MAURICE STRATÉGIE

ECONOMIC AND SOCIAL IMPACT ANALYSIS

NATIONAL BUDGET **2023/24**

JUNE 2023

DISCLAIMER

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FOREWORD

Maurice Stratégie has been set up in April 2023 with the objective of contributing to public action through independent research, analysis, and consultations. The institution, in this report, aims at providing an independent analysis of the main measures announced in Budget 2023/24 and assesses their impact on major macro-economic indicators.

In this Economic and Social Impact Analysis of Budget 2023/24, we provide estimates of the main economic indicators used in policy analysis and decision making, including Gross Domestic Product (GDP), tax revenue and employment, and provide, at an aggregated level, the impact of measures announced.

In particular, the effects of the fiscal reform with regards to income tax are analysed in depth, as are the measures aimed at protecting vulnerable households - a continuation of the previous social measures announced in the last two budgetary exercises.

Additional impact analyses will follow by Maurice Stratégie, focusing on other measures' impact on main indicators, including those of labour market reforms, ease of doing business, infrastructure expenditure and other policy measures aimed at boosting investment and exports.

The forecasts and impact analyses were undertaken with the support of different econometric models, including a Computable General Equilibrium Model and Structural Macro Econometric Model, through an iterative process in collaboration with officers from relevant institutions to support the finalisation of policy measures.

The analysis in this report has been conducted using statistics and information provided by the Ministry of Finance, Economic Planning and Development, Statistics Mauritius, the Bank of Mauritius, the Economic Development Board and the Mauritius Revenue Authority. Maurice Stratégie would like to express its appreciation to the officers involved for their prompt and decisive action in ensuring constant dialogue and collaboration in providing requested data for the purpose of preparing this report.

The Economic and Social Impact Analysis of Maurice Stratégie provides therefore a review of the economy to better situate the context, using the latest figures provided by the Ministry of Finance, Economic Planning and Development in its Medium-Term Macroeconomic Framework, followed by updated forecasts for main macroeconomic indicators based on the announcements in the budget. A special focus is provided thereafter on the impacts of the fiscal reform and the welfare measures on the economy.

The analysis is meant to be an estimate of the impacts of the previsions and measures included in the budget, built upon several assumptions at a point in time under very specific conditions – the (in)famous ceteris paribus rule. These conditions might vary over the course of the year and will most likely alter the conclusions of the included analysis, and as such, are meant to be taken for what they are, that is, estimates.

The figures are meant to provide an idea of how policies can affect variables and are therefore meant to be taken as useful guides for policymakers, researchers and the general public to formulate their own opinions and analysis. While all due care has been taken to make sure that as many parameters are taken into consideration during the analysis, as for all economic, statistical, and econometric analyses, it remains fraught with the specters of mercurial economic conditions and human error, and as such should not be taken as being authoritative.

We hope nonetheless that the reader will find the analysis to be a relevant and useful addition to the array of existing insights and highlights published. Maurice Stratégie would welcome further discussions and constructive debates on the report's methodology and findings.

Sanroy Seechurn

Director

EXECUTIVE SUMMARY

Maurice Stratégie has undertaken a general assessment of the impact of the budget as well as an impact assessment of the tax reforms and social welfare measures.

The implementation of the budget measures announced is likely to increase GDP for the fiscal year 2023/24 to Rs 722.9 billion with a nominal growth rate of 17 percent and a real growth rate of 8 percent, the same level noted for 2022/23. Public investment is expected to be a main contributor to nominal growth, with 3.76 percentage points. 200,000 additional tourist arrivals are expected, which will add another 2.67 percent to GDP, followed by additional private investment (+2.02%), exports of goods (+1.95%) and other services exports (+1.83%).

The income tax reform is estimated to contribute an additional Rs 3.7 billion to national output whereas social transfers are predicted to add an additional Rs 6.7 billion to GDP through first and second round effects as additional injections to the circular flow. Thus, the fiscal reform could add some 0.6 percent to GDP while the social transfers announced are estimated to contribute some 1.21 percent to GDP.

