

# MAURITIUS NEEDS FISCAL RESTRUCTURING



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## PRELUDE

Fiscal consolidation is not an easy exercise for any country, let alone for a 'non-commodity' economy such as the Republic of Mauritius.

In a 'normalised' long-term macroeconomic cycle, our financial sector's contribution to GDP has been declining over the past 3 years (from 13.3% in 2023 to 12.5% in 2025). A 3-year average growth rate of circa +4.1% can improve. Monetary intermediation has been forging the tightness, and a dysfunctional domestic foreign exchange market has invariably constrained further momentum.

The Global Business Sector's contribution to GDP has remained flat and has been side sailing at circa 8.3% contribution to GDP since 2023. On this trajectory and in an increasingly global competitive landscape, a growth rate of circa +2.3% is well below average real GDP growth (notwithstanding the fact that most asset classes and capital markets have globally, generally experienced reasonable average growth rates during the corresponding period).

As an increasingly service oriented economy, this growth momentum for us is well below potential and understanding the nature of this fetter is critical for the determination of a reasonable forward outlook, including industry estimates.

Essentially, there is a clear disconnect today, between the Mauritius International Financial Centre ("IFC") narrative and the country's underlying fiscal policies. For our team at ANNEAU, as we delve into the trends and outlook for the financial sector in 2026 and beyond, this worryingly widening discordance between our competitiveness as an IFC jurisdiction and its underlying fiscal

policies draw fundamental attention, alongside the unacceptably clogged domestic foreign exchange market(s).

In our belief (and notwithstanding global geopolitical turmoil and uncertainties), the aforementioned critical issues are likely to constrain our financial services' growth in 2026 and beyond.

Our fiscal strategy since early 2000's (please see the ANNEAU graphic hereunder) has been increasingly focused on higher taxes, as opposed to higher non-tax revenues ('government revenues') generation. So much so that versus our African peers, certain comparative analysis is essential for us to understand whether as a Sovereign nation, we should focus on tax-based revenues and / or non-tax-based revenues; and in which macroeconomic / debt cycle such focus is sensible (or not).

Of note that a country typically needs fiscal restructuring when its public finances become unsustainable and it can no longer manage its debt and budget obligations in a stable way.

## TAX BASED AND NON-TAX-BASED REVENUES OF A SOVEREIGN NATION

In view of clarity, our readers need to discern between these 2 core aspects of fiscal regimes.

Tax-based revenues are mandatory, unrequited payments from citizens and businesses (income tax, VAT, etc.) used for public services.

Non-tax revenues are income from non-tax sources like fees, fines, dividends from state enterprises, sovereign wealth funds, investments and royalties, etc.

Tax is compulsory, while non-tax is often service and most importantly for a country like ours, state investments related.

While it can be argued that select African countries (especially commodity dependent ones) have a fortunate (bar the flip side of a Dutch disease risk) and inherent ability to draw material revenues from mining, this fact does not distort the underlying essence of the discussion contemplated herein.

Per the hereunder graphic, we observe that Mauritius's (and over the longer trend), tax-to-GDP ratio has been consistently trending higher over the past 25 years (which is uncanny for an IFC looking to attract capital).

From circa 16% of GDP in 2000 to an estimated circa 23% in 2023 (with the acute increases since budgetary years 23-26), we estimate tax to GDP ratio north of 25% for the budgetary year of 26/27. In contrast to the sample of the 38 African countries analysed and

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depicted hereunder, the average thereof was 16% in 2023!

In 2023, non-tax revenues in Mauritius stood at a meagre 2.6% of GDP, well below the average of 5.9% of GDP recorded for the 38 African countries. Sales of goods and services ('VAT' – a 'no-brainer') accounted for the largest component of non-tax revenues in Mauritius, representing 1.0% of GDP and 38.1% of total non-tax revenues.

## WHY DOES THIS MATTER?

Non-tax revenues can be important for a country because they diversify government income sources, reduce pressure on taxation (especially and most importantly for an IFC), and provide fiscal flexibility – especially during economic downturns.

