to policy decisions in various sectors. In fact, a total of Rs 26.9 billion was paid in respect of the ex-BAI, Betamax and Neotown cases.

82. Some Rs 29.6 billion were disbursed for COVID-19 related expenditure.

83. The significant depreciation of the rupee over the period led to an increase in the value of the external debt of Government by around Rs 19.8 billion, thereby increasing the public sector debt.

84. The table below highlights the main contributors to the increase in the debt level.

Table 12: Main Contributors to the Increase in Public Sector Debt

Rs million

	Dec 2014 to Jun 2024	
Public Sector Debt as at end-December 2014	238,033	
Public Sector Debt as at end-June 2024	559,070	
Increase in Public Sector Debt		**321,037**
o/w Increase in Government Debt		**275,018**
of which		
Equity Injection:	**20,339**	
National Property Fund Ltd (NPFL) - Ex-BAI	9,080	
NPFL - National Insurance Co. Ltd	5,700	
MauBank Holdings Ltd	5,559	
Expenditure:	**225,362**	
Increase in Basic Pensions (Cumulative 2014-2024)	101,000	
COVID-19 related Expenditure	29,600	
Compensation paid in Betamax Case	4,600	
Compensation paid to Patel Engineering Limited	1,893	
Implementation of PRB Report (Cumulative 2016-2024)	33,000	
Salary Compensation (Cumulative 2015-2024)	23,050	
Social Housing Project (8,000)	17,000	
Flood Mangement Programme	5,863	
Home Ownership Scheme/Home Loan Payment Schemes	3,419	
General SDR Allocations (IMF)	**8,100**	
Impact of Depreciation of MUR on External Debt	**19,800**	
o/w Increase in Public Enterprise Debt		**46,019**
of which		
Metro Express Ltd	15,885	
National Housing Development Co. Ltd (Social Housing Units)	1,028	
MauBank Holdings Ltd (Equity Injection in MauBank Ltd)	7,858	
Mauritius Telecom Ltd (Safe City Project)	3,506	
Development Bank of Mauritius Ltd (LOC from BOM - Loans to COVID-19 Impacted SMEs)	4,412	
Central Electricity Board (Various Projects)	6,851	
National Property Fund Ltd	3,500	
State Trading Corporation (Short term credit facilities icw payment for petroleum products)	978	

Source: Ministry of Finance

Public Sector Gross Debt as at end June 2024

85. Public sector gross debt as at end June 2024 was higher by Rs 20.2 billion, amounting to Rs 559.1 billion as against the revised estimates (without the Consolidation adjustment for Government securities held by non-financial public sector entities) of Rs 538.9 billion. This is mainly explained by:

(a) the higher budget deficit (+Rs 10.6 bn);

(b) higher securities issued due to mismatch in timing of payments and receipts of tax revenues (+Rs 6.3 bn); and

(c) higher public enterprise debt (+Rs 3.3 bn), particularly for the CEB and Air Mauritius Ltd.

86. Thus, the public sector debt to GDP ratio was higher at 83.4% as at end June 2024 against the adjusted revised estimates of 76.5%. This figure was already above the statutory debt ceiling of 80% set by the then Government.

Public Sector Gross Debt Outlook for end June 2025

87. For the year ending June 2025, it is estimated that public sector debt would increase to Rs 612.8 billion compared to the budget estimate (without the Consolidation adjustment for Government securities held by non-financial public sector entities) of Rs 574.5 billion.

88. The debt figure is on a no-policy change basis, i.e., does not include the financial implications of any new expenditure measures.

89. The higher public sector debt is mainly explained by:

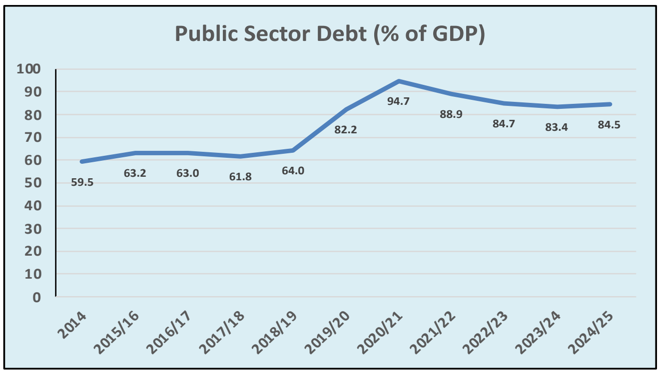
(a) the higher debt level as at end-June 2024 (+Rs 20.2 bn);

(b) the higher budget deficit expected in FY 2024-2025 (+Rs 21.7 bn); and

(c) which would be partly offset by use of available cash balances (-Rs 3.6 bn).

