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MAURITIUS

SELECTED ISSUES

June 18, 2026

Approved By
The African Department

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MODERNIZING MONETARY POLICY IN MAURITIUS: IMPLEMENTATION, ANALYTICS, AND COMMUNICATION AT THE BANK OF MAURITIUS[1]

Abstract

Since the adoption of an explicit inflation-targeting regime in 2023, Mauritius has made notable progress in modernizing its monetary policy framework. Reforms have strengthened the design of monetary policy implementation, enhanced analytical capacity through a modern Forecasting and Policy Analysis System (FPAS), and improved central bank communication. At the same time, incomplete implementation of the operational framework—particularly persistent excess liquidity that generates deviations between the announced policy rate and the effective stance—has constrained monetary transmission, while forward-looking analytical insights need to be enhanced in external communication. This Selected Issues Paper reviews recent achievements and highlights that stronger alignment between implementation, analytics, and communication would enhance policy effectiveness, further anchor inflation expectations, and reinforce the credibility of monetary policy in Mauritius.

A. Introduction and Motivation

1. **Mauritius has undertaken a significant modernization of its monetary policy framework over recent years, culminating in the adoption of an explicit inflation-targeting (IT) regime in January 2023.** This transition marked a structural shift away from a framework characterized by multiple objectives and less clearly defined operational targets toward a forward-looking, interest-rate-based regime aligned with international good practice.

2. **In parallel, the Bank of Mauritius (BOM) has invested in strengthening its analytical capacity and institutional processes, notably through the development, with technical assistance support from the IMF, of a Forecasting and Policy Analysis System (FPAS), and has expanded and professionalized its communication with financial markets and the public**. Together, these reforms have laid the foundations for a more consistent and transparent monetary policy framework.

3. **At the same time, the effectiveness of the overall framework depends critically on the degree of consistency and alignment across its core components**. Monetary policy implementation, analytical capacity, and communication are mutually reinforcing pillars: weaknesses or misalignments in any one of them can undermine policy transmission, weaken expectations formation, and erode credibility. This paper reviews recent developments across these three dimensions and discusses priorities to consolidate Mauritius's inflation-targeting framework.

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[1] Prepared by Leandro Medina (AFR) and Valeriu Nalban (ICD). The authors thank Guido Della Valle for his insightful comments and suggestions.

B. Monetary Policy Implementation: Achievements and Next Steps

The 2023 Operational Framework

4. **The 2023 reform of the monetary policy framework introduced a clear hierarchy between the ultimate objective of price stability, the intermediate target of inflation forecast, and the operational target of the overnight interbank rate**. The framework is centered on a single policy rate—the "Key Rate"—used to signal the stance of monetary policy, with implementation relying on fixed-rate, full-allotment issuance of 7-day BOM bills within a symmetric interest rate corridor defined by standing deposit and lending facilities.

5. **Relative to the previous operational setup, the new framework represents a substantial improvement in conceptual clarity and internal consistency**. By explicitly identifying the overnight interbank rate as the operational target, the framework has aimed to strengthen the link between policy decisions and short-term market rates, thereby improving monetary transmission via the interest rate channel.

Main Achievements

6. **Several aspects of the reform have worked as intended. The introduction of a single policy rate has reinforced the role of interest rates as the primary instrument for signaling the stance of monetary policy**. Survey evidence indicates that banks view the "Key Rate" as an important reference for pricing loans, and that changes in the policy rate are generally reflected in administered lending rates.[2]

7. **The symmetric corridor system, combined with the expanded liquidity management toolkit—including reserve requirements, short-term bills, longer-term BOM securities, and standing facilities—has enhanced BOM's operational flexibility and improved transparency regarding the use of policy instruments**. These reforms have contributed to a clearer understanding of the monetary policy framework among market participants.

Incomplete Implementation and Transmission Challenges

8. **Despite improvements in framework design, implementation has remained incomplete. Since mid-2023, issuance of 7-day BOM bills has been capped, resulting in persistent excess liquidity in the banking system (Figure 1).** As a consequence, the effective marginal absorption rate has been determined largely by the overnight deposit facility rate rather than by the "Key Rate". This has weakened the link between the announced policy rate and the effective monetary policy stance, delivering a looser stance than implied by the "Key Rate." The overnight interbank rate has tended to trade close to the deposit facility rate rather than around the policy rate, reducing the anchoring role of the "Key Rate" and limiting its usefulness as a pricing reference for financial contracts. The loose liquidity conditions also contribute to the lack of a univocal operational target of monetary policy implementation. These conditions have broader structural implications, including wider intermediation margins, heightened interest-rate risk for

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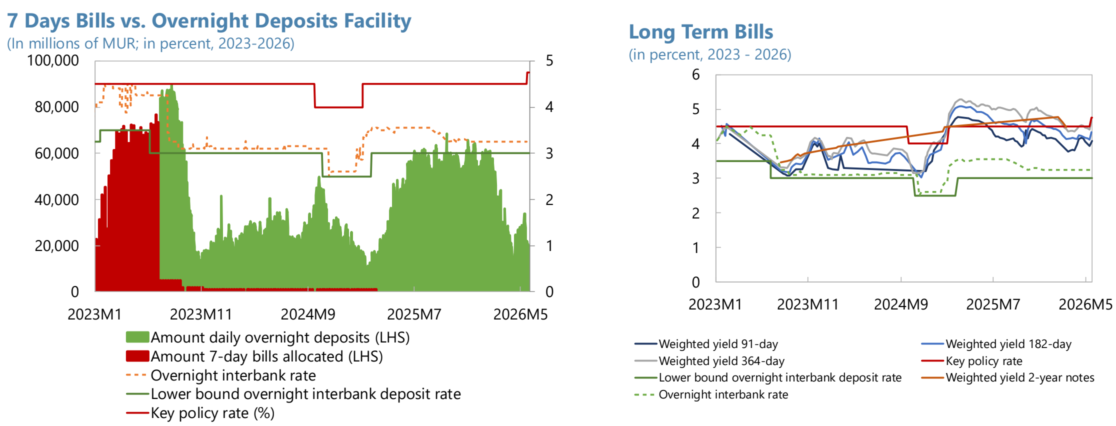
[2] During 2025, IMF's AFRITAC South conducted a survey among commercial banks to elicit their views and assessment of the interbank money market, funding and liquidity management, pricing and monetary policy transmission.

banks, and a shallow money market that may constrain the development of the broader capital market.