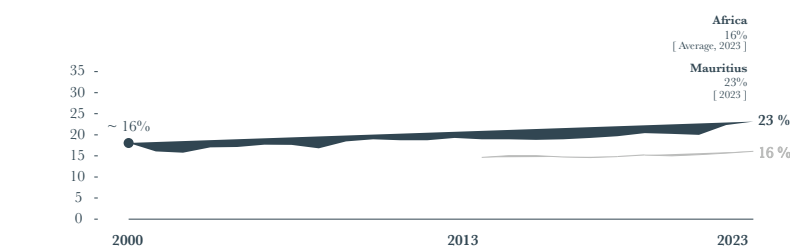
Revenue Diversification is critical for our country in this phase of fiscal consolidation unless the executives' objective is to undermine real GDP growth on a consistent basis. Over-reliance on taxes increases the tax burden on households and firms and results in private sector revenues growing highly sensitive to economic cycles. In economics, Elasticity of Taxable Income ("ETI"), the foundational metric that quantifies how sensitive individuals and firms are to tax rates, capturing behaviours like tax planning, tax evasion, and reduced investment is an important concept to understand in fiscal revenue formulation. Tax Elasticity of Revenue further measures the percentage change in tax revenue relative to a 1% change in the tax rate, with a resulting value greater than 1 indicating high sensitivity (elasticity) and this is where our attention should tilt.

Non-tax revenues (such as fees, dividends from state-owned enterprises, natural resource royalties, and administrative charges) would provide additional income streams, thereby reducing overdependence on taxation.

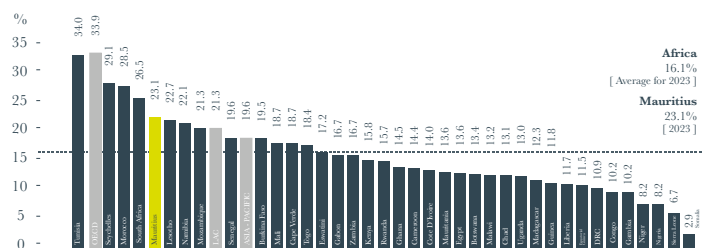
While it goes without saying that increasing taxes lead to discouraged investments, reduce consumption; affecting labour supply, successful and sustainable non-tax revenue streams for a sovereign nation helps in widening the country's fiscal space and this without necessarily raising taxes for high earners (individuals & corporates).

In this manner, and on a more sustainable basis, governments can finance infrastructure, support inclusive social programmes while ultimately reduce deficits (and this, without increasing tax rates, which can be politically and economically costly, very costly; in certain socio-economic cycles!).

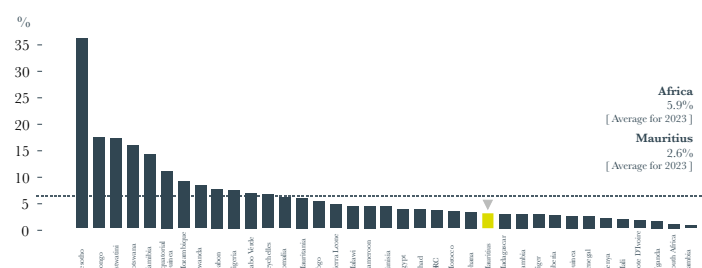
At ANNEAU, we believe that Mauritius has the ability to rebalance and derive higher revenues from higher dividends from



**Tax-to-GDP ratio**  
Mauritius vs African select countries  
(as a % of GDP, 2023)



**Non - Tax revenues to GDP ratio**  
(as a % of GDP, 2023)



state-owned enterprises, earn reasonable returns on efficiently managed sovereign wealth funds; over the medium to hyper long-term (as a gentle reminder; countries like Norway use returns from the Government Pension Fund to support long-term fiscal sustainability).

## REBALANCING OF DOMESTIC VERSUS EXTERNAL DEBT, ASSUMING AN APPRECIATING CURRENCY

Many a times, policymakers omit the essential underlying microeconomic fact that higher deficits worsen a country's indebtedness.