90. As a percentage of GDP, the debt ratio would increase further to 84.5% from 83.4% as at end June 2024.

Graph 4: Public Sector Debt



Source: Ministry of Finance

Chapter 9

CONTINGENT LIABILITIES

91. The precarious financial situation of some public bodies and SPVs represent potentially significant contingent liability risks to Government. These risks, if not properly addressed will further increase the debt burden of Government. These fiscal risks are detailed out below.

Metro Express Ltd

92. The Metro Express Ltd (MEL) has contracted a loan of USD 340 million (Rs 15.98 billion) under the Line of Credit from India. Payment of interest on the loan started in FY 2022-2023. Up to June 2024, Government has granted a total amount of Rs 1.1 billion to MEL, as loan, for payment of interest and meeting part of its operational expenses.

93. The annual repayment of the capital of the loan of around Rs 900 million will start as from FY 2026-2027. Thus, a total of around Rs 1.2 billion will be required annually for capital and interest payments on the loan. Additional funds will also be required for the operational costs of MEL.

94. Given its current financial situation, MEL's will not be able to meet the cost of servicing the loan as well as meet all its operational costs.

New Social Living Development Ltd

95. The New Social Living Development Ltd (NSLD), a subsidiary of National Housing Development Co. Ltd (NHDC), is responsible for building 8,000 social housing units. The NSLD has appointed 13 contractors for the construction of these housing units, which are expected to be completed by mid- 2025.

96. The total construction cost of the housing units is estimated at Rs 29.3 billion, inclusive of costs related to other infrastructural works, hiring of consultants and land acquisition. Out of this amount, Rs 15.3 billion represent Government subsidy and is being paid from the Projects Development Fund (PDF). Cost of land acquisition, consultancy and offsite infrastructure works amounting to Rs 6.8 billion are also being borne by the PDF.

97. Pending the receipt of the contributions from the beneficiaries, a bridging finance of Rs 7.2 billion will be contracted from institutional investors for the completion of the construction works. This sum will be repaid from the contributions of beneficiaries. Any shortfall will have to be borne by Government.

Central Electricity Board

98. Following the increase in electricity tariffs in February 2023, the deficit of the Central Electricity Board (CEB) has decreased from Rs 4.88 billion in FY 2022-2023 to Rs 243.3 million in FY 2023-2024. However, as at end-September 2024, the CEB has a bank overdraft of Rs 5.49 billion.

99. To meet its financial obligations towards the State Trading Corporation for the purchase of heavy fuel oil, the CEB had recourse to overdraft facilities in USD and deal in Swaps instruments. The CEB has contracted SWAP arrangements for a total amount of USD 243.5 million and EUR 3.9 million as at 15 November 2024.

Deficit in the STC Subsidy Account

100. The State Trading Corporation (STC) is subsidising the retail price of rice, flour and LPG. The Subsidy Account for these products was in deficit of around Rs 1.5 billion in October 2024. The deficit is expected to increase to Rs 2.15 billion by end June 2025.

101. The deficit is recorded as a receivable from Government in the books of the STC.

Price Stabilisation Account

102. The STC operates a Price Stabilisation Account (PSA) each for Mogas and Gas Oil with a view to mitigating the effects of fluctuations in international prices on domestic retail prices.

103. In October 2023, Government injected Rs 250 million in the PSA of Mogas to be able to reduce its retail price from Rs 72.10/litre to Rs 69/litre.

104. As at 13 November 2024, the total deficit in the PSA stood at Rs 3.41 billion.

National Property Fund Ltd

105. The National Property Fund Ltd (NPFL) contracted a loan of Rs 3.5 billion from the Bank of Mauritius to repay the victims of the ex-BAI, namely the policy holders of Super Cash Back Gold (SCBG) and investors of the Bramer Asset Management Ltd (BAML). The loan, which is guaranteed by Government, is repayable as a bullet payment on 30 June 2027.

106. NPFL does not have the financial resources to repay the loan unless it disposes of the National Insurance Company. Otherwise, Government will have to provide funds for the repayment of the loan.