Policy Priorities

9. Restoring fixed-rate, full-allotment issuance of 7-day BOM bills at the policy rate is needed to realign the effective stance with the announced "Key Rate" under the present framework, and strengthening interest-rate transmission. This step would also support capital market development. Given current liquidity conditions, any realignment would need to be carefully calibrated and clearly communicated. More broadly, enhanced monitoring and communication of the effective monetary policy stance, together with a transparent framework guiding the mix between short- and longer-term liquidity absorption instruments, would support credibility and accountability.

Figure 1. Bank of Mauritius' Operations



Sources: Bank of Mauritius; and IMF staff calculations.

C. Strengthening Forecasting and Policy Analysis Under Inflation Targeting

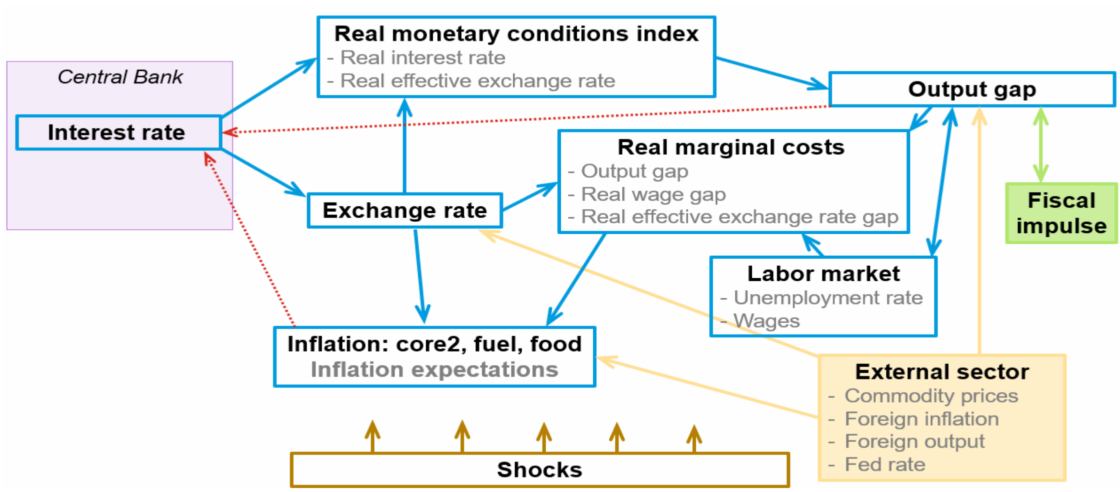
FPAS as the Analytical Backbone

10. In parallel with operational reforms, BOM has made substantial progress in strengthening its Forecasting and Policy Analysis System (FPAS). FPAS has become the analytical backbone of the inflation-targeting framework, supporting model-based forecasting, structured policy analysis, and forward-looking decision-making.

11. At the core of FPAS is a Mauritius-tailored Quarterly Projection Model (QPM), complemented by a suite of satellite tools for nowcasting, near-term forecasting, and sectoral analysis (see text figure for schematic representation of BOM's QPM).[3] Together, these tools generate internally consistent baseline projections and alternative scenarios that inform policy deliberations.

[3] Mauritius QPM is described in detail in Pampusa et al (2025).

Figure 2. Schematic Representation of Mauritius QPM Transmission Mechanisms



Source: IMF Working Papers 25/215

Institutional Integration and Use in Policymaking

12. **FPAS is well embedded in BOM's institutional processes through a structured quarterly forecasting calendar aligned with pre-announced Monetary Policy Committee (MPC) meeting dates.** Staff roles are clearly defined, and coordination across BOM departments supports a unified institutional view of the economic outlook.

13. **Baseline projections and alternative scenarios play a central role in MPC discussions, allowing policymakers to assess risks, evaluate trade-offs, and compare alternative policy paths in a consistent analytical framework**. This has improved forecasts and the transparency and discipline of internal policy deliberations.

Priorities for Forecasting and Policy Analysis

14. **While FPAS has substantially strengthened BOM's analytical capacity, further progress is needed to consolidate gains.** Priorities include refining model extensions and satellite tools, ensuring continuity of staff capacity, and deepening the integration of FPAS outputs into external communication. As monetary policy becomes increasingly evidence-based and forward-looking, systematic communication of projections, scenarios, and risks will be essential to anchor expectations and enhance policy credibility.

D. Communication as a Policy Instrument: Strengths and Reform Priorities

Current Communication Framework

15. **BOM communicates through a broad set of channels, including monetary policy decisions and press releases, Monetary Policy Report, Financial Stability Report, statistical publications, speeches, and digital platforms**. Communication with financial market participants is frequent and professional, supported by established bilateral exchanges.

