FINAL TECHNICAL ASSISTANCE REPORT

MAURITIUS

Design Options for Fiscal Responsibility Legislation and Supporting Fiscal Institutions

May 2026

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Abbreviations and Acronyms

AE	Advanced Economy
AFRITAC South	Africa Regional Technical Assistance Center South
BFP	Budget Framework Paper
BPS	Budget Policy Statement
EME	Emerging Market Economy
EU	European Union
FAA Act	Financial Administration and Audit Act
FAC	Fiscal Advisory Committee
FRL	Fiscal Responsibility Legislation
FRS	Fiscal Risk Statement
FY	Fiscal Year
GFS	Government Finance Statistics
IFC	Independent Fiscal Commission
IFMIS	Integrated Financial Management Information System
IPSAS	International Public Sector Accounting Standards
MFU	Macro Fiscal Unit
MoF	Ministry of Finance and Economic Development
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NAO	National Audit Office
OBR	Office of Budget Responsibility (United Kingdom)
PBEFO	Pre-Budget Economic and Fiscal Outlook
PFM	Public Financial Management
PMO	Prime Minister’s Office
PPP	Public-Private Partnership
ROSC	Report on the Observance of Standards and Codes
SOE	State-Owned Enterprise

Preface

In response to a request from the Junior Minister of Finance Honorable Dhaneshwar Damry, a mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited Port Louis in Mauritius during the period February 11– 24, 2026. The mission was led by Mr. Torben Hansen and included Ms Nompumelelo Radebe, Mr. Chathebert Mudhunguyo (all FAD), and Mr. Marco Cangiano (STX). The mission undertook a diagnostic review of the existing Public Financial Management legal framework and supporting fiscal institutions and provided advice on design options and implementation of comprehensive fiscal responsibility legislation.

The team met with Honorable Navinchandra Ramgoolam: Prime Minister and Minister of Finance; Honorable Paul Raymond Berenger: Deputy Prime Minister; and Honorable Dhaneshwar Damry: Junior Minister of Finance. The mission also met with the Minister of Housing and Lands: Honorable Shakeel Mohamed; as well as with the Honorable Members of Parliament and the Public Accounts Committee.

In the Ministry of Finance (MoF) the mission met with the senior leadership and their teams, led by the Financial Secretary, Mr. Anandsing Acharuz, and including Mr. Gerard Bussier and Mrs. Subashini Rama: Deputy Financial Secretaries; Mr. Sachidanund Ramparsad: Accountant General; Mr. Mahensingh Bheekhee and Mr Javed Suhootoorah: Ag. Deputy Financial Secretaries; Mr. Gilbert Gnany: Chief Economic Advisor and Eric Ng: Senior Advisor; Mr. Ram Hittoo and Mr. Christ Paddia: Ag. Directors; Mr. Jogeshwur Ramyed, Mr. Satiarajsir Mohajur, Mr. R. Sultoo, Mrs. Parveen Rojoa, Mrs Noorinah Hingah-Suhootoorah, Mrs Sweta Bedacee and Mrs. Naimabee Aubdoollah-Suhootoorah (Lead Analysts).

Outside of MoF, the team met with senior leadership of other key public institutions and their teams: Dr Priscilla Muthoora Thakoor: Governor of the Bank of Mauritius; Dr Dharamraj Paligadu: Director of Audit; Mr. Rajeshsharma Ramloll, Solicitor-General; Mr. Mukesh Dawoonauth: Ag. Director of Statistics; and from the Prime Minister's Office and education, health and tourism sectors: Mrs. Shakuntala Gujadhur-Nowbuth: Permanent Secretary; Mrs. U. Shewraj: Deputy Permanent Secretary; Mr. R Nursing: Permanent Secretary; Mr. R. Auckbur: Chief Technical Officer; and Mr. Y.R. Kheedhoo: Deputy Permanent Secretary.

Outside of government, the team had discussions with Mr. Raj Makoond: Program Director at Eclosia; Mr. Kevin Ramkaloan (Chief Executive Officer: Business Mauritius) and Mr. Daniel Essoo (Chief Executive Officer: Mauritius Bankers Association). The mission also had a briefing with development partners including the EU which funded this mission.

The mission team would like to express its sincere thanks to the Mauritian authorities and all participants for their collaboration and open and frank discussions during the meetings. A special word of gratitude to Mrs. Naimabee Aubdoollah-Suhootoorah and Mr. Ram Hittoo (and their respective teams) for their excellent collaboration, coordination and support to the mission before and during its time in Mauritius.

Executive Summary

Mauritius has achieved a strong record of economic development over recent decades, supported by sound institutions and prudent macroeconomic management. However, fiscal outcomes have weakened markedly since the COVID-19 pandemic, with rising public debt, large budget deficits, and increasing exposure to fiscal risks. The new Government, which took office in November 2024, is committed to restore sound fiscal policies to achieve fiscal sustainability in the medium-term underpinned by the introduction of Fiscal Responsibility Legislation (FRL).

While Mauritius' existing PFM framework contains important strengths—such as a well-established budget process, performance-based budgeting, improved fiscal statistics, and a statutory debt anchor—it has not been effective in enforcing fiscal discipline. The statutory debt limit has been breached repeatedly since its introduction in 2008, medium-term fiscal planning has been weakened by optimistic macro-fiscal forecasts, and fiscal reporting and risk management practices remain insufficiently developed to support credible fiscal rules. These weaknesses have contributed to persistent deviations between budget plans and outcomes, undermining fiscal credibility and accountability.

The new FRL should be designed as a comprehensive framework that integrates clear fiscal responsibility principles, fiscal rules, and strong procedural and transparency requirements. The FRL should clarify institutional roles and responsibilities, specify or require the setting of an operational fiscal rule consistent with the debt anchor—currently set at 80 percent of GDP—and expand the institutional coverage of fiscal rules to at least the central government. In doing so, the Ministry of Finance (MoF) should consider the specific attributes of the operational rule, which could draw on previous IMF advice. To enhance credibility, the FRL should include narrowly defined escape clauses, well-specified correction mechanisms, and provisions for independent monitoring and assessment. Transitional provisions may be required to allow phased implementation as institutional capacity is strengthened.

Effective implementation of the FRL will rely on strengthening some supporting fiscal institutions and public financial management (PFM) practices. This includes improving the quality, transparency, and independent scrutiny of macroeconomic and fiscal forecasts; reconfiguring the medium-term fiscal framework (MTFF) to play a stronger strategic role in guiding the annual budget; and introducing an early, Cabinet-endorsed strategic phase in the budget cycle with ministerial expenditure ceilings. The Budget Circular should be revised accordingly. There is also the need to develop a systematic framework for identifying, monitoring, and disclosing fiscal risks, including those arising from extrabudgetary entities, state-owned corporations, and litigation. The government should consider developing an overarching legal framework for extrabudgetary entities and state-owned corporations to enhance their governance, reporting requirements, and oversight and management. Finally, fiscal reporting should be strengthened through enhancing the content of the MTFF document; regular in-year budget execution reports; and a mid-year budget review.

Taken together, these reforms would strengthen accountability, support adherence to fiscal rules, and help rebuild fiscal buffers over time. While an FRL is not a substitute for sustained political commitment, when supported by strong institutions and transparent practices, it can play a pivotal role in ensuring fiscal discipline and safeguarding long-term fiscal sustainability in Mauritius. The mission prepared seven specific recommendations, which are detailed in the Table below, related to the design of the FRL and complementary PFM reforms to support implementation of the FRL.

Appropriate prioritization and sequencing of the reforms will be critical. While there appears to be strong capacity in the MoF in terms of knowledge and skills, the number of staff is relatively low compared to bigger countries, and the pace of reforms should acknowledge that. An FRL is not a “magic bullet” and will take time to develop and implement, and “getting it right” should take prominence over “getting it fast”. An initial priority should be the detailed design and drafting of the FRL and developing an implementation plan, which would also help inform needs for transitional provisions. This could be done during the remainder of 2026 and could benefit from continued support from FAD, including AFRITAC South. In parallel, the MoF should initiate work on strengthening macro-fiscal forecasting as this would be foundational for the effectiveness of the FRL once adopted. Similarly, initiating work to mitigate fiscal risks, including from extrabudgetary entities and state-owned corporations, should be important priorities in the near term, and FAD, including AFRITAC South, could also support these efforts. Once the FRL is adopted, emphasis should be put on strengthening the strategic phase of budget preparation and the annual budget process while efforts to enhance fiscal reporting for greater transparency could come at the tail-end of the reform process. As noted, a solid and well-sequenced implementation plan should be developed alongside the drafting of the FRL.

Recommendations

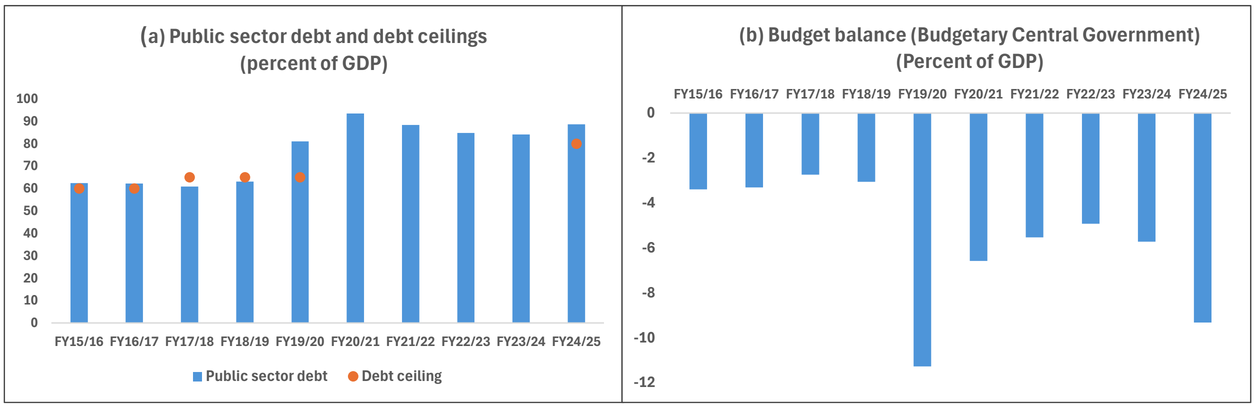
Design options for the fiscal responsibility legislation	
1.1	In drafting a Fiscal Responsibility Law, the authorities should: ▪ Design the law in line with the structure and principles outlined in Chapter II of this report; ▪ Emphasize transparency aspects through procedural rules and enhanced fiscal reporting; ▪ Consider the attributes of an operational fiscal rule to complement the current debt limit of 80 percent; ▪ Include provisions for independent monitoring and assessment of compliance with the FRL; ▪ Consider and include a set of correction mechanisms; and ▪ Specify a set of specific and narrowly defined escape clauses.
Implementing the fiscal responsibility legislation	
2.1	The MoF should strengthen the reliability and accuracy of macroeconomic forecasts by: ▪ Assuming responsibility, and gradually expanding the capacity for preparing macroeconomic forecasts used for the MTFF; ▪ Formalizing establishment and terms of reference for the existing Macroeconomic Coordination Committee; ▪ Reporting more extensively and regularly on the macroeconomic forecasts; ▪ Undertaking periodic analysis of forecasting performance; and ▪ Ensuring the mandate of an independent fiscal institution also includes assessment of the macroeconomic forecasts.
2.2	MoF should introduce a formal strategic top-down phase at the start of the budget cycle, anchored in a fiscal strategy paper to set out an MTFF that is approved by Cabinet.
2.3	MoF should expand the content of the existing MTFF document, which is disseminated with the budget documents, to include more detail on assumptions, forecasts, policy initiatives, and forecast deviations.
2.4	MoF should strengthen annual budget preparation by: ▪ Including ministerial expenditure ceilings in the Budget Circular; ▪ Revising the Budget Calendar to incorporate the strategic phase of the budget cycle; and

	▪ Preparing a citizen's budget.
2.5	To strengthen monitoring, disclosure, and management of fiscal risks, MoF should: ▪ Develop an overarching legal framework for extrabudgetary entities and state-owned corporations to enhance their governance, reporting requirements, and oversight and management; ▪ Develop a fiscal risk monitoring and management framework; and ▪ Develop the concept of a Fiscal Risk Statement. ▪
2.6	MoF should prepare a wider range of fiscal reports, including: ▪ Quarterly budget execution reports with a brief narrative; and ▪ A more extensive mid-year review to update on fiscal developments, revised forecasts, and the fiscal outlook.