In essence and as a gentle reminder, sustained and untamed fiscal deficits cause debt to increase (not ideal for eyeing a Moody's upgrade) and so persistently large deficits lead to rising indebtedness.

Sustainability depends on underlying economic growth, interest rates, and fiscal discipline; which is what Mauritius increasingly needs to ensure that its financial services sector prospers.

Notwithstanding the fact that we need to unclog the clogged artery of our domestic foreign exchange market and resolve this

industry and capital markets transactional and growth constraint, intelligent monetary strategies geared towards strengthening our domestic currency shall provide a very strong impetus for a sovereign rebalancing between domestic and external debt.

At ANNEAU, we believe that the ratio of domestic / external debt of our country, in the current and medium-term economic cycles, should be circa 60/40 and so an immediate need to understand this strategy and formulate the relevant policies and executional plans in that direction (this is another discussion).

## POSTLUDE

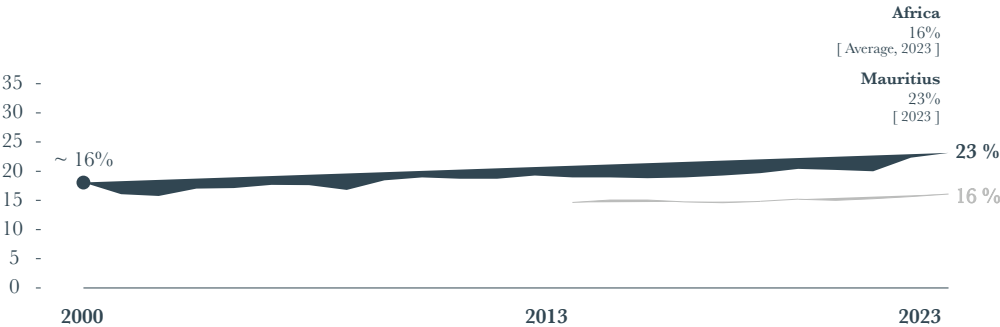
While remaining prudently positive that the financial services sector shall be sustainable over the next year or so (bar global ramifications from geopolitical instabilities), the country increasingly needs to be macro focused for the fundamentals need to be robust and conducive for above real GDP and / or inflationary growth.

*"Nothing is so permanent as a temporary government program."*  
— Milton Friedman

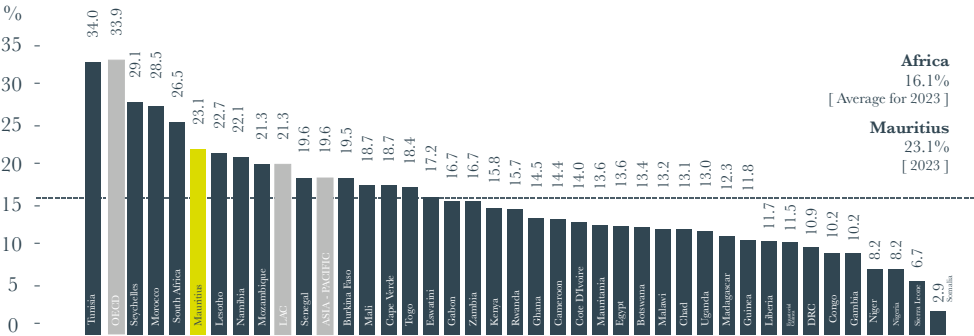
**Fiscal Policy mismatch:**  
Mauritius needs a fiscal strategy away from tax to non-tax revenues.

Mauritius vs.select African countries, Tax & Non Tax revenues / GDP [ 2000 - 2023 and 2023 ]

**Mauritius vs Africa Tax to GDP ratio**  
(as a % of GDP, 2000 - 2023)



**Tax-to-GDP ratio**  
Mauritius vs African select countries  
(as a % of GDP, 2023)



**Non - Tax revenues to GDP ratio**  
(as a % of GDP, 2023)