16. Survey evidence from commercial banks and selected non-bank financial institutions suggests that core stakeholders generally have a good understanding of BOM's mandate and monetary policy framework, and view communication as clear and relevant for decision-making. Readability analysis indicates that BOM's publications compare favorably with those of peer central banks.

17. At the same time, strategic planning and message coordination could be enhanced. Forward-looking content—particularly explicit discussion of risks, contingencies, and conditional policy responses—remains more limited than in peer inflation-targeting countries. Communication related to exchange-rate policy and foreign exchange operations is perceived as less clear by survey respondents.

18. While trust in BOM's commitment to price stability remains high, concerns among survey respondents about perceived political influence underscore the importance of transparent, consistent, and well-structured communication to reinforce institutional credibility and independence.

Reform Priorities for the Communication Framework

19. International experience highlights the importance of a clear communication strategy aligned with the policy framework, predictable communication cycles, strong message discipline, explicit audience segmentation, and systematic evaluation of effectiveness. In an increasingly complex information environment with higher uncertainty, clear and timely communication can help support public understanding of monetary policy and reinforce central bank credibility. For BOM, priorities include formalizing an institutional communication strategy; strengthening the role of the Communications Unit in planning and narrative development; adopting a more structured, forward-looking approach to monetary policy communication; expanding integrated, multi-channel outreach; and institutionalizing monitoring and evaluation of communication effectiveness.

E. Policy Priorities to further Modernize Monetary Policy in Mauritius

20. Mauritius has made significant progress in building and implementing the core components of a modern inflation-targeting regime. Overall policy priorities center on strengthening both monetary policy implementation, and forecasting and policy analysis—in coordination with an upgraded BOM communication strategy. Fully implementing the operational framework, comprehensively leveraging FPAS as the organizing framework for both internal deliberations and external narratives, and adopting a more strategic, forward-looking communication approach would materially strengthen the monetary policy framework. Stronger alignment across these pillars would help increase the signal value of the announced policy rate, anchor inflation expectations more firmly and reinforce the credibility and effectiveness of monetary policy in achieving its inflation objective—supporting macroeconomic stability in an increasingly complex and uncertain global environment.

References

Pampusa, M., Moheeput, A., Babboo, A., Tengur, R., Cunniah, R., Gariban, S., Miller, I., Mkhatrishvili, S. and Nalban, V. "Mauritius QPM: A Quarterly Projection Model for the Bank of Mauritius," IMF Working Papers 25/215, 2025.

DEMOGRAPHIC HEADWINDS: THE GROWTH IMPACTS OF POPULATION AGEING IN MAURITIUS[1]

Abstract

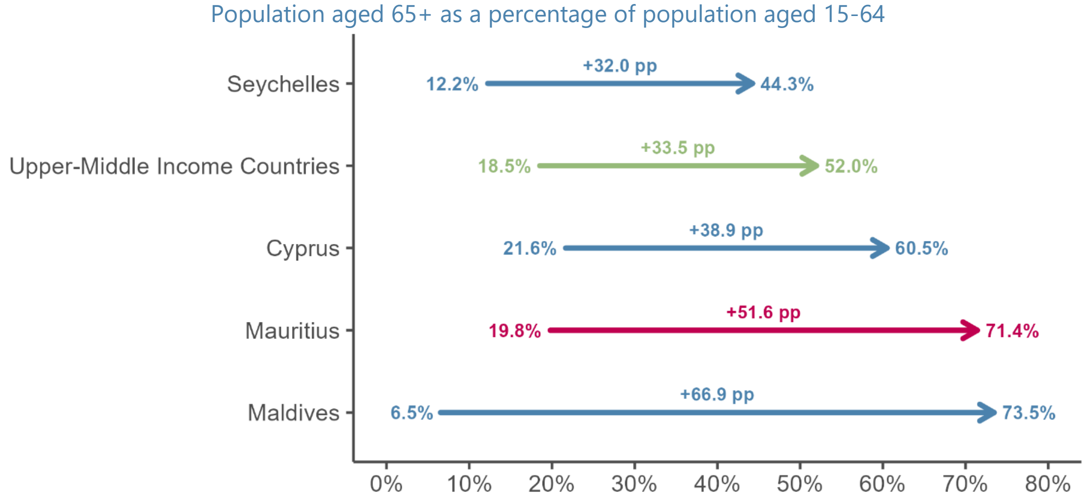
Mauritius faces severe demographic headwinds from rapid population ageing, low fertility and out-migration. Using a growth decomposition framework, this paper finds that demographic factors turned from supporting growth to weighing on it around 2017 and could reduce GDP growth by about 2 percentage points per year by 2070. Relative to a counterfactual of unchanged demographics, GDP would be nearly 50 percent lower by 2070, and GDP per capita about 28 percent lower. Higher labor force participation among women, older workers, and youths can partly cushion these effects and improve debt dynamics through stronger growth, but cannot fully offset them. A broader reform agenda to raise productivity will therefore be essential to sustain growth, living standards, and fiscal sustainability.

A. Demographic Trends and Macroeconomic Context

1. Mauritius is experiencing one of the fastest population ageing processes among its peers. The old-age dependency ratio (population aged 65+ relative to those aged 15-64) is projected to rise sharply over the coming decades (Figure 1). This reflects both increasing longevity and persistently low fertility: fertility stood at 1.4 births per woman in 2024, well below the replacement rate. Compounding the demographic pressures is out-migration – particularly among skilled workers. As a result, the total population has begun to decline, falling to about 1.24 million at end-2024. Long-run population projections point to a much smaller and older population by mid-century and beyond; total population is projected to decline nearly 30 percent by 2070.