Central Water Authority

107. For FY 2023-2024, the Central Water Authority (CWA) recorded a deficit of Rs 300 million.

108. As at 30 June 2024, the total amount of loans outstanding to Government was Rs 3.43 billion. In addition, there was around Rs 2.1 billion of arrears of principal, interest and penalty due by the CWA to Government. The CWA also had a bank overdraft of Rs 149 million as at 30 June 2024.

Wastewater Management Authority

109. For FY 2023-2024, the Wastewater Management Authority (WMA) registered a deficit of Rs 527 million. Since 2013, the WMA has not repaid its obligations towards Government.

110. As at 30 June 2024, total arrears of principal, interest and penalty due by the WMA to Government amounted to around Rs 2.15 billion and the total amount of loans outstanding stood at Rs 3.46 billion. In addition, the Authority had a bank overdraft of Rs 11 million as at 30 June 2024.

Mauritius Multisports Infrastructure Ltd

111. The Mauritius Multisports Infrastructure Ltd was set up for the implementation of the Cote D'Or National Sports Complex on a fast-track basis. Government, being the major shareholder, has invested Rs 5.28 billion in terms of equity participation in the Company for the construction of the Complex. The equity injection was financed from Loan and grant from China (Rs 1.78 billion), Loan from Saudi Fund for Development (Rs 947 million) and Government funds (Rs 2.6 billion).

112. For FY 2024-2025, MMIL received a recurrent grant of Rs 101 million from Government to meet its operating expenses, out of which approximately Rs 15 million relates to the payment of license fees to Liverpool Football Club International Academy. MMIL is expecting a shortfall in revenue of around Rs 19 million in FY 2024-2025.

Air Mauritius Ltd (Subsidiary of Airport Holdings Ltd)

113. Air Mauritius Ltd (MK) is fully owned by Airport Holdings Ltd (AHL). As at end June 2024, MK had an accumulated deficit of EUR 331.1 million (Rs 16.5 billion) resulting in a negative shareholder's equity of EUR 208.8 million (Rs 10.4 billion). As per the Companies Act 2001, MK is deemed insolvent.

114. The accumulated deficit of MK has worsened since 2020, following the impact of COVID-19 on the aviation sector and significant impairment losses on the sale of aircrafts.

115. There is need for capital injection into Air Mauritius Ltd through the AHL.

National Transport Corporation

116. The National Transport Corporation (NTC) is in a precarious financial situation. Government had to intervene in March 2023 by providing a loan of Rs 100 million to help it clear its outstanding operating expenses.

117. The financial distress is mainly due to its ageing bus fleet hindering optimal performance, causing it to operate with a reduced fleet on a daily basis thereby cutting down its revenue.

118. It is imperative for the NTC to renew its bus fleet at the earliest possible so that it can redress its financial situation and improve its transport services. The NTC will thus need financing support to invest in the acquisition of new buses.

Casinos of Mauritius

119. The Casinos of Mauritius are subsidiaries of the State Investment Corporation (SIC). The SIC meets all monthly shortfall in cash requirements by the casinos through provision of Corporate Guarantee for overdraft facilities granted by MauBank Ltd and also through its own funds.

120. The financing granted to the Casinos by the SIC and Government are as follows-

- SIC Own Funds (Up to August 2024) - Rs 1.60 billion.
- Post COVID-19 (SIC Corporate Guarantee) - Rs 340 million
- Government Injection (through SIC) - Rs 85.48 million
  (Payment of 14th month bonus for 2019-2023)
- Disposal Proceeds - Rs 120 million

121. Total long-outstanding arrears for all Casinos as at October 2024 amounted to Rs 141 million, including Rs 19 million as arrears of backpay for CSG and pension contributions.

Airport of Rodrigues Ltd

122. Airport of Rodrigues Ltd (ARL) is fully owned by Airport Holdings Ltd (AHL). As at end June 2024, ARL had an accumulated loss of Rs 781.2 million resulting in a negative shareholder’s equity of Rs 41.9 million. As per Companies Act 2001, ARL is deemed insolvent.

123. Since 2019, ARL has been incurring operational losses of around Rs 80 million annually. During FY 2023-2024, ARL received Rs 53 million as Grant from RRA for OPEX and Rs 58 million as cash advance (treated as shareholder loan) from Airport Holdings Ltd (AHL) for CAPEX. As at 30 June 2024, the shareholder’s loan from AHL stood at Rs 78.2 million and loan from AML amounted to Rs 171.3 million.