I. Introduction

1. Mauritius has had a strong economic track record but is now facing fiscal and structural challenges.[1] Since independence, Mauritius transformed itself from a low-income country to a well-diversified upper middle-income country and even reached high-income status in 2020 before the onset of COVID-19, fueled by good governance and strong macroeconomic and fiscal fundamentals. However, the fiscal situation has deteriorated significantly since the pandemic (Figure 1.1), and Mauritius now faces fiscal and structural challenges from high public debt, significant public investment needs for climate, low productivity, and an ageing population.[2]

Figure 1.1. Fiscal Performance in Mauritius, 2015-2025



Source: Ministry of Finance.

2. The new Government, which took office in November 2024, is committed to restore sound fiscal policies to achieve fiscal sustainability in the medium-term. Its overarching fiscal objectives, as stated in the FY25/26 medium-term fiscal framework (MTFF) are threefold: (i) to accelerate economic growth by setting the economy on a higher and more sustainable growth trajectory; (ii) to achieve a primary budget surplus to build fiscal buffers and improve Mauritius' resilience to external shocks; and (iii) to bring down public sector debt to around 75 percent of GDP by the end of FY2030, and further to 60 percent of GDP by the end of FY2035. Moreover, following the example from many other countries (Box 1.1) the Government intends to introduce fiscal responsibility legislation to promote long-term fiscal sustainability, efficient resource allocation, and enhanced accountability in public financial management (PFM).

3. Mauritius' PFM framework already has some features conducive to fiscal responsibility. A focus on performance and an articulation of spending along programs was introduced some 15 years ago and has been recently revamped. The progressive adoption of international public sector accounting standards, and improved debt and public finance statistics, have improved the quality of information on fiscal developments. The budget calendar and budget execution procedures are mostly in line with good

[1] IMF Staff Report for the 2025 Article IV Consultation, May 2025.

[2] Ibid.

international practices and supported by the Finance and Audit Act and the accompanying PFM kit, which is being amended to reflect recent and ongoing improvements. Last, but not least, a debt anchor was introduced with the 2008 Public Debt Management Act setting a 60 percent limit, subsequently revised in 2010, 2017, 2020 and to 80 percent in 2024, to the ratio of gross public sector debt to nominal GDP.

4. Yet, the PFM framework has not been effective in fostering fiscal discipline. The statutory debt limit stipulated in the Public Debt Management Act was breached repeatedly since its introduction in 2008, and public sector debt reached 88.5 percent of GDP at the end of FY24/25, above the revised 80 percent threshold in the Act. Similarly, budget deficits have greatly surpassed planned deficits in every year since the pandemic, particularly in FY24/25, which saw a budget deficit of 9.3 percent of GDP against a projection of around 5 percent. The most recent IMF 2025 Article IV staff report[3] underscored the need to strengthen the statutory debt framework in Mauritius by narrowing escape clauses from the statutory debt limit and linking short-term operational rules to the fiscal balance.

5. In this context, the Ministry of Finance requested technical assistance (TA) from the Fiscal Affairs Department (FAD) to support the formulation of comprehensive Fiscal Responsibility Legislation (FRL). This comprises assistance in drafting the legislation and designing an implementation roadmap, including necessary institutional, procedural, and capacity-building components through a phased approach. As a first step, this mission conducted a diagnostic assessment of the existing legal framework to identify strengths and weaknesses, and also provided advice on the design, content, and implementation of the new FRL. Subsequent IMF TA could support the drafting of the legislation as well as implementation and capacity building as needed.

6. This report summarizes the findings and recommendations of the mission. Chapter II discusses options and a potential structure for the FRL, covering among others its scope and applicability, roles and responsibilities of key players, fiscal responsibility principles and the fiscal rules framework, reporting requirements, independent assessment and corrective mechanisms. Chapter III discusses strengthening of supporting fiscal institutions and practices, which will be critical for the effective implementation of the FRL. These include: (i) enhancing forecasts and the MTFF's strategic role in driving the annual budget process; (ii) monitoring and disclosing fiscal risks and (iii) strengthening the dissemination and content of fiscal reports.

[3] Ibid.

Box 1.1. The Concept of Fiscal Responsibility and Fiscal Responsibility Laws

Fiscal **responsibility** is an agreed set of principles, processes, procedures and at times also numerical rules aimed at improving fiscal outcomes, such as macroeconomic stability, long-term sustainability, and efficient and effective delivery of public goods and services. Principles are typically stated in terms of fiscal prudence to achieve and maintain long-term fiscal sustainability and solvency; hence the prevalence of principles set at maintaining public sector debt within certain limits. Such principles need, however, to be supported by operational targets.

The above definition requires as a corollary the notion of **accountability**. This implies that fiscal policies are designed and fiscal objectives and targets are set by the executive and approved by the legislature within those responsibility principles in ways that can be clearly measured and monitored so that governments can be held accountable vis-à-vis their targets by way of reporting requirements.

Fiscal **transparency** is the means whereby information is availed to legislatures and citizens at large to enable them to hold their governments accountable. Information on past, current, and future fiscal developments (i.e., forecasts and policy scenarios, fiscal risks management) constitutes, along with clarity on relative roles and responsibilities of all parties involved, the essence of fiscal transparency. Information must therefore be timely, comprehensive, consistent, and reliable and preferably publicly available as produced, vetted, and in most countries independently validated, for instance by the external audit, or, increasingly, an independent fiscal council.

International experience

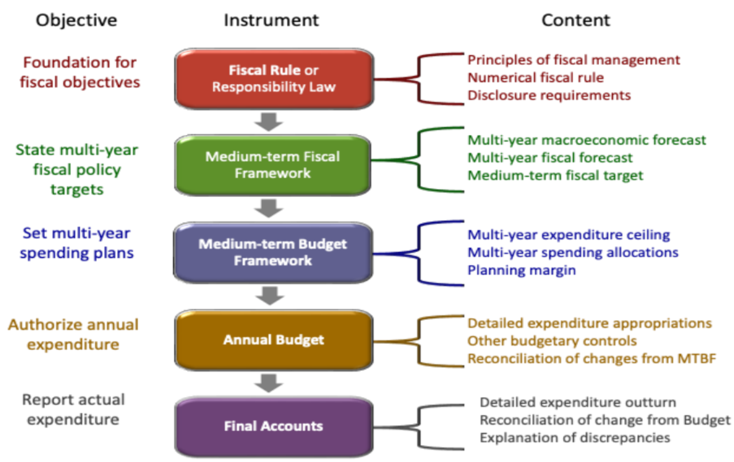
Fiscal responsibility is typically set in legislation, from constitutional mandates (Germany) to stand alone acts (Ireland) or embedded in public financial management acts (New Zealand, South Africa). Countries have adopted fiscal responsibility principles to codify their budget reforms (Australia); strengthen their budgetary frameworks (UK and Greece); drive financial management reform toward a focus on performance (France and Iceland); or alter the balance of power between legislatures and executive (Sweden). It has been adopted by most advanced economies as well as small island economies (most recently Jamaica and Maldives).[4]

As noted, fiscal responsibility legislation may contain numerical limits within which key fiscal balances (e.g., overall or primary balances, expenditure ratios, rate of expenditure growth) and/or public debt ratios must be maintained. Operational targets are in any event needed to ensure medium-term strategies and annual budgets comply with such limits. All such legislation also sets procedural rules whereby fiscal objectives are set, communicated, and monitored in a transparent manner.

International experience has shown that fiscal responsibility is as credible as its underpinning budgetary processes and overall fiscal transparency. FRLs can acquire their importance “above” normal legislation through a process of societal consensus and reputation building. If designed and developed properly, they can attain a reputational “capital” that may prove challenging to reverse. The figure below visually portrays the fiscal legislative framework in an ideal rational hierarchy along with key institutions and processes.[5]

[4] In some countries—Francophone countries are an example—fiscal responsibility laws (FRL) are defined as “organic”, which have a higher formal status and cannot be overruled by standard legislation. In other countries, the most crucial elements of FRL legislation are included in the constitution (France and Germany) or in international treaties (EU countries), also placing it above other legislation and making amendments by the executive or legislature much more difficult.

[5] In line with Nobel Prize laureate Douglas North, institutions connote “humanly devised constraints—both formal rules (laws, constitutions, property rights) and informal norms (sanctions, traditions, codes of conduct)—that structure political, economic, and social interaction.” In other words, they define the "rules of the game" designed to reduce uncertainty and transaction costs.



Source: IMF Mission Team

II. Design Options for the Fiscal Responsibility Legislation

Key design features from international experience

7. **The key function of an FRL is to drive fiscal policy making via the budget process in all its canonical phases**—strategic formulation, preparation, approval, execution, and external validation. As such, and despite the various legislative approaches described above in Box 1.1, FRLs and fiscal frameworks share several common design features that have emerged over the last decades (Box 2.1—this also constitutes a possible structure for an FRL).

Box. 2.1. Key Features of Fiscal Responsibility Laws

Elements	Description
Definitions	Definitions of key terms not already defined elsewhere in legislation.
Scope of applicability	Extent to which the law applies to public entities.
Roles and responsibilities	Specification as needed of relative roles and responsibilities of key stakeholders and institutions.
Fiscal responsibility principles	Guiding principles for fiscal policy, such as fiscal prudence, debt sustainability, and intergenerational equity.
Numerical limits and procedural rules	Description of numerical limits on fiscal aggregates (fiscal rules); their coverage; and procedural requirements on how to integrate and present them in a medium-term fiscal strategy and the annual budget.
Medium-term fiscal strategy	Provisions related to the content of the medium-term fiscal strategy and documents to be prepared and presented.
Reporting requirements	Provisions to ensure that reliable and timely information on fiscal developments are available to facilitate assessment and monitoring of compliance with principles and numerical rules.
Independent assessment	Provisions to ensure independent assessment of the medium-term fiscal strategy and compliance with key FRL provisions ex-ante and ex-post.
Corrective mechanisms and sanctions	Provisions specifying required corrective action in case of non-compliance with the fiscal rules.
Escape clauses	Provisions specifying circumstances that allow for temporary suspension of the fiscal rules.
Related legislation	Reference as needed to other relevant legislation, such as PFM legislation, that complement and support FRL implementation.
Transitional provisions	Provisions if needed to defer certain elements of the law to a later stage as capacity is further developed.

Source: Adapted from Developing Legal Frameworks to Promote Fiscal Responsibility—Design Matters, by van Eden, Holger, Pokar Khemani, and Dick Emery, Chapter 2 in Cangiano, Marco, Michele Lazare, and Teresa Curristine (eds.), 2013, *Public Financial Management and Its Emerging Architecture*, International Monetary Fund, Washington DC.

8. The remainder of this chapter discusses these features and high-level options for Mauritius following the structure in Box 2.1. For some of them, further analysis and consideration will be needed as the FRL is being drafted. Moreover, some general caveats should be made regarding the efficacy of the FRL:

- An FRL in isolation may be a necessary but not sufficient tool to re-establish fiscal sustainability and credibility. It is no “magic bullet” and could be jeopardized by lack of societal or political commitment or weaknesses elsewhere in the PFM ecosystem. It should therefore be considered against the overall fiscal legislative framework, which may need complementary changes to strengthen processes and practices and/or safeguard institutional integrity.[6]

- As the ultimate purpose of an FRL is to influence the behavior of stakeholders and strengthen practices, its full implementation will likely take years to achieve. Some of its provisions may need to be introduced gradually as capacity to comply with the FRL is being built up.

A. Key design elements

Definitions

9. A FRL should include key definitions and interpretation of relevant terms and concepts pertaining to PFM not defined elsewhere.[7] These would include, for instance, terms and concepts like “fiscal responsibility”, “fiscal rule”, “Medium-Term Fiscal Framework”, “public entity”, “public money” or “conflict of interest”. In some cases, an FRL definition could complement pre-existing definitions in other legislation, while in other cases, such terms may already be defined in parallel or complementary legislation. The FRL should cross-reference and specify possible differences to prevent ambiguity.

10. Definitions of macroeconomic and fiscal variables should be based on internationally accepted statistical and accounting standards.[8] Ambiguities in definitions may facilitate the use of creative accounting practices to comply with specific fiscal limits and targets and can therefore undermine the credibility of the FRL. For Mauritius, terms already defined in parallel or supporting legislation, e.g., the 2011 Finance and Audit Act (and subsequent amendments), should be referred to and not replicated to avoid misunderstanding and different interpretations.

Scope of applicability

11. The FRL should set out the scope of applicability for the law. This includes provisions related to the institutional coverage of the FRL, i.e., defining the institutions that are subject to requirements provisioned under the law. The scope of applicability is typically sovereign and all public entities under its

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[6] In this context, Mauritius could consider undertaking a Fiscal Transparency Evaluation, which provides a broad assessment of PFM practices against the internationally recognized transparency standards set out in the IMF’s Fiscal Transparency Code.

[7] Certain terms that may have been already defined elsewhere may require further clarification given the FRL’s context and purpose. The FRL should then specify that such clarifications would supersede pre-existing legislation that are inconsistent with it, barring of course the Constitution.