Figure 1. Dependency Ratio: 2025 – 2070

Population aged 65+ as a percentage of population aged 15-64



Sources: United Nations, World Population Prospects (Data Portal); and IMF Staff calculations

[1] Prepared by Athene Laws (AFR).

2. These demographic developments have first-order implications for the macroeconomic outlook for Mauritius. A smaller labor force reduces the economy's growth potential unless offset by stronger labor force participation, productivity gains, or migration. At the same time, ageing increases pressure on public finances through pensions, healthcare, and other age-related spending, making it harder to preserve fiscal space. The combination of negative population growth, a declining working-age share, and a rising elderly population is expected to exert a sizeable drag on economic growth, while simultaneously intensifying fiscal pressures, notably through higher pension and healthcare spending.

3. International literature shows that population ageing can weigh on economic growth through several channels. Many countries, particularly advanced economies, are similarly facing a declining share of working-age people, generating concerns around a projected squeeze in labor supply, lower potential output growth and strained public finances (Gagnon, Johannsen, and López-Salido 2021; Maestas, Mullen and Powell 2023). Ageing may also affect productivity if fewer ideas are generated and innovation weakens, further depressing growth (Aksoy and others 2019; Jones 2022). An ageing population and lower expected growth can combine to reduce investment, weighing on future growth through weak capital formation (Jones 2018; Rachel and Summers 2019). Chapter 2 of the April 2025 *World Economic Outlook* emphasizes that these headwinds need not be fully one-sided: healthier ageing, stronger labor force participation among older individuals, and narrower gender gaps in participation can all help cushion the adverse macroeconomic effects of ageing. A key message is that the magnitude and impacts of ageing are highly uneven across countries, thus policy responses must be tailored to the specific situation.

4. Here, the effects of ageing on growth are explored for Mauritius, with a specific focus on labor supply channels. First, a growth decomposition framework quantifies the magnitude of the country's demographic headwinds. Significant and strengthening downward pressures are identified, and demographic pressures could reduce growth by two percentage points per year by 2070. Second, illustrative simulations of labor supply scenarios show the extent to which mobilizing underutilized labor resources (notably women, youths, and older workers) can partially counteract these headwinds. For each, policies that can help increase labor force participation are outlined. Next, the fiscal implications of these labor-supply scenarios are assessed through the debt sustainability framework, demonstrating that growth effects of demographic change can generate significant impacts on debt dynamics. Overall, while the biggest growth gains can be found through increasing women's and older workers labor force participation rates, no policy in isolation is sufficient to fully offset the demographic headwinds. A combination of multiple labor market reforms and broader productivity improvements will be essential in the coming decades.

B. Analytical Framework and Methodology

5. To quantify the growth implications of demographic change, GDP developments are decomposed into population, labor supply, and productivity components using a shift-share framework. Aggregate output can be expressed as:

$$GDP = N \times \frac{WA}{N} \times \frac{L}{WA} \times \frac{Y}{L}$$

where N denotes total population, WA/N the working-age population share, L/WA the labor force participation rate of the working-age population, and Y/L output per worker (productivity).

6. Two simplifying assumptions are applied. First, labor productivity per worker is held constant over time, abstracting from capital deepening and innovation effects (term Y/L is constant). Second, age-specific labor force participation rates remain fixed (for example, a 35-year-old woman in 2026 will have the same labor force participation rate as a 35-year-old woman in 2050). Under these assumptions, the contribution of demographic change to GDP growth can be decomposed into three channels:

a. Changes in total population (population size effect; contribution of term N);
b. Changes in the working-age population share (retirement effect; contribution of term WA/N); and
c. Changes in the age composition within the working-age population, reflecting lower participation among younger and older cohorts (composition effect; contribution of term L/WA).

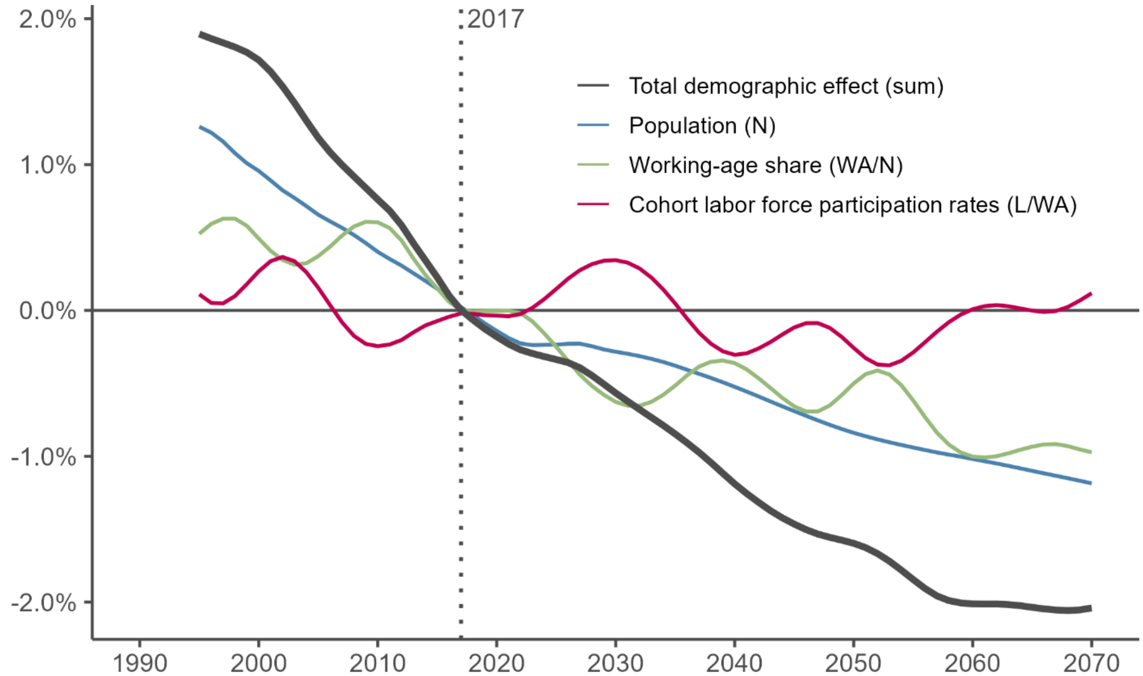
7. Two primary sources of data are used. For population projections, the United Nations World Population Prospects median fertility scenario in 5 year age bands is applied, disaggregated by gender as needed. Labor force participation rates are the International Labor Organization's estimates, based on Mauritius' 2023 Continuous Multipurpose Husehold Survey, in five-year age bands, also disaggregated by gender as needed.

