

# Mauritius at risk: Macroeconomic implications of oil price volatility

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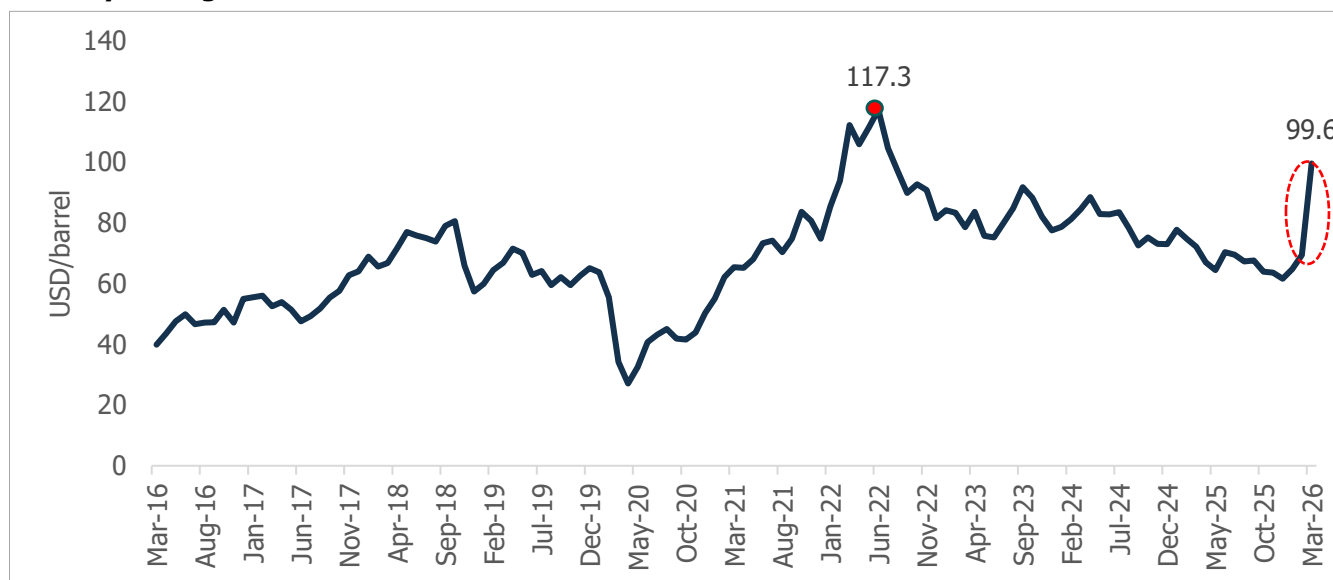
## Mauritius: Economic spillovers from the Middle East conflict

The ongoing Middle East conflict continues to fuel volatility in global energy markets. Despite recent diplomatic efforts and attempts at de-escalation, lasting stability remains elusive. Renewed military activity and disruptions to key maritime corridors have kept energy markets on edge, maintaining a risk premium on oil prices.

All eyes are on the Strait of Hormuz, a critical conduit for global oil and gas trade. Periodic restrictions on maritime passage, higher war-risk insurance premia, and elevated freight costs have reinforced concerns over the reliability of energy supply routes. Resultantly, global crude oil prices remain elevated and volatile, with risks leaning towards instability rather than normalisation.

Energy import-dependent economies such as Mauritius are intensely affected. Higher and more volatile oil prices raise import costs directly and indirectly through freight, insurance, and commodity price channels, adversely affecting domestic inflation, external balances, and growth prospects. Even under a favourable scenario where geopolitical tensions ease intermittently, we are of the view that conflict-induced cost pressures are unlikely to normalise in the near term, implying sustained downside risks for Mauritius.

## Monthly average Brent crude oil



Source: Haver Analytics, CareEdge Computation

## Oil price scenarios and effect on the Mauritian economy

For a small, open, and import-dependent economy such as Mauritius, changes in global oil prices affect the macroeconomic outlook through a set of transmission channels. Higher oil prices raise the fuel import bill directly,

while driving up freight and insurance costs across imports. These cost pressures also spill over into other domains with increasing fertiliser, transport, and distribution costs, which ultimately raises domestic inflation.

Concurrently, higher energy and logistics costs weigh on household purchasing power and business profitability, ultimately slowing down growth. On the external side, rising import values widen the trade and current account deficits, increasing reliance on external financing and pressure on foreign exchange buffers.

Against this backdrop, we have analysed the macroeconomic outlook under pre-crisis and three oil price scenarios. While each scenario shares the same economic transmission channels described above, outcomes differ in terms of the scale and duration of the shock.

The pre-crisis scenario is included as a reference case, consistent with the IMF's initial 2026 outlook (October 2025), when crude oil prices were expected to average USD 66 per barrel and global energy markets were assumed to remain stable. This scenario provides a counterfactual benchmark for assessing how recent developments have altered the macroeconomic outlook.