[8] These would include the IMF 2014 Government Finance Statistics Manual and the International Public Sector Accounting Standards (IPSAS).

purview.[9] However, certain aspects of the law may not pertain to all applicable institutions. For example, operational fiscal rules may pertain to a subset of institutions, such as budgetary or central government (see below).

12. Scope of applicability in countries with sizeable local governments may create tensions. In such cases, FRLs either require sub-national states or provinces to pass similar FRLs (as in Brazil), or the FRL applies explicitly to all public entities (as in Australia). In such cases, local governments, states, or provinces are typically required to balance their budgets ex-ante (as in most of the US states) or ex-post (as in most other countries).

Roles and responsibilities

13. Clarity of roles and assigned responsibilities and possible modalities for discharging them are an essential feature of an FRL. FRL's typically specify the role and responsibilities of different stakeholders in discharging the FRL and its specific provisions, including the roles of the Parliament; the Cabinet; the minister responsible for public finance; other ministers; and various civil servants. Such roles and responsibilities should be considered carefully when designing the FRL framework and drafting the legislation.

14. The distinction between politically appointed roles and the civil service may sometimes create tension. Government is an ongoing concern and relies on the civil service to ensure policy initiatives are well prepared and documented, including costs, benefits, and potential risks, to safeguard public finances beyond the political cycle. Yet, it remains the policy makers' prerogative to set policy directions and goals and take decisions on policy initiatives. Modern FRLs and related legislation aim at making this distinction as clear as practically feasible through specifying the mandates and responsibilities of the various stakeholders, considering that this is also the product of historical and social norms that may be slow to change.

Fiscal responsibility principles

15. FRLs typically include a set of overarching fiscal responsibility principles. Besides those laid out at the onset of this report—responsibility, accountability and transparency—these principles often include concepts such as: (i) achieving and maintaining a sustainable and prudent level of public debt; (ii) managing fiscal risks in a prudent manner; or (iii) pursuing macroeconomic stability, inclusive growth, and intergenerational equity. To the extent possible, such principles should be translated into measurable objectives expressed as limits or rules to be specified either explicitly in the FRL or in the MTFF and annual budgets. For example, fiscal responsibility in Kenya is anchored in Chapter 12 of the Constitution and the 2012 PFM Act, and emphasizes transparency, accountability, and equity in managing public resources. Key principles include sustainable borrowing, limiting recurrent spending, ensuring development budget allocations (minimum 30 percent for counties), and mandatory public participation.

[9] Statistics Mauritius maintain and publish each year in its Digest of Public Finance a list of all public entities classified as extrabudgetary units, social security schemes, regional and local governments, and non-financial and financial public corporations. Special funds are classified as extrabudgetary units.

Box 2.2 provides an overview of the evolution of fiscal responsibility principles and fiscal rules over the last three decades.

Box 2.2. The Evolution of Fiscal Responsibility Principles and Fiscal Rules

Fiscal responsibility principles and fiscal rules have evolved over time. First-generation FRLs emphasized responsibility, accountability, and transparency principles as well as fiscal prudence. More recent FRLs introduced and expanded their focus on numerical fiscal rules for two main reasons: (i) overarching responsibility principles did not provide sufficient operational guidance to the annual budget process; and (ii) long-lasting constraints on key fiscal aggregates (e.g., overall spending or budget balance) not only fulfilled that function but also provided an additional constraint to address the time inconsistency intrinsic in the political cycle. Simplicity coupled with rigidity characterized the first wave of numerical fiscal rules, epitomized by the EU Maastricht criteria (debt limit of 60 percent of GDP and overall balance not to exceed 3 percent of GDP). But compliance was mixed as such rules proved excessively rigid considering prevailing uncertainty and volatility. Thus, subsequent generations of rules became increasingly flexible in response to cyclical fluctuations and shocks, but at the cost of making them more complex.[10,] . More recently there has been a return to the notion of simplicity while countries have also reflected intergenerational and gender equity as well as environmental and climate constraints among their fiscal responsibility principles. Inconsistencies may, however, emerge in complying with multiples principles and objectives at the same time, particularly in the absence of operational rules.

Source: IMF Mission Team

Numerical limits and procedural rules

16. Limits on fiscal aggregates—a set of numerical fiscal rules—are at the core of a FRL. In most cases, the FRL specifies the specific limits, but there are also examples of FRLs that instead require the Government to set the limits elsewhere, such as a statement of fiscal responsibility at the beginning of the government cycle or in the MTFF—a so-called procedural approach. Countries typically combine multiple rules to overcome tradeoffs among alternative objectives, such as fiscal sustainability, economic stabilization, operational guidance, or transparency. Common rules include:

- **Debt rules, or debt anchors**, set an explicit limit for public debt, either in nominal terms or as percentage of GDP.
- **Budget balance rules**, which set an explicit limit on the fiscal balance as a percentage of GDP and which can be specified in several ways: overall balance (specified in nominal, structural, cyclically adjusted, or "over the cycle" terms); primary balance, which excludes interest payments; or current balance, which excludes capital expenditures (typically referred to as a "golden rule").[11]
- **Expenditure rules**, which set permanent limits either on total, primary, or current expenditures and can be specified in absolute nominal terms, in percentage of GDP, or in terms of nominal or real growth rates.

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[10] Blanchard, O., A. Leandro, and J. Zettelmeyer. 2021, *Redesigning EU Fiscal Rules: From Rules to Standards,* Economic Policy 36 (106): 195–236.

[11] Budget balance rules for commodity exporting countries, such as oil producers, would typically include additional features, such as non-oil GDP. This is not further discussed in this report.

- **Revenue rules**, which set ceilings or floors on government revenue either in nominal terms or in percentage of GDP.

17. **Numerical rules have become increasingly common over the last decades.** By the end of 2024, 122 countries had adopted at least one numerical fiscal rule, with 55 countries also subject to supranational rules (Figures 2.1 – 2.3).[12] Most countries with numerical fiscal rules have adopted a combination of debt and budget balance rules, but expenditure rules are also common in advanced economies (AEs) and emerging market economies (EMs). Revenue rules, on the other hand, are relatively rare. Debt and budget balance rules, either in structural or nominal terms, usually combine the objectives of ensuring fiscal sustainability while providing operational guidance to the annual budget process. Countries have increasingly been considering the impact of the economic cycle in the design of their fiscal rules, for example by adopting a structural balance rule or by introducing escape clauses and correction mechanisms as discussed later in this chapter. Each type of rule comes with its pros and cons (Box 2.3.) and each country has to tailor fiscal rules to its specific circumstances, institutions, and capacity. While rules combining most, if not all of the above characteristics may fare well on paper, their actual implementation reveals their ever-evolving nature in light of shifting and increasingly challenging economic realities. Poland's recent experience is a good example in this regard.[13] In Mauritius, the MoF could also draw on past IMF advice on policy options for the fiscal rules framework.[14]

[12] Alonso, Virginia, Clara Arroyo, Ozlem Aydin, Vybhavi Balasundharam, Hamid R. Davoodi, Gabriel Hegab, W. Raphael Lam, Anh Nguyen, Natalia Salazar Ferro, Galen Sher, Alexandra Solovyeva, and Nino Tchelishvili. 2025. "Fiscal Rules Dataset: 1985-2024" International Monetary Fund, Washington, DC.

[13] After adopting the EU fiscal rules in 2015 Poland has been implementing a national numerical fiscal rule—the Stabilizing Expenditure Rule (SER)--which limits expenditure rate of growth while aligning it with EU requirements. It does so by setting annual expenditure targets that take explicitly into account inflation and growth projections. It also includes several provisions, such as escape clauses for exceptional events and correction mechanisms triggered if public debt ratio and deficits approach 60 and 3 percent of GDP, respectively. Despite a decade of implementation however, the assessment of the SER's macroeconomic impact remains limited. See Torój, Andrzej, Joanna Bęza-Bojanowska, Rafał Chmura, Kareem Ismail, Dominika Kroschel, W. Raphael Lam, Agnieszka Szczypińska, Bartłomiej Wiśnicki . 2025. "The Role of a Stabilizing Expenditure Rule in Fostering Macro-Fiscal Stability: Simulations-based Evidence from Poland", IMF Working Paper No.25/238, Washington, D.C.

[14] "Reinstating fiscal rules in the post-pandemic Mauritius: Scenarios and policy options". IMF Country Report No. 22/224, Selected Issues, July 2022.

Box 2.3. Pros and Cons of different Numerical Rules

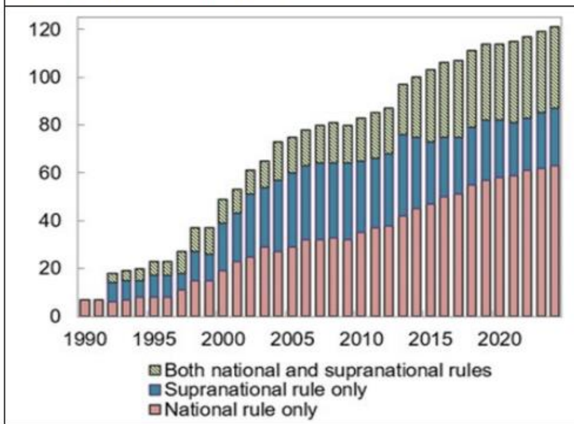
Budget Balance Rules	
Overall Balance	*Golden Rule*
+ Easy to communicate/monitor	+ Protect public investment
+ Clear operational guidance	+ Intergenerational equity
- Can lead to pro-cyclicality	- Weak link to debt sustainability
- Could lead to changes in composition	- Creative Accounting
Cyclically Adjusted or Structural	*Over the Cycle*
+ Foster economic stabilization	+ Good stabilization properties
+ Good operational guidance	- May entail too loose/tight stance
- Difficult to compute and monitor	- Difficult to monitor and enforce
Expenditure Rules	
+ Rel. easy to communicate/monitor	- No direct link to debt sustainability
+ Allow macroeconomic stabilization	- Could lead to changes in composition
+ Rel. clear operational guidance	- Can reduce incentive to mobilize revenues
Revenue Rules	
+ Raise revenues or limit tax burden	- No direct link to debt sustainability
	- Can lead to pro-cyclicality

Source: Adapted from Eyraud et al, 2017.

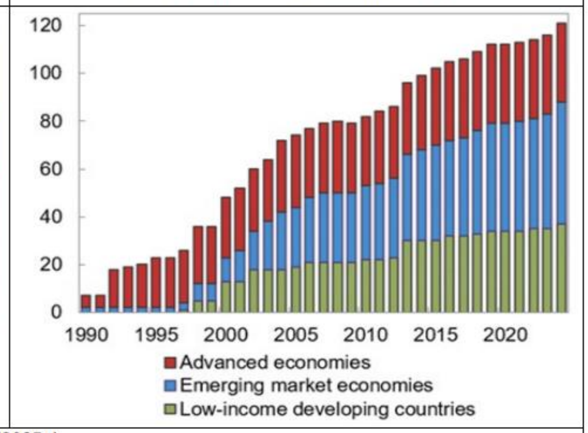
18. Numerical limits should be complemented by a set of procedural rules. These are institutional arrangements whereby governments are required to publish certain documents and reports by a specific date identifying fiscal targets and objectives to guide the budget process and against which the government would have to report at a later stage. For example, procedural rules include preparation of strategic documents or MTFFs, stipulate reporting requirements, and prescribe an independent assessment of the government's fiscal plans and compliance with rules and principles. Procedural rules as identified in FRLs may not be limited to the executive but also regulate the role of the legislature and require Parliament's discussion, review, and even approval of the fiscal strategy documents ahead of the budget process. India, Pakistan and Brazil are examples of EMEs with such procedural rules.

Figure 2.1. Fiscal Rules Trends: 1990 – 2024 (number of countries with at least one fiscal rule)

1. National and Supranational Rules



2. Fiscal Rules by Income Groups



Sources: IMF Fiscal Rules Dataset: 1985-2024; and Alonso et al. (2025a).