C. Baseline Results: the Demographic Drag on Growth

8. The baseline decomposition indicates that demographic factors have already shifted from supporting growth to weighing on it. Until the mid-2010s, a rising working-age population provided a net positive contribution to output growth. Around 2017, however, the demographic contribution turned negative as population ageing intensified and overall population growth weakened. As shown in Figure 2, the demographic tailwind that had previously supported the economy has given way to a persistent headwind

Figure 2. Demographic Factors: Growth Decomposition

Contributions to Growth, Percentage Points (5-Year moving Average), 1990-20270



Sources: UN world Population Prospects; ILOSTAT; AND IMF Staff Calculations

9. **The results suggest that demographic drag is expected to intensify in the coming years, with annual GDP growth reduced by about 2 percentage points per year by 2070**. Approximately half of this drag reflects the declining size of the population (Figure 2, blue line), while the remainder stems from ageing itself, operating through both a falling working-age share and less favorable age composition within the labor force (Figure 2, green and red lines).[2] In other words, Mauritius faces a dual challenge: fewer people overall and a smaller share of those people in their prime working years. The cumulative level effect of this reduces GDP in 2070 by nearly 50 percent, relative to a counterfactual of no demographic change (Figure 3). Roughly half of this fall is due to population size effects, and the other half due to ageing. National debt and other stock variables will therefore be shouldered by a much smaller economy and working population.

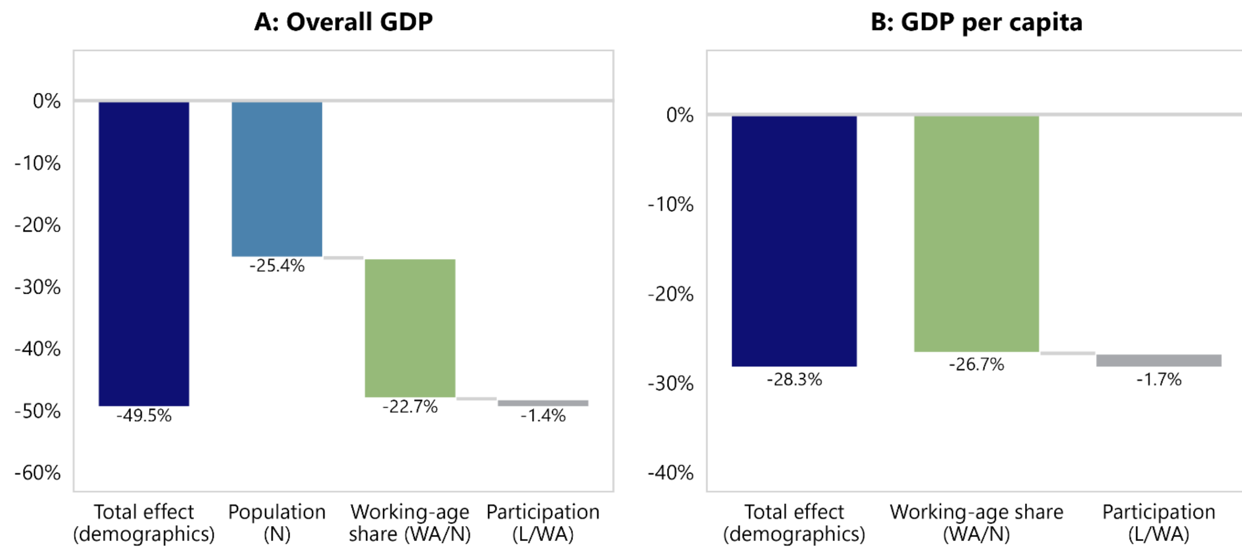
10. **Living standards are more directly captured by looking at GDP per capita, thus abstracting from population size effects.** The decomposition results imply that ageing alone (excluding population shrinkage) could lower GDP per capita by about 28 percent between 2025 and 2070 if productivity gains do not compensate. Most of this decline is driven by the shrinking working-age share of the population, which accounts for almost 27 percentage points of the reduction. Changes in participation within working-age cohorts contribute a much smaller effect—

[2] The oscillations in the working age share and cohort labor force participation rate contributions are a result of different cohort sizes as they move through their projected working lives.

less than 2 percentage points—suggesting that the dominant channel operates through the broad shift in the population structure

Figure 3. GDP Level Effects of Demographic Drag

Cumulative Effect on GDP level by 20270, by demographic Component



Sources: UN World Population Prospects, ILOSTAT, IMF staff Calculations Notes: GDP level effects are relative to a counterfactual of constant demographics. Component contributions are derived by allocating the total GDP level effect proportionally to cumulative log contributions. This ensures order-invariant attribution but does not represent marginal level effects.