Mauritius Post Ltd

124. The Mauritius Post Ltd (MPL) generates its revenue from Postal Services. In FY 2023-2024, the MPL incurred losses of Rs 83 million. In addition, the MPL has a shareholder's deficit and a pension deficit amounting to around Rs 2 billion and Rs 2.6 billion, respectively.

Statutory Bodies Pension Funds

125. The statutory bodies defined benefit pension funds, governed by the Statutory Bodies Pension Fund Act, have accumulated a significant level of actuarial deficits over time amounting to around Rs 47 billion as at end June 2024. Actuarial deficit arises when it is projected that the assets of the funds may not be sufficient to meet the pay-out in the long term and under a particular set of valuation assumptions.

126. The pension funds currently do not have a cash deficit, i.e., they are presently able to meet their pension obligations. However, in view of the current conditions, the financial position of the funds may deteriorate. It is, therefore, crucial to take appropriate measures to ensure the financial sustainability of the pension funds.

PART 2

CONSTRAINTS AND CHALLENGES

Chapter 10

STRUCTURAL CONSTRAINTS FACING THE ECONOMY

127. Several structural constraints have emerged during the past decade, which are impacting negatively on Mauritius's long-term growth potential. The main constraints are summarised below.

Labour Market and Other Resource Constraints

Labour Market

128. The most binding constraint on our future development lies on the labour market. Our labour force growth is almost stagnating and is forecast to become negative in the near future as a result of the new demographic dynamics. Addressing this issue is going to be one of the top priorities of Government.

129. The labour constraint is both quantitative and qualitative.

130. Some 17,500 (48%) of the unemployed do not have the Cambridge School Certificate or equivalent, and among them 2,100 have not passed the Primary School Achievement Certificate/Certificate of Primary Education or equivalent. Moreover, only about 20% of our labour force have post-secondary education.

131. There is also a gender issue on the labour market. Female unemployment rates remain elevated in spite of low women participation rate.

132. Youth unemployment is also unacceptably high.

133. There is also a high level of labour underutilisation that adds to structural constraints on the labour market.

134. In recent years, the labour market constraints have become more acute because of the high brain drain. A high percentage of Mauritian graduates are leaving the country to work abroad.

Water Supply

135. Water supply is a critical component for the successful implementation of development projects and for improving the quality of life of the population. Today the shortage and unreliable supply of water stand as a major impediment to development which must be addressed urgently.

Energy

136. Energy has become another major constraint on socio-economic activities. It weighs very heavily on our external balances since almost 90% of our energy needs are imported. Moreover, it makes Mauritius highly dependent on imports for such a vital resource. It is imperative to speed up the production of local renewable energy.

Low productivity and inefficiency of the Port

137. Crane and ship productivity growth in the port of Mauritius has stagnated in recent years such that the port has now been surpassed by other regional competing ports. Moreover, ship productivity, measured by time spent at the port, has hovered around 45 hours, which is considered to be high by international standards.

138. The main causes of low productivity are a shortage of qualified and trained technical labour, and the inability to come up with a proper manning structure in order to optimise the use of existing infrastructure, as well as the fact that 2 out of the 8 existing cranes are out of use. Due to low port productivity, there is a high risk of shipping lines skipping Port Louis for other more productive ports in the region. This will lead to increased transit times for cargo containers to reach Mauritius thereby increasing shipping cost.

Digital Infrastructure and Ecosystem

139. Despite progress in digitalising public services, such as the Corporate and Business Registration Information System, Info-Highway, MRA e-filing, and the National E-Licensing System, Mauritius still lacks critical digital infrastructure. The absence of key systems such as GIS technologies, more data centres, an integrated single window for trade, and a comprehensive maritime single window limits the country's potential to fully optimise digital transformation and enhance ease of doing business.

Institutional Failures

140. Mauritius has unfortunately witnessed in recent years a conspicuous weakening of its institutions. It is widely agreed that institutional strengths have been behind the economic progress of Mauritius since independence. Due to bad governance, Mauritius has lost this major advantage. The institutional strength of Mauritius needs to be reconstructed.

141. Coordination across various sectors and government institutions need to be reinforced. Proper assessment of the financial, economic and social impact of Government decisions and policy measures should be carried out to ensure evidence-based decision making and avoid unintended costs.

142. Overlapping functions across institutions hamper effective implementation of Government projects and programmes. Many government programmes lack robust M&E frameworks, leading to suboptimal outcomes and inefficient use of public resources. These issues hinder innovation and accountability in public service delivery.