Figure 2.2. Average Number of Fiscal Rules Per Country: 1990-2024 (Number of rules)

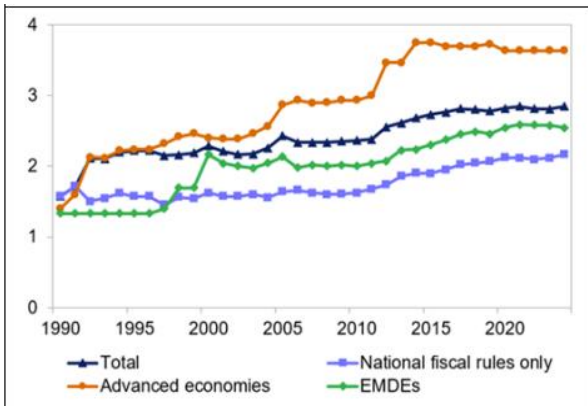
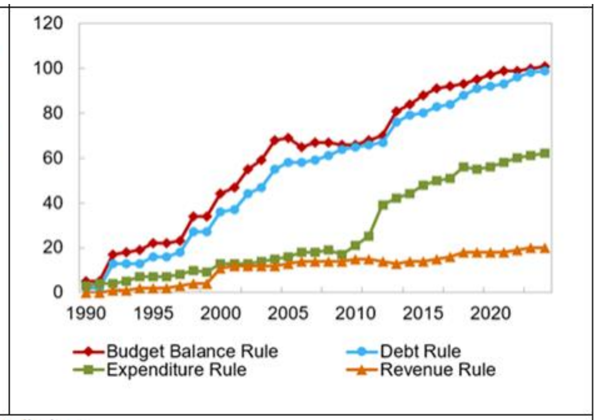


Figure 2.3. Common Types of Fiscal Rules (Number of countries)



Sources: IMF Fiscal Rules Dataset: 1985-2024; authors' compilations.
EMDEs = Emerging markets and developing countries.

19. **There is no dichotomy between numerical limits and procedural rules.** Procedural rules are essential and necessary ingredients to any fiscal framework. Without these, numerical rules cannot be effectively implemented and the concepts of accountability and transparency risk remaining declarations of intent. Whereas the co-existence of numerical limits and procedural rules has become the norm, there are some countries that have designed their fiscal frameworks purely based on transparency and procedural rules, such as Australia and New Zealand, or on very flexible high-level guidelines, such as Chile and Norway.

20. The institutional coverage of the fiscal rule is a key component of the fiscal rules framework. A too narrowly defined rule can lead to shifting spending to those parts of the government, or even of the public sector, that are not captured by the rule.[15] On the other hand, a too broadly defined rule may weaken the link between budgetary decisions and fiscal outcomes and thus reduce its applicability as an operational rule to guide the annual budget process. Countries therefore often combine a debt anchor with broad coverage (like general government or public sector debt) with a more narrowly defined operational rule (like general or central government deficit) while at the same time introducing alternative constraints on entities not covered by the operational rule (such as limits on their ability to incur deficits or debt).

21. Mauritius has a fairly simple set of fiscal rules. As noted in Chapter I, the Public Debt Management Act includes a limit on public debt, which was amended to 80 percent in 2024 to align with the new Government's fiscal objectives. While not a fiscal rule, the Government has also stated an operational fiscal objective of maintaining a primary balance surplus, which would provide guidance to the annual budget process.[16] While it was outside the scope of the mission to assess or make recommendations regarding specific fiscal rules, two observations are warranted:

- It is not clear whether the prevailing fiscal rules are internally consistent, i.e., the extent to which compliance with the operational fiscal rule (a primary budget surplus) would lead to compliance with the original 60 percent debt-to-GDP limit and its successive amendments; and
- The coverage of the operational fiscal rule, which is understood to be budgetary central government, is narrowly defined and does not capture a large part of central government spending. The authorities should consider expanding the institutional coverage to at least central government to mitigate the risk of shifting spending to extrabudgetary entities.

Medium-term Fiscal Framework (MTFF)

22. The medium-term fiscal framework (MTFF) provides the key link between the principles and rules set out in the FRL and the annual budget process. As such, the FRL should include provisions pertaining to the preparation and dissemination of the medium-term fiscal strategy, which is typically embedded in a medium-term fiscal framework document (further discussed in Chapter III). Such provisions would often include:

- Responsibility for preparation and approval of the MTFF;
- Timing and key content of the MTFF;
- Key design features of the MTFF—for example, fixed versus rolling framework, real versus nominal terms, coverage, prudential margins—and its relationship with the overarching principles, limits, and rules with which MTFF annual targets will have to comply;

[15] Tax expenditures and government guarantees are also common escape valves for fiscal rules—as they are for medium-term fiscal and budgetary frameworks.

[16] Moreover, the government introduced with the 2020-21 budget an operational rule of limiting the ratio of interest payment to GDP to 3.5 percent.

- Requirements for reconciling successive MTFFs, with explanation of any discrepancies from previous year's MTFF and possible need for rebasing the MTFF considering economic developments or shift in priorities;
- Annexes, often formal statements signed by the finance minister, stating the quality of information and methodology underpinning forecasts, and projections contained in the MTFF and the disclosure of fiscal risks; and
- An independent evaluation of macroeconomic assumptions and scenarios on which the MTFF is developed.

Reporting requirements

23. The FRL should include provisions related to ex-ante, in-year, and ex-post reporting on fiscal performance. The FRL should specify essential reporting requirements as well as identify key documents to be published and their main content. This would typically include budget documents, including the MTFF; regular quarterly reports on budget execution; and provisions regarding ex-post reporting on compliance with the fiscal rules. Chapter III discusses the coverage, timing, and content of these documents in more detail.

Independent assessment

24. FRLs increasingly include provisions and arrangements for independent assessment of the government's fiscal plans and compliance with the fiscal rules. While this provision takes different forms, more and more countries have established independent fiscal institutions, such as a fiscal council, to play the role of independent watchdog and thereby help build credibility around the fiscal framework. As of the end of 2024, there are 54 independent fiscal councils (IFCs) worldwide, more than double the number in 2010, designed to provide non-partisan oversight, assess macroeconomic forecasting, and ensure compliance with fiscal rules. While concentrated in Europe due to EU mandates, they have expanded globally, including significant growth in Latin America, driven by the need to ensure sustainable public finances. Most of these institutions have the task of validating the macroeconomic assumptions and projections on which governments develop their MTFF.[17]

25. In small and/or low-income countries, establishing and staffing an independent fiscal institution has proven to be difficult at times. This is because constraints in institutional capacity and fiscal expertise make it less practical to establish or operate a separate entity. There is also a perception that conflict of interest may be harder to define in small countries, although there are successful examples even in small island economies, such as Grenada's Fiscal Responsibility Oversight Committee and Jamaica's recently established Independent Fiscal Commission, whose mandate, composition, and key functions are described in Box 2.4 below. Some countries have therefore opted to assign the role of independent "watchdog" to an existing institution, such as the National Audit Office (NAO) given its existing role in reviewing

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[17] Davoodi H. R., P. Elger, A. Fotiou, D. Garcia-Macia, X. Han, A. Lagerborg, W.R. Lam, and P. Medas. (2022). Fiscal Rules and Fiscal Councils – Recent Trends and Performance during the COVID-19 Pandemic, IMF Working Paper No.22/11. International Monetary Fund: Washington, D.C; and Alonso, Virginia, Clara Arroyo, Ozlem Aydin, Vybhavi Balasundharam, Hamid R. Davoodi, Gabriel Hegab, W. Raphael Lam, Anh Nguyen, Natalia Salazar Ferro, Galen Sher, Alexandra Solovyeva, and Nino Tchelishvili. 2025. "Fiscal Rules Dataset: 1985-2024" International Monetary Fund, Washington, DC.

government's performance.[18] The appropriate institutional arrangements for independent assessment should be considered more carefully in light of Mauritius' general institutional setup, the need to safeguard independence, and availability of resources.

Box. 2.4. Jamaica's Independent Fiscal Commission

Jamaica's fiscal responsibility principles are anchored in a legislative framework designed to ensure debt sustainability, promote transparency, and instill discipline in public financial management. The core of this system is the Fiscal Responsibility Law (FRL), introduced through amendments to the Financial Administration and Audit (FAA) Act, aimed at reducing public debt to 60 percent of GDP by the 2027/28 fiscal year.

The 2021 Independent Fiscal Commission Act established a Commission (IFC) tasked with providing "the public with an informed and independent opinion on the soundness and sustainability of Jamaica's fiscal position and policies in keeping with its Fiscal Responsibility Framework", examine the components of the Fiscal Policy Paper, and monitor adherence to the Fiscal Responsibility Framework. To this end, IFC submits a Fiscal Assessment Report to Parliament indicating, among others, whether the assumptions underlying the Fiscal Policy Paper as well as reasons for any deviation. In discharging its responsibilities, the IFC relies on the Financial Administration and Audit Act and its Financial Regulations, and the Public Bodies Management and Accountability Act.

The Fiscal Commissioner heading the IFC is not a political appointee, but a non-partisan, statutory-protected public officer appointed by the Governor General with a 7-year term of office independent of the 5-year political cycle. Since January 2025 the Commissioner has been advised by a five-person Fiscal Advisory Committee (FAC) consisting of professionals in economics, finance, and public policy from civil society. FAC minutes of meetings are regularly published.

Source: https://ifc.gov.jm/page17.html

Correction mechanisms and sanctions

26. Many FRL's include provisions regarding corrective mechanisms in case of non-compliance with the fiscal rules. Their prevalence has grown significantly, with around 40 percent of countries with fiscal rules implementing some form of correction mechanism by 2024. Nonetheless, most nations do not have such mechanisms to manage deviations, especially emerging markets and low-income countries. The forms of corrective mechanisms vary and may include additional reporting requirements, and the development of adjustment plans detailing specific revenue and expenditure measures. Some countries have introduced ex-ante triggers—such as in Angola and Brazil—before fiscal rules are breached, while others rely on ex-post triggers, activated in response to actual deviations, as seen in Switzerland with its debt-brake mechanism.[19] The required corrective actions also differ: some

[18] This was the case in the United Kingdom, where the NAO was assigned responsibility to validate the macroeconomic assumptions and projections underlying the budget until 2011. This responsibility was later shifted to the Office of Budget Responsibility.

[19] The Swiss debt brake is a constitutional fiscal rule implemented in 2003 to prevent structural deficits and limit federal debt. It forces the federal budget to balance over the business cycle by capping annual expenditures to match estimated structural revenue. By allowing for deficits only during economic downturns, it provides a countercyclical mechanism. Shortfalls in revenue or excess spending must be recorded in a "compensation account" and balanced out over time (usually within 3 years) to prevent debt buildup. Exceptions are permitted for major emergencies (e.g., COVID-19 pandemic) but require parliamentary approval and must be repaid over time. Since its introduction, Switzerland has reduced its debt-to-GDP ratio to around 20 percent from 25 percent in 2003, and has avoided structural deficits since 2006.

countries legislate the magnitude of adjustments, whereas others require governments to submit adjustment plans for informational purposes or parliamentary approval. [20]

27. While correction mechanisms differ across countries, they share desirable features and help avoid procyclical adjustments. First, pre-specified conditions tend to be more effective, as they provide clear guidance for expectations. Second, actions prescribed by these mechanisms should minimize the risk of procyclical spending cuts when activated. Third, effective mechanisms outline clear procedures for remedial actions and establish robust reporting requirements; for instance, corrective plans should be regularly updated in MTFF reports and submitted to parliament, as noted above.

28. There is a discussion in the literature about the benefits of introducing specific sanctions in the FRL. Experience suggests that where sanctions have been introduced, they are not credible and therefore subsequently ignored. While the mix of sanctions could vary, they should probably clearly specify the nature of the breaches and the legal entity to which the sanctions apply; be commensurate to the breach[21]; and non-discretionary. While sanctions could be institutional (e.g., withholding transfers, automatic wage freezes, borrowing restrictions) or individual (e.g., fines, dismissal, or prosecution), they are unlikely to be enforceable or credible given the nature of an FRL. Instead, FRLs typically rely on provisions to ensure transparency and independent oversight to increase the reputational and potentially financial cost of non-compliance, combined with clear procedural rules and corrective mechanisms.

Escape clauses

29. Well-designed escape clauses can provide flexibility to adapt to exceptional and unforeseeable adverse economic shocks. However, to sustain the credibility of the fiscal responsibility framework, they should be triggered only in rare circumstances based on specific criteria clearly set out in legislation. Typically, escape clauses would have: (i) a limited and clearly defined set of events triggering the operation of the clause; (ii) time limits on how long fiscal policy can deviate from the targets in the rule; and (iii) a requirement for fiscal policy to return to the targets after the operation of the escape clause is terminated and possibly offset the accumulated deviations. Triggering factors could include economic recession (for example two consecutive quarters with negative GDP growth) or a national emergency, such as a climate event or conflict. Mauritius' Debt Management Act already includes some escape clauses, but they are vaguely defined and should be much more specific.

Related legislation

30. The FRL should refer to other PFM legislation as needed. The PFM system in Mauritius is primarily regulated by the Constitution, the Finance and Audit Act, the Public Debt Management Act 2008 and the Public Procurement Act 2008.[22] A Financial Management Manual or Kit, together with a range of

[20] Besides Switzerland, several countries have adopted pre-specified correction mechanisms—examples include the Czech Republic, and the Slovak Republic. In these nations, fiscal rules incorporate triggers for fiscal adjustment when the debt-to-GDP ratio surpasses predetermined thresholds. See Alonso et al., 2025.