D. Scenario Analysis: Labor Supply Policies to Mitigate Demographic Headwinds

11. The baseline results point to a sizable and persistent demographic headwind, but they also suggest that policy can partly mitigate its effects by mobilizing underutilized labor supply, i.e. increasing the share of the population in work. To illustrate the scope for such mitigation, a set of partial-equilibrium scenarios focused on labor force participation are presented. These scenarios are illustrative rather than prescriptive and should be interpreted as such.

12. In each scenario, labor force participation rates are adjusted per the scenario, and the resulting impact on GDP per capita is calculated using the same analytical framework in previous sections. The simulations abstract from productivity gains, capital deepening, labor demand effects, and transition dynamics, and instead show the mechanical contribution of higher participation to output under alternative assumptions beginning in 2026. They also abstract from migration policy: a separate lever that influences demographic paths, and comes with its own set of political, social and economic considerations.

Scenario 1: Increasing Participation Among Older Workers (ages 50-64)

13. Extending working lives emerges as one of the most important margins for mitigating ageing-related labor supply losses. In practice, participation at older ages is constrained by a combination of supply-side factors, including preferences for early retirement, health limitations, and skill obsolescence, as well as demand-side barriers such as age discrimination and limited access to flexible work (Neumark, Burn, and Button 2019; D'Albis 2023). In this scenario, labor force participation rates for individuals aged 50–64 are assumed to rise to the contemporaneous participation rate of the 45–49 cohort (79%), while all other age-specific participation rates remain unchanged. Under this assumption, simulated GDP per capita is about 12 percent higher by 2070, offsetting roughly 30 percent of the projected ageing-related decline.

14. Policies to support longer, healthier and more productive working lives should be a central part of the response to ageing. In Mauritius, this would require a stronger focus on employability at older ages, including mid-career reskilling, lifelong learning[3], flexible work arrangements, and workplace adaptation to accommodate older workers more effectively. International evidence shows that policies tackling age discrimination, expanding access to continuous training, and enabling more flexible or phased work arrangements can materially improve employment outcomes for older workers (OECD 2019). Fortunately, these age-inclusive labor market features are becoming more common in modern labor markets (Acemoglu 2022) but policy should be designed to encourage their uptake. Health care becomes economic investment too: mitigating the burden of non-communicable diseases and other ageing related health concerns can help maintain attachment to the labor market. Cross-country evidence finds that improvements in health lead to large gains in labor force participation rates, earnings, productivity, and hours worked, particularly for workers in their fifties (WEO 2024).

Scenario 2: Increasing Youth Labor Force Participation (Ages 15-29)

15. Strengthening youth labor market attachment can also help mitigate the demographic drag, although the direct quantitative gains are smaller than for older-worker reforms given cohort sizes. Nonetheless, early labor market outcomes matter disproportionately because weak transitions from education into work can have persistent effects on skills acquisition, employment histories, and future earnings (also termed labor market scarring). In Mauritius, youth unemployment stood at 15.6 percent in 2024, compared with 5.2 percent for the overall population, pointing to underutilized labor potential. This scenario assumes that participation rates among individuals aged 20–29 rise to those of the 30–34 age group (87%), while participation among those aged 15–19 doubles from 14% to 27.8 percent. The simulation raises GDP per capita by about 4 percent by 2070, offsetting roughly 14 percent of the projected ageing-related decline.

16. A takeaway is that higher youth participation requires smoother and more effective education-to-work transitions. Policies include expanded access to post-secondary and tertiary

[3] Government plans to expand micro-credentials, including as part of the National Employment Plan 2024-2028, are steps in this direction.

education, apprenticeships and other work-based learning opportunities, and improved alignment between curricula and labor market needs.[4] Care must be taken to ensure that labor market regulations, including minimum wage levels, are not set at levels that may dissuade hiring inexperienced workers. Internationally, well-designed active labor market policies, apprenticeships, and early labor market attachment have been shown to improve youth employment outcomes and reduce long-term scarring (Ahn and others 2019; ILO 2019, 2024a). The most effective policies tend to combine job-search assistance and counseling, apprenticeships or other work-based learning, and targeted hiring or training support, and are more successful when interventions are closely linked to labor demand and aimed at reducing skills mismatches and labor market informality.

Scenario 3: Raising the Statutory Retirement Age (Ages 65-69)

17. Raising the statutory retirement age is a further channel for mitigating ageing-related declines in labor supply, although the gains remain smaller than those from mobilizing older workers more broadly. This scenario assumes that participation among individuals aged 65–69 rises to the current participation rate of the 60–64 cohort, equivalent to about 37 percent, consistent with a higher effective retirement age. Under this assumption, simulated GDP per capita is around 8 percent higher by 2070, offsetting roughly 21 percent of the projected ageing-related decline.

18. The policy relevance of this result should be interpreted with caution. Mauritius has already taken steps to gradually raise eligibility age of some pension benefits, and further increases may face substantial social and political constraints in the near term. The scenario, like the others, is therefore purely hypothetical. However, it does illustrate that even sizeable retirement-age increases would need to be accompanied by measures that preserve employability and job quality at older ages, including better health support, skills updating, and flexible work arrangements, if they are to translate into meaningful labor-supply gains. International evidence from the OECD suggests that retirement-age reforms are most effective when combined with broader efforts to improve incentives and opportunities for older workers to remain in work (OECD 2019).