Scenario 1 is assessed as the baseline and most likely outcome, reflecting current market conditions and prevailing geopolitical uncertainty. Under this scenario, crude oil prices are assumed to average USD 82 per barrel in 2026, remaining elevated relative to pre-crisis expectations and resulting in persistent but manageable pressures on inflation, growth, and the external position.

Scenarios 2 and 3 explore progressively more adverse environments under sustained high oil prices. Scenario 2 assumes crude oil prices averaging USD 95 per barrel, while Scenario 3 represents a more extreme stress case with prices averaging USD 105 per barrel. While the transmission channels are unchanged, higher price and greater persistence of the shock result in increasingly binding cost pressures, wider external imbalances, and more pronounced macroeconomic adjustment.

The detailed implications of each scenario for inflation, real GDP growth, and the current account balance are discussed in the following sections.

### Macroeconomic outcomes under alternative oil price scenarios (2026)

	Crude oil price	Inflation	Real GDP growth	Current account balance
Pre-crisis scenario	USD 66 per barrel	3.6%	3.4%	-5.7%
Scenario 1 (Baseline)	USD 82 per barrel	4.9%	2.8%	-7.2%
Scenario 2	USD 95 per barrel	6.0%	2.1%	-8.6%
Scenario 3	USD 105 per barrel	6.8%	1.7%	-9.7%

Source: IMF, World Economic Outlook (October 2025); CareEdge Computation

### Macroeconomic impact across oil price scenarios

#### Inflation

After averaging 3.7% in 2025, the IMF's October 2025 WEO forecast inflation in Mauritius to remain stable at 3.6% in 2026, contingent on broadly stable external conditions. Consistent with this outlook, higher-frequency data showed a period of near-term disinflation in early 2026, with headline inflation easing to 2.7% YoY in March, from

3.5% in February and 3.9% in January. This stems from a temporary slip in food and energy prices alongside lagged effects of administered price measures.

However, benign near-term disinflation is unlikely to last amid escalating geopolitical tensions and sustained increases in international oil prices. Because petroleum products, including petrol, diesel, LPG, jet fuel, and fuel oil for electricity generation accounted for 22.9% of Mauritius's import bill in 2025, the economy is highly sensitive to oil market volatility. Higher crude oil prices, therefore, transmit rapidly into inflation through higher retail fuel prices, rising transport and freight costs, and increased production expenses. This transmission is reinforced by the high weight of fuel and lubricants for personal transport equipment (7%), and electricity and cooking gas (3.9%) in the CPI basket. The initial shocks are subsequently amplified through second-round channels, particularly via food distribution, services, and informal economic activity.

Under the pre-crisis reference case, where oil prices were assumed to average USD 66 per barrel, inflation was projected at 3.6%, broadly consistent with medium-term price stability.

Against this benchmark, Scenario 1 (baseline), which assumes USD 82 per barrel, sees inflation rise to 4.9% in 2026. This projection is consistent with price pressures already materialising domestically, including cumulative increase of 20.9% per litre in diesel prices in March and April 2026 (reflecting two consecutive adjustments), a 9.9% increase in petrol prices per litre in April 2026, and a 31.6% rise in cooking gas prices (LPG 12kg) in April 2026. In addition, administered food prices have been adjusted sharply, with the price of a 100g loaf of bread increasing by 50% in April 2026, alongside an expected 15% increase in electricity tariffs from May 2026. Collectively, these developments raise the costs for households as well as firms, reinforcing the upward inflationary trajectory under the baseline scenario.

Under Scenario 2 (USD 95 per barrel), inflation is projected to rise to 6.0% in 2026. Under Scenario 3 (USD 105 per barrel), inflation is expected to increase to 6.8%.

Overall, while headline inflation (YoY) moderated temporarily in early 2026 (January-march), the balance of risks has shifted decisively to the upside. Sustained oil price pressures are expected to reverse recent disinflation and lift inflation above pre-crisis expectations as prices consistently trend up.

### **Real GDP growth**

After expanding by 3.2% in 2025, Mauritius entered 2026 with firm growth momentum, supported by strong performance in the tourism sector. Under pre-crisis assumptions, when international oil prices were expected to remain broadly stable, growth was projected to remain robust at 3.4% in 2026. However, the subsequent escalation of geopolitical tensions and the sharp rise in global oil prices have altered the growth outlook. The impact on real GDP growth is expected to unfold gradually but become increasingly broad-based, operating through higher production costs and weaker purchasing power. It could also impact exports to an extent.

Under Scenario 1 (USD 82 per barrel), which is assessed as the most likely outcome, real GDP growth moderates to 2.8% in 2026. Higher fuel, transport, and logistics costs compress firm profit margins and erode real household incomes, weighing on private consumption and investment. While economic activity remains expansionary, growth momentum weakens as cost pressures spread across energy-intensive sectors and firms adjust to a more challenging operating environment.