[21] The monetary penalty in the EU Maastricht Treaty was so high that it became less credible and thus probably did not increase compliance as much as a softer sanction might have.

[22] Chapter X of the Constitution deals with finances including the PFM roles of the executive, legislature and judicial branches of government and Article 110 with the appointment and the duties of the Director of Audit.

circulars and other instructions, has been issued and being updated by MoF with AFRITAC South assistance. Besides its own merits, the FRL could also provide an opportunity to revisit the broader PFM legislative framework drawing on work that was initiated with support from AFRITAC South in 2013.[23] At a minimum, the Public Debt Management Act would need to be amended to move the provisions related to the debt limit to the new FRL.

Transitional provisions

31. Transitional provisions should be included in the FRL as needed. Such provisions could delay implementation of certain provisions to a later, but clearly specified date, in case some preconditions need to be met, for example if certain data quality or periodicity requirements cannot be supported by the existing PFM systems. Transitional provisions in these cases can provide for sufficient time for the desired PFM improvements to be completed while allowing other provisions in the law to be immediately enforced. The need for such provisions should be considered when drafting the specific legislation.

B. Recommendations

Recommendation 2.1. Fiscal Responsibility Legislation. In drafting a Fiscal Responsibility Law, the authorities should:

- Design the law in line with the structure and principles outlined in Chapter II of this report;
- Emphasize transparency aspects through procedural rules and enhanced fiscal reporting to build credibility around the FRL framework;
- Consider the attributes of an operational fiscal rule to complement the current debt limit, particularly:
    - whether the numerical value should be specified in the law or as a requirement for the government to specify an operational target in its MTFF consistent with the debt limit; and
    - expand the coverage of an operational rule or target from budgetary central government to central government;
- Include provisions for independent monitoring and assessment of compliance with the FRL, considering Mauritius' institutional setup, the need to safeguard independence, and availability of resources;
- Consider and include a set of corrective mechanisms with prescribed actions in case of non-compliance with the fiscal rules; and
- Specify a set of specific and narrowly defined escape clauses.

[23] *Mauritius. Development of Public Financial Management Act*, by Jean Luc Helis, Vijay Ramachandran and Lynne Mckenzie, IMF Fiscal Affairs Department and AFRITAC South, August 2013.

III. Implementing the Fiscal Responsibility Legislation

32. **Effective implementation of an FRL requires well-established and capable fiscal institutions.** Fiscal institutions include the procedures, formal rules, organizational arrangements and accountability mechanisms that govern the formulation, approval, execution and oversight of fiscal policy. These institutions are usually embedded within a country's PFM system. If fiscal institutions are not sufficiently developed when an FRL is introduced, this may undermine the credibility of the FRL, particularly its ability to enhance fiscal management and discipline through the control and monitoring of the implementation of fiscal rules.

33. **PFM in Mauritius encompasses several elements consistent with international good practice, though some important practices have over the years been discontinued.** A medium-term performance-based budget[24] is prepared annually guided by a detailed budget calendar; the budget is approved by Parliament before the beginning of the fiscal year; fiscal legislation supports the preparation and execution of the budget; revenue and expenditure are recorded through an integrated financial management system with sound controls to minimize arrears; government has since 2016/17 been implementing the phased rollout of International Public Sector Accounting Standards (IPSAS); and lastly, an independent supreme audit institution audits financial and performance information of most public entities. Notwithstanding this, other key budgeting practices such as the issuing of expenditure ceilings to line ministries and submission of the fiscal framework to Cabinet were discontinued, weakening the strategic orientation of the budget process.

34. **Some fiscal institutions should be strengthened to facilitate the effective implementation of the FRL.** As briefly discussed in chapter I, the debt limit set out in the Public Debt Management Act (2008) and subsequent amendments have been breached repeatedly since introduction. While there are multiple causes for this, some critical fiscal institutions within the PFM system, such as macroeconomic forecasting and the medium-term fiscal framework, fiscal risk analysis, budget preparation and in-year fiscal reporting are less developed to facilitate effective implementation of fiscal rules. As a result, there is limited capacity to track fiscal performance and enforce compliance with the debt anchor, leading to gaps in accountability and transparency.

35. **This chapter discusses options for strengthening fiscal institutions, or PFM practices, to support the implementation of the FRL.** These include:

- Enhancing the credibility and reliability of MTFF forecasts by strengthening institutional arrangements for macroeconomic forecasting;
- Reconfiguring the MTFF process to enhance the strategic orientation of the budget;

[24] Performance-based budgeting was reintroduced in the 2025/26 Budget after it was halted between 2015/16 and 2024/25.

- Strengthening budget preparation by revising the budget calendar to include a strategic top-down phase, enabling Cabinet to endorse key government priorities and expenditure ceilings as part of the fiscal strategy;
- Developing a fiscal risk analysis and management framework that also covers State-owned Enterprises (SOE) and other extra-budgetary institutions; and
- Publishing comprehensive fiscal reports regularly to enhance oversight and accountability.

A. Improving forecasting and the MTFF

Macroeconomic forecasting

36. Reliable macroeconomic forecasts are foundational to fiscal responsibility. Realistic forecasts for key macroeconomic variables increase the chances that the revenue and expenditure projections will be reliable. Furthermore, an accurate assessment of macroeconomic conditions and forecasts is necessary to inform decisions when the government sets the stance of fiscal policy to comply with the FRL. International experience suggests that macroeconomic forecasts should be subject to a high degree of transparency and independent scrutiny to safeguard their integrity and accuracy, as discussed later in this chapter.

37. Mauritius has some formal arrangements for preparing and coordinating macroeconomic forecasts, but mandates and processes appear somewhat blurred. Although not a common practice in other countries, Statistics Mauritius is responsible for producing GDP and inflation forecasts.[25] These are prepared and shared with the Ministry of Finance but not published. The forecasts are discussed in a technical Macroeconomic Coordination Committee, which is chaired by the Prime Minister's Office (PMO) and consists of members from the MoF, Statistics Mauritius, the Bank of Mauritius, the Economic Development Board and the Financial Services Commission. The Committee meets as and when required to review and discuss the macroeconomic forecasts, particularly in the run-up to the budget process, but it does not have any formal role or decision-making power. As a result of the discussions, Statistics Mauritius may revise its forecasts and share with MoF. Ultimately, however, MoF would frequently use and publish different forecasts for its MTFF based on internal discussions and decisions in the ministry, for example regarding expectations for GDP growth and the impact of policy initiatives. Neither Statistics Mauritius nor MoF base their forecasts on a macro-fiscal economic model.[26]

38. Discrepancies between macro-fiscal forecasts and actual outcomes have been significant in recent years (Figure 3.1). These deviations, particularly in terms of economic growth, point to challenges in applying accurate projections for the MTFF. Since COVID-19, real GDP growth has been persistently overstated by as much as 3.5 percent of GDP. As a result, revenue projections have been inaccurate (this was even the case before COVID-19) leading to higher than planned budget deficits.

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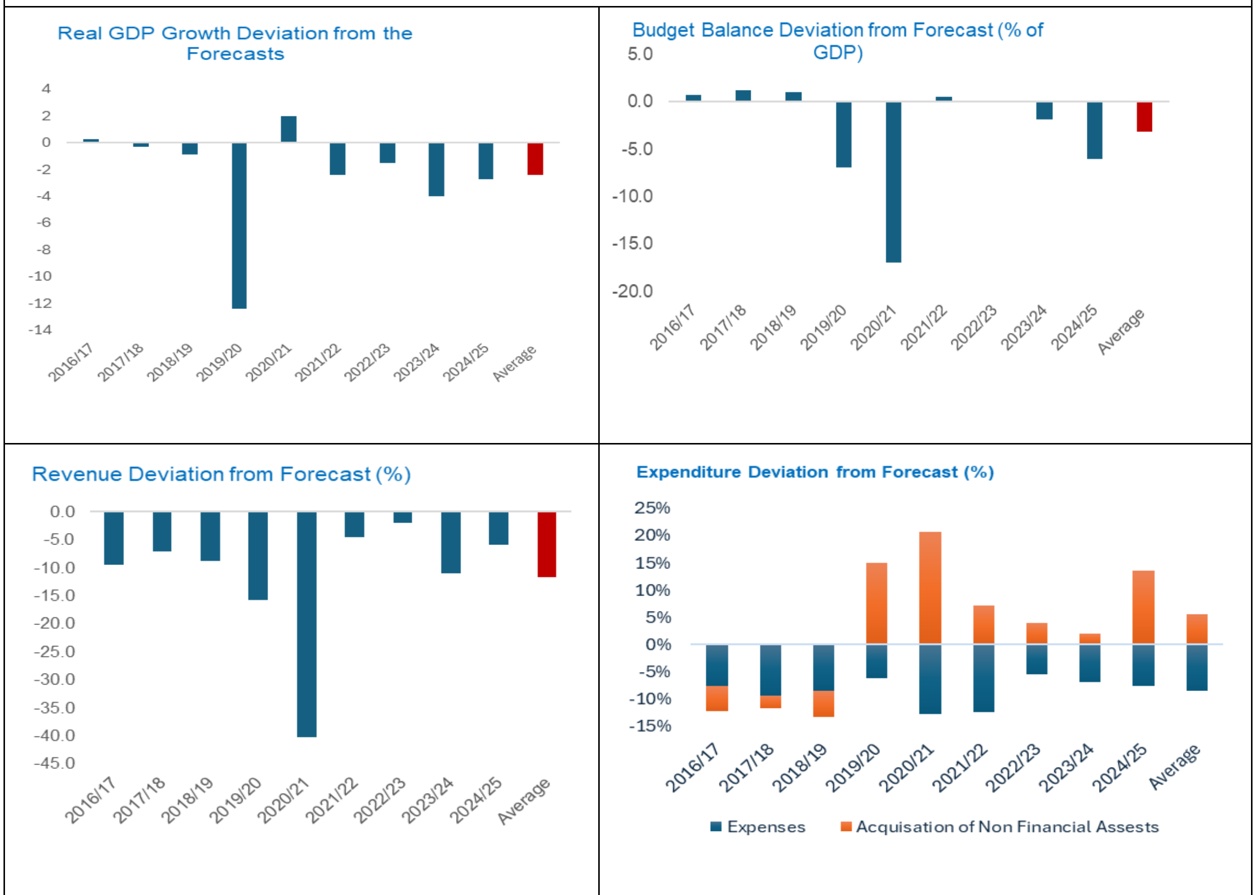
[25] This has been a practice since the 1990s.

[26] It is understood that Statistics Mauritius base their forecasts on trend-analysis combined with sectoral micro-data, which is compiled through surveys and other available information, for example on tourist arrivals or investment activities.

Figure 3.1: Macro-fiscal Forecast Performance, One-year ahead Deviations, 2016-2025



Note: The deviations measure the percentage difference between the actual outturn reported by Statistics Mauritius and the budget forecast reported in the Medium-Term Macroeconomic Framework, Fiscal Strategy and Debt Management Strategy.

Source: Statistics Mauritius and Ministry of Finance.

39. **Countries take different approaches to macroeconomic forecasting.** Prevailing capacity often determines the depth of analysis and the degree of sophistication of methodological approaches used in forecasting, ranging from spreadsheet-based tools to stochastic general equilibrium models.[27] Although different institutions are typically involved, the ministry of finance normally retains ultimate responsibility for the forecasts. Given the critical importance of macroeconomic forecasts and assumptions for designing fiscal policy measures and setting fiscal objectives, safeguards to ensure their

[27] The IMF offers a range of approaches in developing its Financial Programming and Policies (FPP) framework, from a fairly basic one with no dynamic retro-feedback loops, to more advanced modeling.

integrity and avoid undue interference that could create a bias in the forecasts are important. Countries have increasingly relied on transparency approaches, both procedurally and in terms of reporting, to provide these safeguards. In practice, this involves explanation of the assumptions underlying the forecasts, reporting on past forecast performance, explanation of discrepancies between past forecasts and outturns, and independent assessment of the reliability of the forecasts, for example by an independent entity, as discussed in Chapter II.

40. MoF could take some steps to improve the macro-fiscal forecasts used for the MTFF. As the ability to prepare accurate macroeconomic forecasts and from those derive high quality revenue forecasts, for a credible MTFF, MoF should consider several actions, which would take time to fully develop and implement:

- Considering the recommendation in the recent ROSC that Statistics Mauritius should discontinue the production of economic projections to avoid potential conflicts with its core mandate of impartial data production[28], MoF should gradually strengthen its capacity to prepare macroeconomic forecasts used for the MTFF through appropriate resourcing, training as needed, and developing modeling capacity.
- To strengthen the mandate for the existing Macroeconomic Coordination Committee, its establishment and terms of reference should be formalized, for example through a ministerial decree. MFU could serve as secretariat for the Committee, which could report to the Financial Secretary.
- MOF should report more extensively on the macroeconomic forecasts in the MTFF, including assumptions underlying the forecasts, impact of policy initiatives, forecast reconciliation and analysis, and comparison with independent and external forecasts.
- Provisions in the FRL should extend the mandate of an independent fiscal institution to also prepare an assessment of the macroeconomic assumptions underlying the MTFF, including forecasting methodologies, and analysis of macroeconomic forecast performance.