Administrative and Bureaucratic Constraints

143. Bureaucracy and inefficiencies in licensing processes are pervasive. They are thus severe constraints on investment decisions and business operations. Moreover, rising business costs, particularly in energy, labour and compliance are eroding competitiveness. Dispute resolution is ineffective, as highlighted by the 2024 World Bank B-READY Report. There is also a lack of critical digital infrastructure that limits the country's potential for full digital transformation and improved ease of doing business. All these issues must be addressed urgently.

Chapter 11

CHALLENGES OF CLIMATE CHANGE AND ADAPTATION

144. Mauritius is vulnerable to the impacts of climate change due to its small land area, low-lying coastal regions and reliance on natural resources. Some key impacts of climate change in Mauritius are as follows:

(a) rising sea levels threaten coastal areas, infrastructure and freshwater resources. Low-lying regions, including densely populated areas and tourist destinations, are at risk of erosion, flooding and saltwater intrusion;

(b) Mauritius is susceptible to more frequent or intense cyclones that can cause significant damage to infrastructure, agriculture and coastal ecosystems;

(c) changes in rainfall patterns and increased evaporation rates due to higher temperatures will affect freshwater availability and impact on agriculture, drinking water supplies and biodiversity;

(d) climate change threatens Mauritius' unique biodiversity, including endemic plant and animal species through habitat loss, coral bleaching and invasive species; and

(e) climate-related risks such as beach erosion, coral reef degradation and extreme weather events will impact negatively on the tourism sector and the economy.

145. As per the commitments at COP, Mauritius has pledged for a sustainable and low-carbon economy through the achievement of the following targets by 2030:

(a) a reduction of 40% in greenhouse gas emissions;

(b) increasing the share of renewable energy in the electricity mix to 60%;

(c) phasing out of coal in electricity production;

(d) achieving energy efficiency gains of 10%; and

(e) promoting a circular economy aiming at 70% landfilled waste reduction.

146. Greenhouse gas (GHG) emissions increased by 5.3% from 2022 to 2023. In 2023, the energy sector accounted for the largest share of emissions (78.8%), followed by the waste sector (10.2%).

147. In addition, the share of renewable energy has been declining for the past few years both in absolute and relative terms, from 24% (688 GwH) in 2020 to 17.6% (574 GwH) in 2023. This resulted mainly from a decrease in electricity generation from bagasse, adverse climatic conditions affecting generation from wind and solar as well as an increase in demand.

148. Mauritius has already worked out its Nationally Determined Contribution (NDC) report and an NDC Action Plan for the implementation of mitigation and adaptation measures in key sectors.

149. On mitigation, the key sectors are energy, transport, waste, industrial processes and product use, agriculture and land use, land use change and forestry. The adaptation sectors include agriculture, coastal zone, fisheries and blue economy, health, infrastructure, tourism and water. The Plan also caters for cross-cutting sectors namely disaster risk reduction, gender, social security and education.

150. The total financial needs to implement the NDC targets are estimated at USD 6.5 billion (Rs 300 billion), of which USD 2 billion for mitigation measures and USD 4.5 billion for adaptation actions.

151. The shares for the unconditional and conditional contributions for the USD 6.5 billion are as follows:

(a) USD 2.3 billion (35%) unconditional contribution from Government and the private sector; and

(b) USD 4.2 billion (65%) conditional contribution from international sources and donor agencies.

152. Government will have to mobilise significant financial resources to fund the implementation of the mitigation and adaptation measures. There are opportunities to tap into international climate finance, either through grants or concessional loans. In addition, there are different carbon market mechanisms whereby Mauritius can sell its carbon credits.

153. Moreover, there is need for greater private sector participation in green projects particularly aimed at adapting to climate change.

Chapter 12
SECTORAL CHALLENGES

154. The main sectors of the Mauritian economy are facing a number of challenges impeding their potential development and growth. These challenges include labour shortage, lack of new investments, slow adoption of new technologies and limited markets. The challenges being faced by the main sectors are summarised below.