It is further estimated that the income tax reform could cost the government a shortfall of revenue of some Rs 3.5 billion in terms of personal income tax collection. Corporate tax is expected to fall by 3.7%. On the other hand, VAT collection would increase by Rs 1.2 billion and excise duties by Rs 101.6 million.

Consumption is estimated to increase through the tax reforms (+2.95%) and the social welfare measures (+1.20%). Following the increased requirements in terms of consumption and production, measures related to the tax reform and social transfers are likely to generate more employment. Our analysis predicts the creation of some 16,800 new jobs due to tax reforms and some 6,700 due to social transfers.

The effect on investment will vary for the income tax reform (-3.25%) and social welfare measures (+1.29%). The fiscal reform would effectively reduce the price of labour, resulting into a substitution effect in favour of labour rather than capital. However, the increased demand following higher disposable income would partially soften the fall in their margins.

It is important to highlight that the negative investment impact of the fiscal reform would only mitigate but not offset the general increase. Total investment is still expected to grow over the year.

ECONOMIC CONTEXT

The Mauritian economy, despite the challenges faced due to supply chain disruptions, higher freight costs, a stronger US dollar and soaring energy and other commodity prices, maintained an upward trajectory in terms of growth.

Statistics Mauritius, in its March 2023 update to national accounts, estimates a growth rate of 8.7 percent growth for 2022, which will leave GDP above pre-pandemic levels. This performance is explained by a strong rise in exports of goods and services, an acceleration in the realisation of investment projects, a pickup in domestic consumption and improved performances in key sectors.

Exports of goods and services are estimated at Rs. 320.1 billion in 2022, above the figures of 2019, mostly driven by growth in exports of textile, sugar, and medical devices amongst others as operators maximize on the opportunities obtained under recently signed agreements with China, India, and the African continent to reach Rs. 101.6 billion in 2022. Re-exports and proceeds from ships stores and bunkering activities are on a positive momentum as well. Re-exports for the 2022 stood at Rs. 22.1 billion, exceeding the 2021 yearly figures of Rs. 17.7 billion while ship's stores and bunkers stood at Rs. 22.4 billion, compared to 2021 yearly figure of Rs. 12.1 billion.

Exports of services is on the other hand recovering strongly, benefitting from the re-opening of borders, which will lead to tourist arrivals to reach almost 1 million in 2022. In addition, with the tourists' arrival being at 997,290, tourists are spending more and staying longer, with an average length of stay of 11.8 nights. Total tourism earnings for the 2022 stood at Rs. 64.8 billion compared to Rs.15.3 billion for the year 2021.

With regards to investment, an acceleration in the realization of investment projects, both in the public and private sector has been noted. FDI for the year is estimated at Rs 27.7 billion, surpassing its pre-pandemic figures, with an increasingly diversified portfolio of projects with investments in the education, manufacturing, and healthcare sectors. Total investment, as measured by GFCF, grew by 7.8 percent for 2022 with private sector investment to be at Rs. 90.3 billion, depicting a growth of 9.6 percent while public sector investment projected at Rs. 22.4 billion, an increase of 1.1 percent.

The unemployment rate for 2022 is estimated at 7.7 percent, down from 9.1 percent in 2021. Employment increased by 35,200 from 484,400 in 2021 to 519,600 in 2022 while youth employment rose by 4,500 from 41,700 in 2021 to 46,200 in 2022. As a result, labour force increased by 30,000 in 2022 while activity rate increased from 52.8 percent in 2021 to 55.7 percent in 2022. Labour force is concentrated mostly in the tertiary sector (71.7%) followed by secondary sector (22.7 %) and finally 5.5 percent in primary sector.

Resolute growth has been noted in all sectors of economic activity, led by Agriculture, forestry and fishing (+3.4%), Manufacturing (10.4%), Wholesale & retail trade (+3.0%) and Financial and insurance activities (+4.2%).

ANALYSIS OF MAIN INDICATORS

Gross domestic product is expected to reach Rs 722.9 billion in 2023/24. This represents a nominal increase of 17 percent over revised estimates for 2022/23. It is to be noted that the revised estimates for 2022/23 stood at Rs 614.0 billion, largely exceeding the initial forecasts made in June 2022 during the last budgetary exercise when a forecast GDP of Rs 576.1 billion was predicted. The nominal rise in GDP both for 2022/23 and for the expected figure for 2023/24 are partially explained by deflators of 9.0 percent for both years. The deflator is expected to temper in 2024/25 and 2025/26 at 6.0 percent and 5.0 percent respectively, resulting in lower nominal increases in GDP which would amount to Rs 804.5 billion and Rs 887.0 billion in the next succeeding fiscal years.