Strengthening the strategic orientation of the budget

41. MoF prepares an MTFF, which serves *de facto* as the key strategic fiscal document in Mauritius, but it has several shortfalls from a fiscal responsibility perspective. The process of preparing it is not stipulated in legislation but follows MoF internal guidelines and practices. It is prepared centrally with limited or no involvement of line ministries and Cabinet, and consists of one or more tables, which are discussed and revised in MoF through an iterative process. The MTFF document, which is eventually published as part of budget documentation, is well-structured but lacks detail in the narrative and does not include some key information, as discussed above.

42. The MTFF process should be reconfigured through introduction of a strategic discussion at the start of the budget cycle, anchored in a fiscal strategy paper that is discussed and endorsed by Cabinet. The fiscal strategy paper can be seen as a preliminary version of the MTFF document, but the two documents would serve different purposes. The fiscal strategy paper would facilitate decision making to guide the budget process whereas the MTFF document is a presentation to the public at the end of the budget process of the Government's fiscal strategy and plans. Based on the macroeconomic

[28] Mauritius – Report on the Observance of Standards and Codes, IMF, December 2025.

forecast and fiscal baseline projections, the fiscal strategy paper would identify fiscal space or fiscal gap vis-à-vis an expenditure path consistent with the fiscal rules and present scenarios for achieving compliance with the rules, incorporating costed proposals for new (major) policy initiatives and savings or revenue measures as needed to achieve a rule-consistent expenditure path, as well as contingency reserves as needed based on a discussion of uncertainties and potential fiscal risks.[29] These initiatives and measures, and ultimately the aggregate and ministerial expenditure ceilings, would be endorsed by the Cabinet.[30] This top-down strategic phase of the budget process would serve to create awareness of the Cabinet on the macroeconomic and fiscal situation and prospects, create broader ownership of needed budgetary decisions, and instill discipline in the subsequent budget process.

43. The final version of the MTFF that is submitted to Parliament along with the Estimates and budget documents would be akin to the current one being prepared by MoF, but more extensive. This would be the document that would present the Government's fiscal strategy and underlying assumptions, new policy initiatives embedded in the MTFF, the aggregate expenditure ceiling, and reconciliation of fiscal performance with the fiscal rules or targets, ex-ante and ex-post. As such, it would be a key document for the implementation of the FRL. Several statements should be annexed to the MTFF, including, over time, a Fiscal Risk Statement.

44. Reconciling forecasts across different vintages of the MTFF is an important way to build credibility. This forecast reconciliation involves the comparison of successive vintages of macroeconomic and fiscal forecasts for the same fiscal period to identify and explain changes and deviations. MoF does not currently prepare this type of reconciliation[31], which would help to ensure a proper account and explanation of deviations and build credibility around the FRL framework. Reconciliation is typically presented in a reconciliation table in the MTFF showing different vintages of forecasts (see Box 3.1 for an example from Australia as illustration).

[29] MoF could also incorporate a "negotiation reserve" which would be allocated during the budget process and used for addressing unavoidable spending needs beyond ministerial ceilings that emerge during the bilateral policy dialogue.

[30] In some countries, dependent on the institutional set-up, the fiscal strategy paper would be first discussed one or more times in an economic sub-committee of the Cabinet.

[31] Last year's MTFF stated that "there is a notable discrepancy between the initial fiscal targets and the revised estimates" causing the deficit to widen from the initial estimate of 3.4 percent of GDP to 9.8 percent of GDP but provides no explanation. Similarly, the 18 percent increase in the debt ratio to GDP is not broken down in its components and its underlying flows and stocks are not reconciled. Besides an adequate narrative, the key drivers of such discrepancies should be identified and explained.

Box 3.1. Australia's Forecast Reconciliation Table for Fiscal balance

Table 3.2: Reconciliation of general government sector underlying cash balance estimates

	Estimates					
	2024-25	2025-26	2026-27	2027-28	2028-29	Total
	$m	$m	$m	$m	$m	$m
2024-25 Budget underlying cash balance	**-28,286**	**-42,838**	**-26,713**	**-24,345**	*	*
Per cent of GDP	-1.0	-1.5	-0.9	-0.8	*	
Changes from 2024-25 Budget to 2024-25 MYEFO						
Effect of policy decisions(a)	-2,064	-8,245	-4,777	-2,380	*	*
Effect of parameter and other variations	3,401	4,168	-6,864	-4,945	*	*
Total variations	**1,337**	**-4,077**	**-11,641**	**-7,325**	*	*
2024-25 MYEFO underlying cash balance(b)	**-26,949**	**-46,915**	**-38,353**	**-31,671**	**-37,199**	**-181,087**
Per cent of GDP	-1.0	-1.6	-1.3	-1.0	-1.1	
Changes from 2024-25 MYEFO to 2025-26 Budget						
Effect of policy decisions(a)(c)						
Receipts	*21*	*-103*	*-3,425*	*-6,129*	*-4,542*	*-14,178*
Payments	*158*	*7,141*	*4,230*	*4,533*	*4,644*	*20,706*
Total policy decisions impact on underlying cash balance	-137	-7,244	-7,655	-10,662	-9,186	-34,884
Effect of parameter and other variations(c)						
Receipts	*-284*	*7,036*	*6,009*	*-570*	*-3,797*	*8,394*
Payments	*236*	*-5,001*	*-4,294*	*-5,656*	*-13,328*	*-28,043*
Total parameter and other variations impact on underlying cash balance	-520	12,037	10,303	5,086	9,531	36,437
2025-26 Budget underlying cash balance	**-27,605**	**-42,122**	**-35,706**	**-37,247**	**-36,854**	**-179,534**
Per cent of GDP	-1.0	-1.5	-1.2	-1.2	-1.1	

*Data are not available.

a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

b) 2028–29 as published in the medium-term projections, page 59 of the *Mid-Year Economic and Fiscal Outlook 2024–25*.

c) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Source: Australian 2025-26 Budget Paper No.1

B. Strengthening budget preparation

Setting priorities for the budget

45. **The Mauritian Government's priorities are outlined in the Five-year Government Program[32] but not well integrated into the budget process.** The elected Government develops the Government Program, presented to Parliament by the President at the commencement of each electoral cycle. This document outlines the administration's priorities and objectives for the ensuing five years. Sectors then prepare detailed plans outlining how they will help meet the Program's goals. Because the priorities in the Government Program are many, defined at the strategic level only and are not costed or prepared within

[32] The latest Government Program is for 2025-2029 and was presented to Parliament by the President of Mauritius on 24 January 2025.

a clearly defined fiscal constraint, this may create incentive for sectors to develop overambitious and unrealistic plans.

46. Prioritization of new policy priorities during the budget process is done with limited Cabinet involvement. MoF issues the Budget Circular, which currently does not include any expenditure ceilings, and line ministries prepare their budget submission in accordance with the circular. The submissions outline baseline needs on a no-policy change basis (further discussed below), and requests for new/additional policy funding. Sector Ministry Support Teams (SMSTs) within MoF review the submissions and engage in bilateral discussions with the line ministry; these may be escalated to the senior management level according to a formal process of an Estimates Committee Meeting. Ultimately, MoF and the line ministry would reach a bilateral agreement. In addition, other policy initiatives may be considered and prioritized by the Minister of Finance following a policy dialogue with his colleague Ministers and ultimately reflected in the budget proposal. Cabinet is not consulted nor involved in approval and would typically receive the budget proposal just before its publication.

47. Other countries tend to involve the Cabinet more and earlier in the budget process to guide decision making. Given that potential priorities are vast while resources are limited, setting key priorities for the budget early in the process and aligning them to the MTFF is fundamental to fostering fiscal discipline during budget preparation. As discussed in section IIIA, countries usually set fiscal targets for the budget in a fiscal strategy paper, which is submitted to Cabinet (or a sub-Committee) for deliberation early in the budget preparation process. In many countries, this fiscal strategy paper also sets out the government's key priorities for the next budget cycle, policy options and scenarios, and eventually determines top-down expenditure ceilings to be applied in the budget process (Box 3.2). This will in turn create awareness of the fiscal stance and instill discipline in the budget process, thus guiding decision making and strengthening its efficiency. The budget calendar should be amended to incorporate such early consideration and approval of the MTFF and key priorities by Cabinet.

Box 3.2. Timing and Key features of the Fiscal Strategy Document in Different Countries

Country	Document Name	Timing (Approx.)	Key Features
South Africa	Medium-Term Budget Policy Statement (MTBPS)	October (Budget Feb/Mar)	Sets aggregate expenditure ceilings and policy priorities 4–5 months before the budget.
Kenya	Budget Policy Statement (BPS)	February (Budget June)	Provides macro framework, sector priorities, and indicative ceilings ahead of detailed estimates.
Uganda	Budget Framework Paper (BFP)	November/December (Budget June)	Aligns national development priorities with medium-term fiscal ceilings.
Ghana	Fiscal Strategy Document (FSD)	No later than the end of May (Budget Nov)	Outlines fiscal objectives, macro assumptions, and expenditure guideposts.
Zambia	Budget Policy Concept Paper	June (Budget Sept)	Provides macro-fiscal guidance and expenditure ceilings.

Rwanda	Budget Framework Paper (BFP)	Apr (Budget June)	Macroeconomic and fiscal policy stance; sets strategic priorities and sector ceilings prior to final budget submission.
United Kingdom	Autumn Statement / Spending Review	Autumn/Nov (Budget Spring)	Sets fiscal strategy, key policy measures and departmental expenditure limits ahead of the main budget.
Canada	Fall Economic Statement	Nov/Dec (Budget Mar)	Updates fiscal framework and provides economic outlook and policy direction ahead of main budget process.

Source: IMF Mission team

Determining baseline expenditure estimates

48. Baseline expenditure estimates are essential for determining aggregate expenditure forecasts within the fiscal framework. Baseline estimates are integral for fiscal forecasting as they help governments to determine the spending needed to maintain current policies and projects over the budget cycle.[33] They make it possible for forecasters to determine whether there is fiscal space to fund new policy priorities, after considering the overall resource envelope and set fiscal limits, for example in a FRL. When baseline estimates are poorly determined or where the capacity for determining them is low, preparation of the budget relies on incremental adjustments to line items or simple extrapolation of historical trends, failing to capture the effects of past policy decisions and external factors. This makes fiscal forecasts less reliable and would therefore undermine adherence to the fiscal rules. Box 3.3 provides a methodology for preparing expenditure baselines.

[33] Baseline projections would not include new policy initiatives. These are the additional amounts of operational and capital expenditures required for implementation of newly defined activities and/or targeted programs approved either with the current budget or since the budget was approved to pursue new policy objectives and deliver new, improved, or expanded public goods and services.

Box 3.3. Forecasting Aggregate Expenditure Baselines

Expenditure baselines serve as key reference points in budget preparation, helping to identify spending needs and fiscal space. To forecast expenditure baselines, the process involves three main steps:

Understand the current level of spending, including removing one-offs, with an appropriate level of detail balancing accuracy and complexity.
Apply medium-term cost drivers, often using a "price x quantity" approach for spending blocks with common drivers.
Aggregate the estimates to derive the overall baseline for the entire budget.

If forecasting expenditure baselines at economic classification level, cost drivers will likely differ across categories of spending.

Category	Change in Price	Change in Volume
Compensation of employees	CPI, private sector wages, announced salary uplifts	Civil Service employment
Goods and services	Non-Oil GDP deflator or CPI, exchange rate	GDP or population
Subsidies and grants	CPI, energy prices, fertilizer prices, or assumption	GDP
Social benefits	CPI	Eligible population
Purchases of non-current assets	CPI, non-oil GDP deflator, or import deflator	Current projects and pipeline
Interest on public debt	Interest rates, exchange rate	Stock of public debt

Source: IMF How To Note: "How to Prepare Expenditure Baselines" (2022).

49. **The methodology for determining aggregate baseline estimates in Mauritius is robust but could be strengthened by incorporating inputs from line ministries to strengthen the reliability of forecasts.** As noted, the current process is largely centralized and administered by MoF, which uses a baseline estimates methodology that considers among others historical spending, actual expenditure for the first six months of the current budget year and commitments for the remainder of the year, contractual obligations and project commitments over the medium term, and other non-discretionary and statutory expenditures such as interest, pension and personnel costs. However, the estimates could be strengthened by involving line ministries, particularly those that are significant spending drivers, earlier and more systematically in the process to improve baseline accuracy.