Scenario 4: Increasing Female Labor Force Participation

19. Increasing female labor force participation offers the largest gains among the scenarios considered. In Mauritius, women's participation rate remains well below that of men—58.2 percent versus 78.6 percent—reflecting a combination of structural barriers, care responsibilities, and social norms (Mauritius *Selected Issues Paper* 2024 'Closing the Gender Gap'). Two counterfactuals are examined: one in which the gender participation gap is fully closed within each age group, and another in which the age-specific gap is reduced by half. The simulations indicate that fully closing the gap would raise GDP per capita by about 17 percent by 2070, offsetting roughly 42 percent of the projected ageing-related decline. Even a more realistic scenario

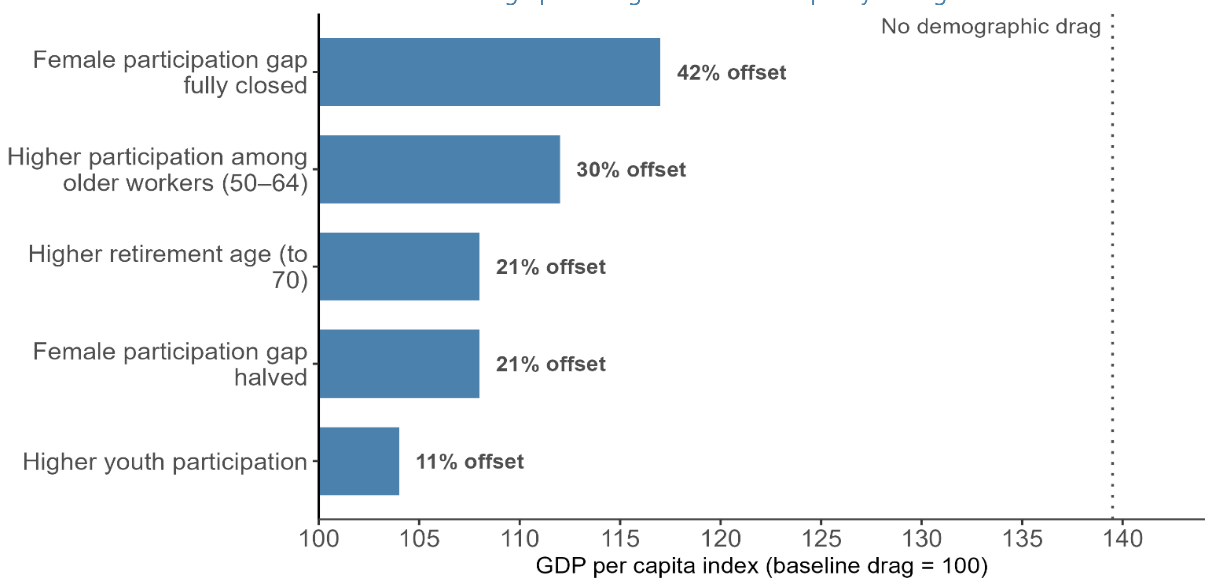
[4] Many of these youth employment priorities are under active policy development in Mauritius, including in the National Employment plan 2024-2028 and other skills and training initiatives.

in which the gap is halved would increase GDP per capita by around 8 percent, offsetting 21 percent of the demographic drag

20. These findings underscore that raising female labor force participation should be a core pillar of Mauritius's response to population ageing. Achieving durable gains would require a broad policy package that reduces barriers to paid work, including improved access to childcare and eldercare, greater availability of flexible and part-time work, and stronger enforcement of equal treatment in hiring, pay, and career progression. Internationally, unpaid care responsibilities play a substantial role in limiting women's labor market participation, thus the availability affordable childcare is an important lever for improving women's employment outcomes (ILO 2024b). Across 26 OECD countries, well-designed structural fiscal policies, such as spending on early childhood education, active labor market programs, are found to increase female labor force participation (Asai and others 2023).

Figure 4. Impact of Scenarios on GDP per Capita by 2070

Baseline = 100: Full Demographic Drag effects with no policy Changes



Sources: UN World Population Prospects; ILOSAT; and IMF Staff Calculations

21. Of the scenarios considered, the largest potential labor force gains come from ensuring older, pre-retirement age workers remain attached to the labor market, and encouraging further gains in female labor force participation (Figure 4). However, even large labor market changes are insufficient, in isolation, to fully offset the demographic drag caused by ageing populations.

E. Fiscal Implications of Stronger Growth Under Reform Scenarios

22. The labor-supply scenarios presented above also have important fiscal implications insofar as higher participation raises output, broadens the tax base, and improves the macroeconomic environment in which fiscal adjustment takes place. To capture these effects, the simulated GDP gains from the labor-supply scenarios were translated into constant annual additions to baseline real GDP growth through 2040 (Table 1). These higher-growth paths were then incorporated into the IMF Sovereign Risk and Debt Sustainability Framework, linked to a full macroframework, to assess their implications for public debt dynamics and the broader fiscal outlook.

23. This approach goes beyond a mechanical exercise by allowing the stronger growth paths to feed through the broader macro-fiscal framework, including higher tax receipts and other general-equilibrium effects. The exercise covers the scenarios for older workers, youth participation, and female labor force participation, including both full and partial closure of the gender participation gap. The fiscal effects of pension reforms are covered separately in Annex IV in the 2026 Staff Report for Mauritius.