The real growth rate nonetheless is expected to remain strong in 2023/24 at 8.0 percent, remaining at the same level of growth noted for 2022/23. The performance for the fiscal year in course is largely attributable to the tourism effect, the rise in exports and investments, both in the public and private sectors. For the next year, GDP growth will be supported by a further expected increase in tourist arrivals, additional increases in exports and investments, as well as consumption resulting from the policy measures put in place. Real GDP growth are forecast to slow down to 5.0 percent in 2024/25 and 2025/26.

Deconstruction of the nominal growth rate for 2023/24

Nominal growth rate of GDP is expected to amount to around 17 percent in 2023/24. The growth is deconstructed into the main expected contributors based on the modeling exercise undertaken by Maurice Stratégie. The usual macro-indicators such as investment, tourism and exports are included in the analysis, based on estimates and within model influences following changes to the fiscal regime and additional social transfers. The latter two are explained in more details in subsequent sections of this report.

Public investment is expected to be a main contributor to growth, with 3.76 percentage points. 200,000 additional tourist arrivals are expected, which will add another 2.67 percent to GDP, followed by private investment (+2.02%), exports of goods (+1.95%) and other services exports (+1.83%). The social transfers announced are expected to contribute some 1.21 percent to GDP, while the fiscal reform will add some 0.6 percent.

The high growth rate and increased revenue are abetting a sustained decrease in public debt relative to GDP. Budgetary Central Government is expected to fall from 68.7 percent in 2022/23 to 62.0 percent in 2023/24, and 59.4 percent in 2024/25. Public Sector Gross Debt will on the other hand fall from 79.0 percent in 2022/23 to 71.5 percent in 2023/24 and 68.2 percent in 2024/25.

Recurrent revenue and capital revenue are well anchored on an upward trajectory. Recurrent revenue for 2022/23 are estimated to reach Rs 151.2 billion, 1.9 percent higher than initial estimates with higher tax receipts. Social contributions, recurrent grants and other revenues were slightly lower than expected. For 2023/24, a 17.0 percent increase in recurrent revenue is estimated, in line with the nominal growth expected, and reaching Rs 176.8 billion, carried by estimated increases in tax receipts (+17.6%), social contributions (+14.9%) and other revenue (+9.9%). Capital revenue is estimated at Rs 2.4 billion in 2023/24, compared to Rs 2.1 billion estimated for 2022/23.

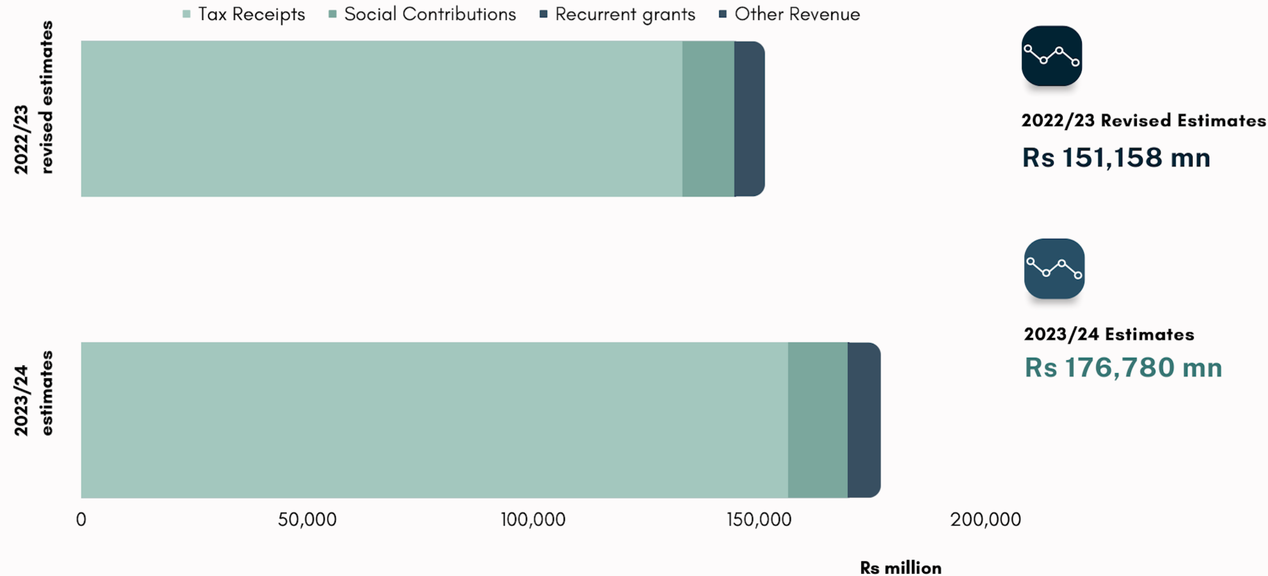
Recurrent expenditure and capital expenditure will be increasing in 2023/24 as well. Recurrent expenditure is estimated to reach Rs 178.4 billion in the next fiscal year, with the main components being social benefits (Rs 60.7 billion), compensation of employees (Rs 38.9 billion) and grants (Rs 30.3 billion). Capital expenditure is estimated to increase from Rs 20.6 billion to Rs 21.8 billion in 2023/24.