Setting expenditure ceilings

50. **Expenditure ceilings are integral to a prudent and disciplined budget formulation process that fosters adherence to fiscal rules.** The aggregate spending limit is usually set first, followed by ceilings for each individual ministry. Additional ceilings may be applied by program or economic category. Decisions about total spending limits are generally made as part of the MTFF process before allocating funds to specific areas in detail. At the same time, line ministries must be given discretion to articulate expenditure pressures and priorities from the bottom-up, to ensure allocative efficiency. These top-down

and bottom-up approaches to setting ceilings are usually balanced during the strategic phase discussed earlier in this section, which would occur early in the budget process.

51. MoF does prepare ceilings for each line ministry during the budget process, but they are not formally communicated to them. Ceilings have served as a mechanism intended to guide line ministries in their expenditure planning since 2005.[34] These ceilings, covering both recurrent and capital expenditures, are established at the ministry level to ensure clarity and control on spending. Initially, the Budget Circular included ceilings for each line ministry, which in 2021 was replaced by a bilateral approach with each ministry receiving their ceiling via a formal letter. At present, ceilings are not communicated to line ministries but primarily used internally by the SMST (who may communicate the ceiling to the line ministry during the Estimates Committee Meetings).[35] Yet, formal issuance of budget ceilings to line ministries could help instill fiscal discipline and strengthen the budget process, as discussed above.

Revising the budget calendar

52. MoF's Budget Calendar is mostly consistent with good international practice but is not published. The calendar outlines the schedule of key activities, timelines, and expected outputs and responsibilities for all key stakeholders in the budget process to strengthen coordination efforts and ensure that the budget is finalized and approved as planned. It is updated every year and the process for the preparation of the budget generally commences six months before the beginning of the next fiscal year. The calendar is, however, not published. The calendar is only used for internal MoF planning and is not shared with external stakeholders. This is contrary to the practice adopted in other countries where the calendar is included in the budget circular. Some countries have included key dates and sequencing of the budget process in organic laws, for example Uganda, Rwanda, Kenya, Brazil, Mexico, and Türkiye.

53. The budget calendar should be revised to accommodate the strategic top-down phase earlier in the budget process. As an example, Annex I outlines the salient steps of a possible revised budget calendar compared with the current calendar. This would incorporate the strategic phase to allow for the preparation of the fiscal strategy paper, setting of key government priorities, and expenditure ceilings. It would also be slightly decompressed and commence two months earlier than the current calendar to accommodate the necessary time required for MoF to prepare the relevant documents for Cabinet's deliberation. It would effectively shift the decision making and prioritization process (i.e., the strategic phase) to commence in December until the end of March. It would also provide for the preparation of new in-year reports, discussed in section D below. The Budget Circular should be expanded to include a revised budget calendar and could also be more detailed on other aspects, such as key priorities for the budget, the fiscal and economic outlook, and specific costing assumptions to be used in budget preparation, like CPI or exchange rate, as well as the expenditure ceilings.

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[34] Line ministry ceilings were included as an annex to the budget circular until 2014/15.

[35] According to MoF, this is because line ministries failed to comply with their ceilings, often submitting proposals more than their ceilings every budget cycle, i.e., the ceilings were deemed ineffective.

In-year budget management

54. Effective budget implementation is critical for budget credibility and by extension the effectiveness of the FRL. While many aspects go into this, effective budget management ultimately relates to the ability to implement the budget as planned and approved as measured, for example, by the frequency and magnitude of in-year budget changes, such as virements or supplementary budgets.

55. In-year budget changes seem to be relatively frequent in Mauritius. Ex-ante supplementary appropriations have averaged 6.3 percent of total spending in the last four years with a notable increase in 2024/25 due to a policy decision to increase pensions. MoF virement approvals as a percentage of total spending have averaged 5.1 percent between 2016 and 2025, excluding the COVID period. While these virements may appear relatively small at face value, they have contributed to some significant changes in the composition of expenditure as funds were moved from capital expenditure to offset pressures on recurrent expenditures.

56. There may be scope to strengthen the legal framework for supplementary budgets in Mauritius. The legal framework currently does not define parameters for the use of virements and supplementary appropriations. The only requirement is that MoF must request ex-ante Parliamentary approval for supplementary appropriation where implementation of a new policy initiative or incurring the expenditure would cause spending to exceed the overall appropriation for that fiscal year.

C. Monitoring and disclosing fiscal risks

57. Fiscal risks have the potential to derail fiscal plans and should be closely monitored and managed. International experience suggests that materialization of fiscal risks can impose large and lasting costs on public finances, often intensifying fiscal stress during economic downturns. Pre-pandemic FAD analysis[36] showed contingent liability realizations to have an average fiscal cost of about 6 percent of GDP with extreme historical cases having generated fiscal impacts of close to 60 percent of GDP. Awareness of fiscal risks allows governments to put in place policies to budget for these more carefully and to take steps to limit their exposure to shocks. Better understanding of fiscal risks and greater transparency can also help underpin credibility in the government's management of public finances.

58. Mauritius appears to be faced with a range of fiscal risks. While it was outside the scope of the mission to undertake comprehensive analysis of fiscal risks, available information and data suggests that sources of fiscal risks in Mauritius are plentiful and risks potentially significant. Some potential risks include:

- ***Macroeconomic risks.*** As a small open economy that is highly dependent on tourism and financial services, Mauritius is vulnerable to global economic developments, such as slower economic growth, increased uncertainty in international trade and financial markets, or higher commodity prices. This may impact key macroeconomic variables like GDP, inflation, and exchange rate, all of which play a crucial role for government revenue, expenditures, and public debt. A basic understanding of the

[36] International Monetary Fund, 2016, "Analyzing and Managing Fiscal Risks—Best Practices" (Washington: International Monetary Fund)

scale and sources of macroeconomic risks can be derived by analyzing the sensitivity of fiscal forecasts to changes in macroeconomic assumptions.

- ***Climate risks.*** Mauritius faces growing fiscal risks from natural disasters and climate change. From 1960 to 2022, the country experienced 22 extreme weather events, each causing average damages of USD 160-245 million (1.5-2.3 percent GDP).[37] Real GDP growth dropped by 1.3 to 2.5 percentage points during affected years compared to adjacent years.
- ***Parastatals, incl. special funds, and state-owned enterprises (SOEs)***. Mauritius has many public institutions, which take various legal forms. According to the classification by Statistics Mauritius, there are 156 extrabudgetary units (incl. special funds[38]) classified as part of central government (and corresponding to around one-quarter of central government spending in FY23/24); 49 non-financial public corporations; and 16 financial public corporations, including the Bank of Mauritius. Some of them have multiple subsidiaries.[39] Although several commercially oriented SOEs generate operating surpluses, available information suggests many others may pose fiscal risks—sometimes due to quasi-fiscal activities, which seem to be a widespread practice—resulting in operating losses, weak balance sheets, and need for government transfers, loans, or recapitalizations, including in some major SOEs.[40] Moreover, delays in financial reporting by public institutions are common. Only about one-third of the institutions submit their financial statements on time.
- ***Government guarantees and public-private partnerships (PPPs).*** Government guarantees are not substantial by international comparison but nonetheless constitute a contingent liability. By end-2025, the stock of government guarantees stood at 4.3 percent of GDP, mostly for guaranteed loans taken by SOEs, and in recent years two guarantees related to Metro Express Limited and National Property Fund Limited were called. PPPs have so far not been used in Mauritius, except for one case, but it is understood that some capacity is being established to promote and attract more PPPs. Any increased use of PPPs in the future should go hand in hand with a strong framework for mitigating potential risks associated with PPPs because from international experience, such risks can be significant.
- ***Litigation.*** There have been costs related to legal action taken against the government related to Government's unilateral cancellation of contracts, notably the so-called Betamax case, which was ruled by the highest court of appeal for Mauritius against the government in 2021 at a cost of roughly $115 million. It is understood that there are some pending cases that could incur costs in the future. From international experience, the risks associated with court cases tend to be small in numbers but potentially high in costs. In addition to having strong procurement laws and practices, countries

[37] World Bank Group, 2023, "Mauritius Public Expenditure Review", World Bank. Washington

[38] There are currently 23 special funds (SF), of which 9 have been designated for closure. Each SF has its own governance and reporting arrangements and are typically used for implementing various projects and schemes outside the budget. The biggest fund at this point is the Projects Developments Fund, which undertakes various infrastructure projects. They have been funded through transfers from the Consolidated Fund, particularly during COVID, but have depleted their funds and will require additional funding to complete projects and operate schemes.

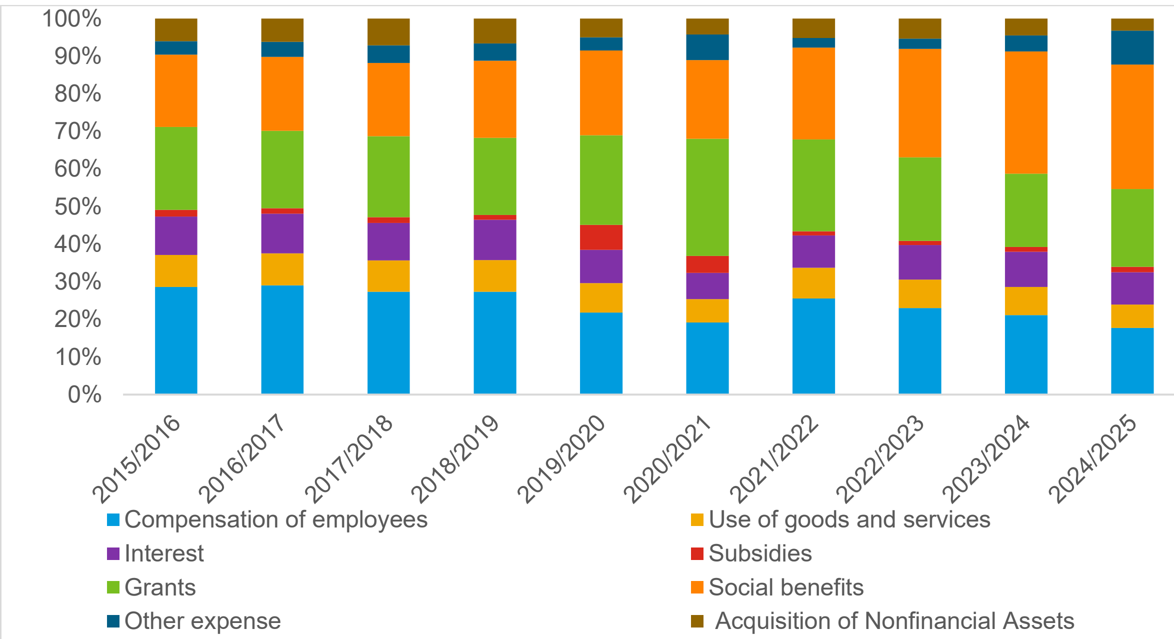
[39] According to information from the Ministry of Finance, there are approximately 340 SOEs and parastatals under the Government's purview. Of these, the financial statements of 207 entities (some SOEs are grouped with the parent companies) are currently being consolidated with the Government's accounts in accordance with applicable public sector accounting and reporting requirements.

[40] About 15 SOEs are currently classified by the Ministry of Finance as high risk.

should have provisions for legal vetting prior to taking actions that might lead to litigation as well as frameworks for assessing and monitoring the potential impact on public finances from such cases should they be lost.

59. Although typically not regarded as a fiscal risk, spending pressures and budget rigidities can restrict the capacity to respond to adverse developments. In Mauritius, the share of spending on social benefits, which tend to be relatively rigid, has grown over the last decade from 19 percent of total expenditure to 33 percent (Figure 3.2) reflecting rising age-related spending, notably on pensions and health. Such spending pressures are expected to increase in the future while at the same time the tax base could be reduced due to the ageing population. These developments reinforce the need for fiscal prudence and fiscal buffers to maintain the ability to respond to adverse shocks.

Figure 3.2: Expenditure Composition



Source: Statistics Mauritius

60. The fragmented and somewhat lacking governance and reporting arrangements for public institutions should be addressed. Although public institutions—parastatals, special funds, and SOEs—play a significant role in Mauritius and seem to be marked by governance and financial issues, there is no consolidated information or analysis regarding their financial performance and potential risks. The MoF has established a small SOE unit in 2025 tasked with monitoring SOEs performance.This work should be expanded as currently their mandate and access to timely information seem limited. Moreover, public institutions operate under a fragmented legal framework comprising general company law, entity-specific statutes, the Finance and Audit Act, and various non-statutory governance codex, and there is no overarching legislation that regulates their governance, reporting, and oversight arrangements.