Table 1. Mauritius: Scenario Impacts on Debt-to-GDP Ratios

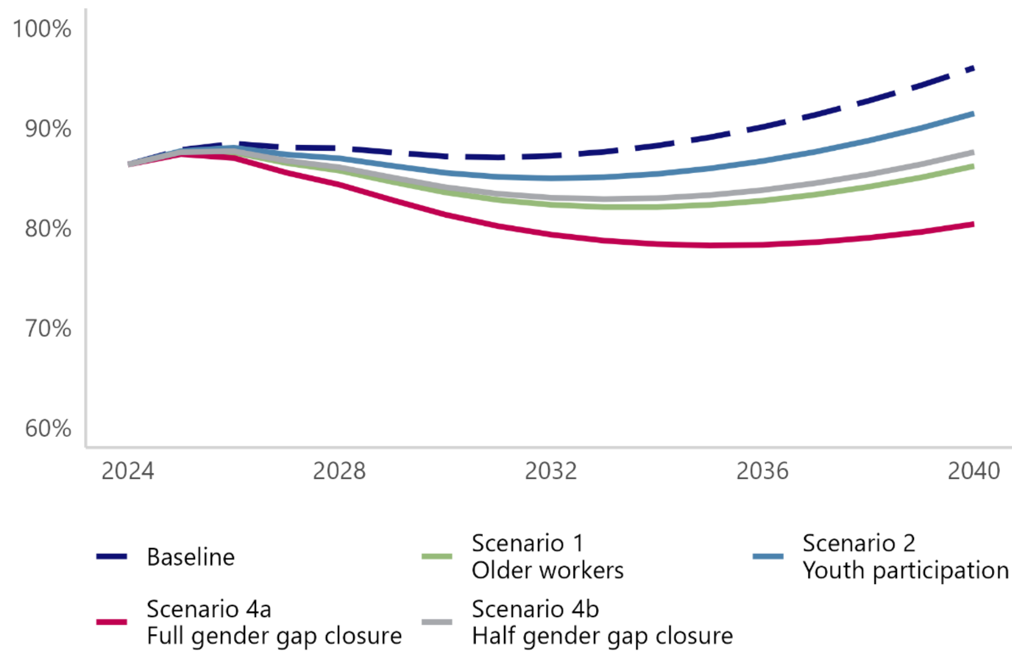
Scenario	**Annual growth add-on through 2040**	**Debt-to-GDP ratio in 2040**
Baseline	NA*	96 percent
Scenario 1: Increasing participation among older workers	+0.60 pp per year	86 percent
Scenario 2: Increasing youth labor force participation	+0.27 pp per year	91 percent
Scenario 4a: Increasing female labor force participation (full closure of the gender gap)	+0.98 pp per year	80 percent
Scenario 4b: Increasing female labor force participation (half closure of the gender gap)	+0.51 pp per year	88 percent

* Long term growth is estimated at 3.2 percent per year under the baseline.

24. Higher growth from boosting labor force participation improves debt carrying capacity and reduces debt ratios closer to fiscal targets. Under the baseline, annual growth is estimated at 3.2 percent per year and public debt is forecast to rise to 96 percent of GDP – far exceeding the 80 percent debt anchor estimated in *Reinstating Fiscal Rules* (Selected Issues Paper 2022). By increasing the labor force participation rates of underutilized groups in the scenarios, projected debt to GDP could fall by 5 to 16 percentage points of GDP by 2040. The largest improvement comes from the most substantial labor market changes: fully closing the gender labor force participation rate gap reduces the debt-to-GDP ratio to 80 percent of GDP by 2040

Figure 5. Impact of Scenarios on Public Debt

(Debt-to-GDP, Percentage)



Source: UN Population Prospects; ILOSAT; and IMF Staff Calculations.
Notes: Scenario Growths Paths are inserted into the IMF's general equilibrium macroeconomic framework and Debt Sustainability Analysis for Mauritius

F. Discussion

25. The scenario analysis points to three broad conclusions. First, labor-supply reforms can materially mitigate the growth effects of ageing, but none of the individual measures are sufficient on their own to fully offset the projected demographic drag. Second, the largest gains come from measures that expand participation where current gaps are greatest—notably among women and older workers. Third, the fiscal simulations suggest that stronger growth under these reform paths would not only support output, but also improve public debt dynamics by broadening the tax base and easing the adjustment burden within the macro-fiscal framework.

26. From a policy perspective, the results suggest that reform priorities should balance impact with feasibility. Measures to raise female labor force participation appear especially promising because they combine relatively large potential gains with a reform agenda that can be advanced gradually through childcare provision, flexible work arrangements, and stronger equal-opportunity enforcement. Results suggest that measures to support longer working lives should also be a central priority, particularly through reskilling, healthier ageing, and age-inclusive labor market practices. By contrast, increases in the statutory retirement age, while potentially beneficial, estimated gains are smaller as well as likely to be more politically constrained and may therefore need to proceed more gradually and in tandem with broader pension reforms.

27. International experience suggests that labor-supply reforms can materially cushion demographic headwinds, even if they do not fully offset them. In Japan, structural reforms—including measures that support higher participation among women and older workers—can partly reverse the output losses associated with ageing and population decline, though broader macroeconomic conditions and policy credibility also matter for fiscal outcomes (Colacelli and Corugedo 2018; Jones and Seitani 2019; Hong and Schneider 2020). Evidence from Sweden suggests that pension reforms should be part of a broader package that supports longer working lives, including policies generating better health and educational attainment among older cohorts, more age-compatible work environments, and institutions that strengthen incentives to remain employed (Laun and Palme 2018; Foccaci and others 2023).

28. At the same time, the analysis underscores that labor-supply measures alone cannot fully solve the challenge posed by ageing. Even ambitious participation reforms leave a substantial residual growth gap, implying that Mauritius will also need to rely on stronger productivity growth to sustain living standards and fiscal sustainability over time. This highlights the importance of complementary structural reforms to increase productivity, including efforts to increase investment, improve skills, boost innovation, strengthen the business environment, and tackle production bottlenecks. In that sense, labor-supply reforms should be viewed not as a standalone solution, but as one pillar of a broader strategy to adapt the economy to an older and smaller population

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