Tourism represents a key transmission channel. After a strong start to the year, recording 8% YoY growth in January and 12% YoY in February, momentum softened in March, with arrivals up only 1.3% YoY. This deceleration highlights the sector's sensitivity to higher airfares and connectivity disruptions. Elevated oil prices are expected to translate into higher air travel costs, particularly for long-haul markets, while operational disruptions or cost pressures faced by major hub-based airlines serving Mauritius, including Emirates Airline, could further reduce flight frequencies and arrivals. Indirectly, higher operating costs for hotels, transport providers, and tourism-related services weigh on profitability, despite resilience in per-capita spending so far.

Spillovers are expected across other sectors as well. In agriculture, higher fuel and fertiliser costs raise production and distribution expenses, limiting profitability. Construction activity is likely to slow down as energy-intensive raw materials (cement, steel, and copper) and other imported building inputs become more expensive, leading to project delays or investment scale-back. Manufacturing and agro-processing sectors also face rising input costs and pressure on competitiveness as freight and insurance costs increase.

Under Scenario 2 (USD 95 per barrel), real GDP growth is expected to slow to 2.1%. Under Scenario 3 (USD 105 per barrel), real GDP growth is forecast to moderate to 1.7%.

Persistently high energy costs are expected to materially weaken Mauritius's growth outlook. The cumulative drag on tourism, agriculture, construction, and manufacturing highlights the economy's vulnerability to external energy shocks. To safeguard medium-term growth momentum, protective measures are essential.

### **Current account balance**

As an open and import-dependent economy, Mauritius's external position is particularly vulnerable to adverse external shocks, especially energy and commodity prices. With limited scope for short-term import substitution or rapid adjustment in external demand, increases in global oil prices swiftly widen the current account deficit. After widening to an estimated 4.8% of GDP in 2025, the IMF (October 2025 WEO) had already projected the deficit to increase further to 5.7% of GDP in 2026, highlighting the underlying fragility of the external position even before accounting for renewed energy price pressures.

Mauritius is a net oil importer, underscoring its exposure to energy price shocks. Petroleum imports are estimated at around USD 1.3 billion, while oil exports are estimated at only USD 90 million, largely reflecting bunkering activities and re-exports rather than domestic production. This results in a net oil trade deficit of approximately USD 1.2 billion, highlighting the significant drag exerted by higher oil prices on the external balance and reinforcing the sensitivity of the current account to volatility in the global energy markets.

Under Scenario 1 (baseline), the current account deficit is projected to widen to 7.2% of GDP. Higher oil prices directly raise the fuel import bill, including petrol, diesel, LPG, jet fuel, and fuel oil for electricity generation, which accounted for 22.9% of Mauritius's total import bill in 2025. In addition, elevated oil prices increase freight, insurance and shipping costs, amplifying the value of imports. Collectively, these price effects dominate the external adjustment, widening the trade deficit even if import volumes remain relatively contained.

The deterioration in the external balance is reinforced through other commodity channels, particularly food imports. Elevated energy prices tend to push up global food prices because of higher fertiliser costs, energy-intensive agricultural production, and more expensive transportation and storage. Given Mauritius' heavy reliance on

imported food and essential consumer goods (of which food and live animals accounted for 19.3% of the total import bill in 2025), higher international food prices further raise the import bill, compounding pressure on the trade balance and broadening the external shock beyond energy.

On the receipts side, services exports are an important source of foreign exchange, but their ability to offset the rising import bill is expected to weaken under elevated oil prices. Higher fuel and operating costs weigh on net services inflows over time. While goods exports continue to benefit from preferential market access, including the extension of the African Growth and Opportunity Act (AGOA) until December 2026, higher global transport costs and ongoing supply-chain disruptions are likely to constrain export competitiveness.

Under Scenario 2, pressures on the external position intensify, with the current account deficit widening to 8.6% of GDP. Under Scenario 3, the current account deficit deteriorates to 9.7% of GDP, reflecting materially weaker external balances and increased reliance on external financing.

Our scenario analysis underscores that Mauritius's already-wide current account deficit is very sensitive to persistently high oil prices. Rising energy and food import costs, combined with increasingly constrained external receipts, are expected to materially weaken the external balance as oil prices rise, reinforcing the economy's vulnerability to external shocks.

### **Exchange rate and reserves**

Widening current account deficit under higher oil price scenarios will place pressure on the exchange rate over time. However, recent exchange rate movements indicate that the Mauritian Rupee (MUR) has so far remained resilient, despite heightened global uncertainty and rising external cost pressures.