Agricultural Sector

155. The key challenges facing the sector are as follows:

(a) **High production costs:** The cost of production has increased significantly due to a surge in prices of inputs such as seeds, fertilizers, pesticides and labour, while yields have remained stagnant;

(b) **Climate change:** Mauritius is particularly vulnerable to the impacts of climate change, which threatens agricultural productivity;

(c) **Water scarcity:** Reliable irrigation is essential for maintaining productivity, and there is a growing need for consistent and effective water management to prevent crop failures;

(d) **Labour shortages:** The agricultural sector is grappling with a shortage of workers;

(e) **Aging workforce:** The declining interest among youngsters in pursuing careers in agriculture underscores the growing challenge of an aging farming population;

(f) **Security issues:** The rise in theft and security concerns, exacerbated by broader social challenges, continues to affect agricultural operations and farm security;

(g) **Foreign investment:** Attracting foreign investment in agriculture has been challenging, due to the small-scale farming nature of the Mauritian agricultural sector. The long-term nature of agriculture, where crops and livestock take time to mature, deters investors seeking quicker returns;

(h) **Modern agricultural practices:** Adoption of new technologies such as sheltered farming, vertical farming, hydroponics and aquaponics, which have greater returns and require less pesticides and fertilisers, has registered a slow progression despite different incentive schemes; and

(i) **Food security:** Food security is a pressing issue, with almost 80% of current food consumption being imported. In addition, a significant percentage of fertilizers used in agriculture is also imported, further highlighting the vulnerabilities in the food production system.

Ocean Economy

156. Mauritius has an Exclusive Economic Zone of 2.2 million sq km. The vast untapped resources in the EEZ makes the Ocean Economy as one of the major future drivers of economic growth. However, development of the sector has been slow due to the following challenges:

(a) **Climate change:** The effects of climate change such as rise of sea-level, intense tropical cyclones, changing patterns in temperature and rainfall, and ocean acidification are already being felt. Such effects have adverse impacts on the smooth development of the Ocean Economy;

(b) **High investment costs:** Often perceived as too risky by financial markets, activities in the Ocean Economy come with high cost of capital;

(c) **Availability of skills set:** Unavailability of local skilled labour and technical expertise;

(d) **Changes in consumption and trade patterns:** Market changes, consumer preferences and evolving industry trends create new needs for different products; and

(e) **Surveillance of the EEZ:** There are limited resources for the effective monitoring and surveillance of the EEZ with a view to safeguarding the resources in the waters against illegal and suspect activities as well as overfishing.

Manufacturing Sector

157. The manufacturing sector contributes to around 12% of GDP and some 15% of total employment. Growth in the sector has slowed to around 0.7% on average annually over the past ten years compared to 2.5% in previous years. The main challenges being faced by the sector, impeding its transformation into a modern, high-tech sector, are as follows:

(a) **Inadequate industrial infrastructure:** Limited plug and operate industrial parks that can cater for capital intensive industries;

(b) **High cost of production:** Increase in cost of production (labour, utilities, freight) affecting cost competitiveness;

(c) **Shortage of skilled labour:** Difficult and lengthy process related to the recruitment of foreign labour. Deficiency in vocational, technical and professional education resulting in lack of resources to operate in new industries;

(d) **Limited market:** Lack of market intelligence on traditional, emerging and African markets. Limited budget for continuous and consistent export promotion events to maintain existing and secure new clients;

(e) **Connectivity issues:** Limited shipping lines operating in Mauritius restrict connectivity with countries of exports. Poor port productivity resulting in longer lead times and higher port handling charges;

(f) **Low technology adoption:** Limited support in terms of matching grants to encourage industries to invest in new technologies and production methods; and

(g) **Low productivity of SMEs:** Need to improve productivity and efficiency in SMEs to make them more competitive for export markets.

Tourism Sector

158. The direct contribution of the tourism industry to GDP is estimated at around 8.7% in 2023. Taking into account the indirect and induced activities, the sector has a significant bearing on the overall performance of the economy. There is, therefore, need to address the following key challenges being faced by the sector:

(a) **Labour shortage:** Following the COVID-19 Pandemic, the sector is facing an acute labour shortage, hindering its ability to meet its manpower requirement to steer its future development;

(b) **Limited air connectivity:** Although Mauritius is well connected to key markets like Europe, India and South Africa, limited flight frequency, high airfares and competition from other destinations can deter potential visitors;

(c) **Expensive destination:** Mauritius' positioning as upmarket destination renders it expensive and not accessible to travellers particularly from emerging economies or middle-income brackets. A new segment could be developed in parallel to cater for such tourists;

(d) **Shortage of tourist accommodation:** There is a limited supply of mid-range and budget-friendly options, making it difficult to cater to a wider array of tourists, particularly those from emerging markets;