61. Considerations should thus be given to developing a dedicated SOE act to address the SOEs fragmented governance and reporting framework. Some 60 countries around the globe, including most advanced and emerging economies, have enacted legislative frameworks to govern their public entities. Such frameworks can take the form of dedicated legislation (e.g., New Zealand, Philippines) or chapters and provisions subsumed under national PFM legislation (e.g., South Africa and Spain) but in any case share common transparency and accountability principles based on strict periodic reporting requirements set by the government. The information should be publicly available and provide a full, clear and reliable picture of the SOEs financial performance and achievement of their set objectives.[41] Some of these principles could also be reflected in a fiscal responsibility legislation, as anticipated in Chapter II.

62. **Mauritius would also benefit from more systematic reporting of fiscal risks.** While some fiscal risk analysis was included in the 2024 State of the Economy report, the Ministry of Finance generally does not include such analysis in the MTFF or budget documents. Countries increasingly prepare a dedicated Fiscal Risk Statement (FRS), which compiles and publishes data and analysis of fiscal risks, including contingent liabilities, as a vehicle for strengthening awareness of potential fiscal risks, enhancing transparency, and demonstrating the government's ability to monitor and manage such risks. Countries typically also establish appropriate institutional arrangements underpinning the FRS (Box 3.4), which can be refined and expanded over time. Annex II provides a typical outline for an FRS.

Box 3.4. Examples of Institutional Arrangements for Fiscal Risk Analysis and Management

The **United Kingdom** has established a fiscal risk group within HM Treasury to identify and monitor fiscal risks. The group is chaired by the Treasury Chief Economist and comprised of senior treasury officials (including the tax department, spending areas, international, and financial stability department). It produces a dashboard of fiscal risks, with estimates of total exposure and rankings using the traffic light system. The U.K. Office of Budget Responsibility is also preparing to publish an in-depth fiscal risk report every two years, in addition to its regular semi-annual reporting on risks around the medium-term forecast.

South Africa has also established a fiscal risk committee with a mandate to identify the major sources of fiscal risk and quantify them as far as is possible, monitor risks and propose mitigating measures, and report on risks both for internal purposes and to the public. The committee meets quarterly and incorporates a wide range of actors from within the National Treasury that are required to report on their area of expertise. It is supported by a secretariat in the Fiscal Policy Department of the Treasury.

Source: IMF Mission Team

D. Fiscal reporting

63. **As discussed in chapter II, adherence to good practices in transparency and accountability through regular fiscal reporting is critical for the success of the FRL.** Regular

[41] The OECD has issued guidelines aimed at ensuring SOEs be subject to the same high-quality accounting, disclosure, compliance and auditing standards as listed companies. See OECD, 2024, Guidelines on Corporate Governance of State-Owned Enterprises, available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/06/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2024_68fa05cd/18a24f43-en.pdf.

monitoring and reporting of fiscal developments and budget implementation are essential to track progress toward the achievement of targets set in the fiscal strategy and approved budget. Fiscal reporting is therefore central to fiscal responsibility because fiscal rules or targets cannot be enforced without reliable, timely and comprehensive information.

64. **Mauritius has the institutional foundations necessary to support regular production and publication of fiscal reports.** The Financial Management Manual[42] and supporting financial instructions provide the operational framework for financial management, including budget execution and reporting. The Treasury Accounting System[43] is used to record both revenue and expenditure and this information is readily available to the MoF as and when required. The system includes controls that prevent expenditure commitments without a budget and the accumulation of arrears. Financial reporting is done on an accrual basis based on the IPSAS standards and the Accountant General annually prepares financial statements for audit by the Director for Audit. Some fiscal data, for example on public debt statistics, is compiled and published on the MoF website on a quarterly basis.

65. **Yet, no in-year reports are currently prepared and released to the public or submitted to Parliament.** There is no formal requirement in the legal framework for MoF to prepare in-year fiscal reports and to publish or submit these to Parliament. However, MoF, through its financial instructions, and line ministries prepare several reports during the fiscal year. These reports focus on revenue collection, expenditure monitoring, the status of execution of capital projects, non-financial performance information, and progress on the implementation of measures announced in the budget speech (Box 3.5). The MoF uses these reports for internal analysis and reporting to the Financial Secretary.

Box 3.5. In-year Fiscal reporting in Mauritius

- Line ministries are required to submit quarterly expenditure reports to the MoF to ensure transparency and accountability in budget execution. These reports focus specifically on likely financial outturns and include detailed explanations for any variances observed between projected and actual expenditures. Cashflow projections serve as the foundation for expenditure analysis.

- The MoF is responsible for preparing the capital project report, which consolidates information on the status and progress of capital investments. Line ministries are expected to provide monthly updates on individual project statuses through the electronic project management system, enabling ongoing oversight of capital project execution and facilitating timely interventions where necessary.

- An annual report on performance indicators is published and made accessible on the MoF website for public review. To support this process, line ministries submit quarterly updates to the MoF using Excel spreadsheets, ensuring consistent tracking of key metrics throughout the year. The submitted information is subject to audit and the Director for Audit selects samples for review, sometimes at the ministry level, to verify the accuracy and reliability of reported performance data.

- All measures announced during the budget speech are systematically tracked to ensure effective implementation. The MoF extracts these measures and coordinates monthly follow-up with line ministries, monitoring progress and

[42] The Financial Management Manual is currently being reengineered into a Public Financial Management Kit that will consolidate all public financial management legislations, rules, procedures and financial instructions.

[43] Similar to an Integrated Financial Management Information System (IFMIS).

compliance. Quarterly reports are subsequently submitted to the Financial Secretary, providing a structured mechanism for evaluating the status of budget measures and facilitating accountability across ministries.

Source: Mission team

66. **MoF should prepare and publish a wider range of fiscal reports.** This includes expanding the budget documents with a more elaborate MTFF document as well as a Fiscal Risk Statement, as discussed above. Moreover, regular (such as quarterly) in-year budget execution reports should be published with data on revenue and expenditure developments, ideally with a brief narrative in addition to data. MoF could also benefit from publishing a comprehensive Mid-year Review[44]. Annex III provides an overview of possible fiscal reports and their main content.

67. **Regular reporting on fiscal performance related to the fiscal rules would be particularly important.** Such reporting is critical for demonstrating commitment to transparency and building credibility around the fiscal plans. As such, it provides important information to external stakeholders, including market participants, particularly when combined with independent scrutiny as previously discussed. Reporting this fiscal performance could be included as sections in various fiscal reports, notably the MTFF document.

68. **Experience from countries with fiscal rules shows that communication on the rules should be simplified for wider understanding.** Clear, consistent communication is essential to explain how the rule supports fiscal goals and benefits the economy. As Mauritius lacks a Citizen's budget, introducing one could help present fiscal rules in an accessible format. Citizen's budgets are designed to make government fiscal information understandable for all, translating technical details into simple language.

E. Recommendations

Recommendation 3.1. Macroeconomic forecasting. The MoF should strengthen the reliability and accuracy of macroeconomic forecasts by:

- Assuming responsibility, and gradually expanding the capacity for preparing macroeconomic forecasts used for the MTFF;
- Formalizing terms of reference for the existing Macroeconomic Coordination Committee;
- Reporting more extensively and regularly on the macroeconomic forecasts, including assumptions, impact of policy initiatives, forecast reconciliation, and comparison with independent and external forecasts;
- Undertaking periodic analysis of forecasting performance; and

[44] A mid-year review, conducted six months into the fiscal year, evaluates budget execution, updates fiscal forecasts, and recommends reallocations or adjustments if necessary. This process discloses the government's progress on budget measures, helps monitor fiscal targets, and reduces risk of major surprises at year-end.

- Ensuring the mandate of an independent fiscal institution also includes assessment of the macroeconomic forecasts.

Recommendation 3.2. Strategic orientation of the budget. MoF should introduce a formal strategic top-down phase at the start of the budget cycle, anchored in a fiscal strategy paper that is approved by Cabinet.

Recommendation 3.3. Enhancing the MTFF document. MoF should expand the content of the existing MTFF document, which is disseminated with the budget documents, to include more detail on assumptions, forecasts, fiscal strategy and policy initiatives, and forecast deviations, in line with requirements in the FRL.

Recommendation 3.4. Strengthening the annual budget process. MoF should strengthen annual budget preparation by:

- Including ministerial expenditure ceilings in the Budget Circular based on the framework outlined in the fiscal strategy paper and Cabinet-approved MTFF;
- Revising the Budget Calendar to incorporate the strategic phase of the budget cycle and disseminating with the Budget Circular;
- Preparing a citizen's budget to be disseminated with the budget documents; and
- Consider strengthening the framework for virements and supplementary budgets to enhance in-year budget credibility.

Recommendation 3.5. Fiscal risk disclosure and management. To strengthen monitoring, disclosure, and management of fiscal risks, MoF should:

- Develop, possibly with external support, an overarching legal framework for extrabudgetary entities and state-owned corporations to enhance their governance, reporting requirements, and oversight and management;
- Develop a fiscal risk monitoring and management framework, possibly with external support; and
- Develop the concept of a Fiscal Risk Statement, which would accompany the MTFF and budget documents.

Recommendation 3.6. Fiscal reporting. MoF should prepare a wider range of fiscal reports, including:

- Quarterly budget execution reports with a brief narrative; and
- A more extensive mid-year review to update on fiscal developments, revised forecasts, and the fiscal outlook.

Annex I. Current Budget Calendar and Salient Features of a revised Calendar

Month	Current Process	Proposed Revised Process
December	-	• Preparation of the mid-year budget review by MoF (Dec) • MoF presentation of the mid-year review to Cabinet (Jan) • Updating of the macro-fiscal framework (Jan)
January	• Update the macro-fiscal framework	
February	• Update the macro-fiscal framework • Issue of communique to stakeholders • Issue of Budget Circular to Ministries	• Preparation of the fiscal strategy by MoF including proposals on priorities and ceilings • Stakeholder consultation and submission of proposals to MoF by stakeholders • Visit to Rodrigues
March	• Update the macro-fiscal framework • Visit to Rodrigues • Submission of proposals by stakeholders • Budget submission by MDAs	• MoF submits the fiscal strategy paper to Cabinet (early March) • Cabinet deliberation of the fiscal strategy (late March) • Issuing of the Budget Circular and ceilings based on the approved MTFF to line ministries (late March) i.e., after Cabinet endorsement
April	• Budget consultation with key stakeholders • Estimates Committee Meetings • Pre-budget consultation with stakeholders	• Budget submission by MDAs (mid-April) • Budget negotiations/Estimates Committee (late-April) • Pre-budget consultation with stakeholders • MTFF forecasts updated
May	• Policy dialogues with Ministers • Budget Day	• Policy dialogues with Ministers (early May) • Budget Day (incl. updated MTFF) (end-May)
June	• Budget Debates • Committee of Supply	• Budget debates • Committee of Supply
July	• Finance Bill	• Finance Bill

Source: IMF Team

Annex II. Possible Outline for Fiscal Risk Statement

INTRODUCTION

MACROECONOMIC RISKS

- Macroeconomic Risks
- Uncertain global financial conditions
- Estimation of Macroeconomic Projections versus Actual Performance
- Budget Sensitivity to Changes in Key Macroeconomic Variables

SPECIFIC RISKS

- Public Debt
- Government guarantees
- Public Private Partnerships
- Public Pension Schemes
- Extrabudgetary entities
- State Owned Enterprises (SOEs)
- Non-Guaranteed Liabilities of Public Entities
- Legal Claims
- Natural Disasters and Climate Change

MANAGEMENT OF FISCAL RISKS

CONCLUSION

Annex III. Proposed key fiscal reports to be published and their content

Report	Relevance for the FRL	Content	Frequency
Fiscal Risk Statement	Provides a detailed analysis of fiscal risks that could potentially threaten adherence to the fiscal targets if they materialize	• Disclosure of fiscal risks for the GoM e.g., macroeconomic risks, environment and climate risks, contingent liabilities, etc.	• Annual, as an annex to the MTFF
Quarterly budget execution reports	Provides status of budget execution and any potential risk of under or over execution of the budget that might undermine adherence to the fiscal targets	• Summarize status of budget execution (planned vs actual spending) for the GoM • Include breakdown per ministry • Highlight reasons for deviations	• Quarterly
Mid-year Budget Review	Assesses the status of budget execution midway through the year and provides an opportunity to update the macroeconomic and fiscal outlook based on emerging risks. Also proposes reallocations, adjustments, or supplementary appropriations if needed.	• Revisions to spending and revenue targets based on fiscal developments (e.g., lower than planned revenue) • Progress on budget execution at the half-way mark of the fiscal year • Supplementary appropriations • Updated forecasts for the year	• Six months after the beginning of the fiscal year
Citizens Budget	Translates technical budget information including fiscal rules in a simplified and understandable manner	• Summary of the fiscal strategy and key policy measures for the government • A breakdown of proposed revenue measures and expenditure, including the composition and proposed spending for each sector	• Annual, together with other budget documents