Between 27 February 2026, just prior to the escalation of geopolitical tensions, and 15 April 2026, MUR appreciated by 1.1% against the US dollar, suggesting that exchange rate pressures have been contained over this period. This relative performance suggests that, to date, Mauritius has avoided disorderly exchange rate movements, supported by ongoing foreign exchange inflows from services exports and exports more broadly. That said, under scenarios of sustained higher oil prices and a widening current account deficit, there will be weakening pressure on MUR. Over time, increased demand for foreign currency to finance higher energy and commodity imports could place renewed depreciation pressure on MUR, with implications for imported inflation and reserve dynamics.

Looking ahead, exchange rate pressures are expected to re-emerge under higher oil price scenarios, despite MUR's recent relative strength. Elevated global energy prices, and higher freight and insurance costs are expected to raise demand for foreign currency to finance imports, particularly fuel and essential goods. While ongoing foreign exchange inflows may provide some buffer in the near term, these are unlikely to fully offset the projected rise in the import bill if high oil prices persist.

A shift from recent appreciation to depreciation would, in turn, amplify imported inflation, reinforcing an adverse feedback loop between exchange rate movements and domestic price pressures. At the same time, persistent external imbalances could place gradual drawdown pressures on foreign exchange reserves, reducing Mauritius' shock-absorption capacity over time. Under prolonged oil price stress scenarios, such dynamics would materially erode external buffers and constrain policy flexibility, increasing vulnerability to shifts in global financial conditions.

## **Policy implications and mitigation measures**

The scenario analysis underscores the importance of strengthening Mauritius' resilience to external energy price shocks through a combination of structural reforms, targeted buffers, and careful macroeconomic management. CareEdge Africa recommends the following measures:

### **Strengthening structural resilience**

Reducing dependence on imported fossil fuels is a key medium-term priority. Accelerating investment in renewable energy, its storage and efficiency would limit exposure to global oil price volatility, lower the import bill over time, and enhance energy security. While such measures do not provide immediate relief against oil price shocks, they are critical in mitigating the structural vulnerabilities that become pronounced under the severe and prolonged scenarios.

Enhancing strategic fuel and essential food reserves would improve the shock-absorption capacity during periods of global supply disruptions or price spikes. Adequately managed reserves can help smooth domestic price adjustments and reduce the need for abrupt policy interventions, particularly during temporary or moderate oil price shocks. Given the sensitivity of external receipts to airfares and connectivity disruptions, diversifying tourism source markets and strengthening regional and non-traditional travel flows would lessen the reliance on a narrow set of long-haul routes. This would support tourism earnings and provide greater resilience to global, energy-driven cost shocks.

### **Fiscal constraints and the role of administered pricing**

Mauritius' capacity to absorb oil price shocks through fiscal policy is constrained. With the fiscal deficit at 9.4% of GDP in FY25 and consolidation underway, there is limited room for broad-based subsidies. While administered fuel pricing via the State Trading Corporation (STC) and the Price Stabilisation Account (PSA) provided short-term relief, these buffers have been exhausted.

The depletion of the PSA has already triggered retail fuel price increases, including rise in diesel and petrol prices. This underscores the limits of relying on price-smoothing mechanisms to absorb external shocks and increases the likelihood of further pass-through under higher-for-longer oil price scenarios. The current environment strengthens the case for more targeted and fiscally sustainable support focused on vulnerable households and critical sectors.

### **Monetary policy and financial market channels**

Higher oil prices present a complex trade-off for monetary policy. Rising imported inflation and the risk of second-round effects require action to anchor inflation expectations, while weaker growth and softer private demand limit the scope for aggressive tightening. The scenario results suggest that monetary policy may have to permit temporary deviations from target inflation, focusing on preventing persistent second-round effects, while relying on targeted fiscal and structural measures rather than broad measures that suppress demand.

External shocks are also expected to transmit through financial markets and capital flows. Elevated geopolitical risk and oil price volatility tend to increase pressure on MUR, particularly in the context of wider current account deficits. Exchange rate depreciation would amplify imported inflation and raise foreign currency debt-servicing costs. Parallely, increased global risk aversion could reduce portfolio inflows, raise sovereign borrowing costs, and strain

liquidity. These dynamics heighten the importance of prudent foreign exchange reserve management and contingency planning to preserve confidence and policy flexibility under adverse scenarios.

### **Concluding assessment**

High oil prices pose a material risk to Mauritius' economy, as prolonged energy costs strain inflation, growth, and the external position. The ongoing Middle East conflict and resulting oil supply disruptions have increased the likelihood of energy prices remaining elevated for some time.

For a small and import-dependent economy such as Mauritius, persistently high oil prices lead to higher import costs, widespread inflation, and widening external imbalance. Hence, the outlook is tilted to the downside. This reinforces the importance of strengthening reserves and initiating mitigation measures to manage the exposure to global price swings.

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