(e) **Lack of planning for hotel development:** The non-availability of a clear and comprehensive repertoire of approved sites for hotel development makes it difficult for developers to find suitable and available land for new hotel projects, limiting the expansion of the accommodation infrastructure needed to meet growing demand;

(f) **Unregulated tourist accommodations:** The increasing number of unregulated tourist accommodations poses a growing challenge for the tourism sector in Mauritius;

(g) **Heavy reliance on traditional markets**: Overdependence on traditional markets limits the sector's resilience and growth potential by attracting a broader and more diverse range of international visitors;

(h) **Limited tourism products**: The variety of tourism products currently on offer is limited and does not reflect new trends and demands. There is need to expand the product range into eco-tourism, hiking and trekking, golf and other sporting events, food festivals and cultural events, kite surfing and other sea water sports activities; and

(i) **Climate change:** The pristine beaches and coastal resorts, that are the main pull factors for visitors, are subject to the impacts of climate change and need appropriate protection and rehabilitation. It may also lead to overcrowding in certain areas, creating pressure on local infrastructure and resources.

Financial Services Sector

159. The Mauritius International Financial Centre has positioned itself as a jurisdiction of substance, offering a stable, competitive, cost effective and mature tax system. However, it has to adapt to changes in the global financial environment to be competitive, and well regulated. The main challenges facing the sector are as follows:

(a) **Compliance with evolving international standards:** Appropriate measures will have to be taken at an early stage so as to comply with the evolving international standards under the FATF and OECD, in view of the mutual evaluation exercise to be carried out by the Eastern Southern African Anti-Money Laundering Group in 2027;

(b) **Competition from other IFCs:** Emerging IFCs such as GIFT City (India), Dubai IFC, and the Rwanda and Nairobi hubs are offering attractive tax regimes and innovative financial products that represent serious competitors for Mauritius;

(c) **Overdependence on traditional products and services:** Concentration on traditional products, lack of awareness and limited promotion are impeding the development of innovative products such as wealth management, family office, fintech and green financing instruments; and

(d) **Labour shortage:** Lack of qualified professionals and brain drain are hindering the development of the sector and driving cost of doing business higher.

ICT and Digital Services Sector

160. There are new opportunities for development in the ICT sector such as Artificial Intelligence (AI), Robotics, digital health technologies, Edtech, Cybersecurity and Cloud computing. However, the sector is constrained by the following challenges impeding its ability to embrace these new developments:

(a) **Shortage of skilled labour:** Shortage of key specialised skills such as big data and analytics, cybersecurity experts, digital marketers, amongst others, and the most in-demand programming languages like Python, Java, JavaScript, C#, and PHP have seriously impended on the expansion plans of the existing operators and entrance of new operators;

(b) **Lack of incentives to embrace IT career:** Students are increasing enrolling for management, law, accounting and medical courses instead of ICT and computer related subjects;

(c) **Rising cost of doing business:** The increase in salary cost at all levels of operations, particularly in view of lack of required professionals, is impacting on some companies' operations and their international competitiveness;

(d) **Up-to-date ICT training:** ICT courses should be reengineered to keep pace with new and disruptive technologies, and equip the workforce with multidisciplinary skills in light of increasing automation; and

(e) **Limited access to finance for start-ups:** Technology start-ups face challenges in securing funding for developing their business and commercialising their products.

Renewable Energy Sector

161. In view of the objectives of Government for a greener Mauritius, the renewable energy (RE) sector has the potential to develop into a major source of growth in the future. However, the sector is being constrained by a number of challenges as follows:

(a) **Bankability of RE projects:** Contracts for solar projects do not have a fair sharing of the risks, namely country and commercial risks, and are thus not considered as bankable;

(b) **Relatively small market:** The small local market for renewable energy equipment limits the scope for investment in major production projects. New avenues for exports of such equipment need to be explored; and

(c) **Labour shortage:** Limited availability of skilled labour is a major concern for the development of the sector and the transition to clean energy.

Bio Industry

162. The Bio industry has the potential to develop new activities in Mauritius such as healthcare services (including specialised hospitals, residential care facilities and medical tourism), life sciences (comprising biopharmaceutical research and clinical trials), and medical devices and pharmaceuticals manufacturing. In order to ensure the effective development of the industry, the following challenges will have to be addressed:

(a) **Legislative and regulatory framework:** There is need for the enactment of appropriate legislations to regulate freezing/banking of human gametes, embryos, embryonic tissues and cord blood as well as stem cell and gene therapy treatments to be provided in Mauritius. Existing legislations such as the Pharmacy Act 1983 and the Clinical Trials Act 2011 will have to be reviewed;

(b) **Administrative bottlenecks:** Cumbersome and lengthy procedures for registration of specialist doctors and foreign veterinarians creating a shortage of professionals and impeding the development of the industry; and

(c) **Limited market development:** Limited air connectivity with Africa hinders the development of Mauritius as a medical tourism destination as potential patients prefer to travel direct to destinations such as India, Dubai and Singapore.

Chapter 13

PRESSING SOCIAL ISSUES

163. Government is committed to enhancing the quality of life of the whole population and, in particular, the elderly, persons with disabilities, poor and vulnerable groups through social protection and empowerment schemes. In recent years, a number of pressing social issues have emerged such as the ageing population, an out of tune education system and healthcare priorities, that need to be addressed urgently. The challenges are detailed out below:

Ageing Population

164. The demographic structure of Mauritius is changing drastically due to a drop in the number of births and an improvement in life expectancy, leading to an ageing population. While in 2014, 14.6% of the total population was aged 60 and above, this proportion has now reached 21%. It is projected to increase further to around 30% in 2042 and 40% in 2062.

165. The ageing population has a number of implications on the economy, public finances and the society as a whole. As the working-age population declines, this will impact negatively on economic activities and lead to lower economic growth. In addition, with fewer people paying taxes and more people claiming pension benefits, there will be an increasing pressure on public finances.

166. Moreover, as older people have greater health and long-term care needs, more resources will be required for providing specialised healthcare infrastructure and services. New facilities such as old age homes, transportation and security services will have to be put in place.

Education

167. The education system, which performed well in the 1980's and 1990's, is out of tune with the extensive socio-economic changes that have taken place locally and internationally. The system is characterised by a low internal efficiency resulting in a significant number of dropouts. Only 3 out of 10 students who joined the primary schools pursue their tertiary education, implying a significant waste of human resource potential. The quality of education being dispensed needs to be improved to ensure better outcomes. Education and training programmes being offered do not meet the requirements of industries, generating skills mismatch in the labour market.

168. School indiscipline is a major concern, as bullying and violence amongst students, possession of illicit substances and consumption of spirit drinks in school premises have increased significantly. Teachers need a well-defined continuous professional development programme, which is essential for them to remain abreast of the latest trends, technologies and teaching practices. The adoption of digital technologies in teaching and learning, and school administration has to be accelerated.

Healthcare

169. The healthcare sector in Mauritius faces a number of challenges, despite the country's relatively advanced healthcare infrastructure and facilities. With the ageing population, the demand for chronic disease management (e.g., diabetes, hypertension), long-term care services, and geriatric healthcare professionals is rising, thus increasing the burden on the healthcare system. In addition, the rising cost of medicines, medical disposables and consumables coupled with public demand for additional and improved health services is having a strong bearing on the financial sustainability of the sector.

170. Moreover, shortage of specialists, nurses, and other allied health staff is leading to increased workload for existing staff, longer waiting times for patients, inability to offer specialised services in certain medical fields and a reduction in the quality of care. In addition, the healthcare system needs to be strengthened and prepared to deal with emerging threats such as pandemics, infectious diseases, respiratory problems due to air pollution, and heat-related illnesses.

171. There are also notable inefficiencies in the healthcare system such as inadequacies in medical supplies management leading to expiries and wastages, poor healthcare staff management resulting in high overtime costs, and poor management of hospital infrastructure, especially high-tech medical equipment which leads to long waiting lists for important medical care.

Chapter 14

CONCLUSION

172. The above analysis shows that the state of the economy and public finances is a matter of serious concern. Mismanagement of the economic affairs of the country and policy inconsistencies have led to low GDP growth, worsening trade, current account and balance of payments deficits, high inflation, unsustainably high level of budget deficit, surging public sector debt, and persistent structural constraints.

173. It is clear that the situation calls for urgent and effective policies to reverse the deteriorating trends in the macroeconomic fundamentals, redynamise sectoral growth, rebuild the credibility and effectiveness of our institutions, and regain the high values that we have inherited from our forefathers.

174. We must forge ahead in our task of rescuing the economy and turning it around with well thought-out corrective policies and measures, and in a responsible manner.