Budget balance relative to GDP is forecast to reach -2.9 percent in the next fiscal year, compared to -3.9 percent in 2022/23. Recurrent balance is estimated at -0.2 percent while the capital balance is estimated at -2.7 percent.

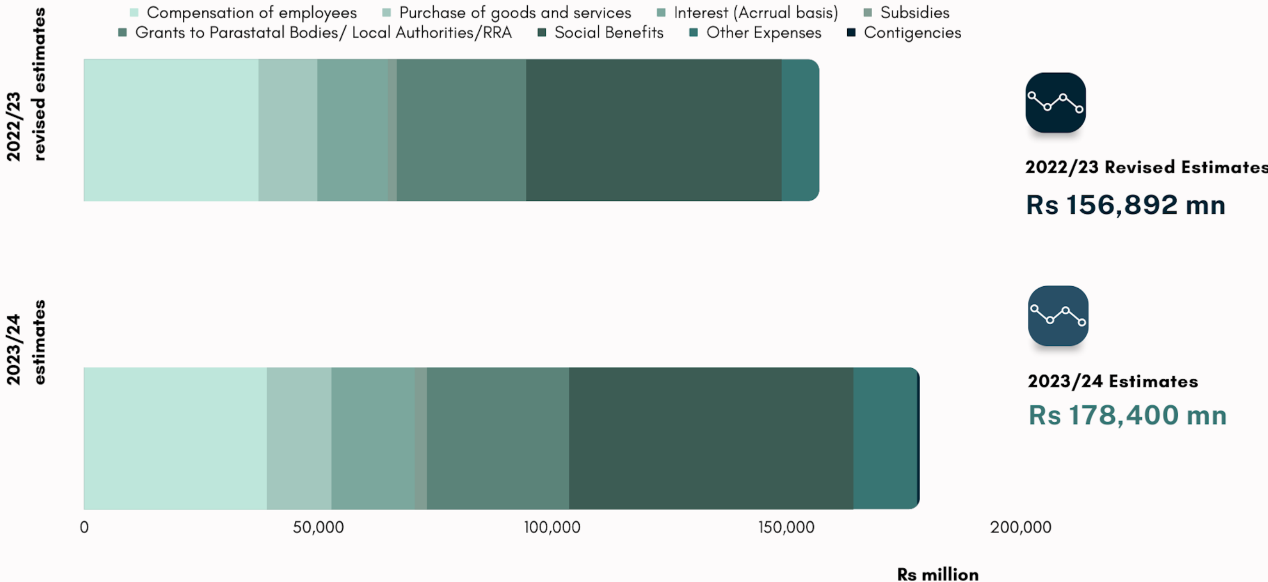
BUDGET IN FIGURES

RECURRENT BUDGET

Recurrent revenue



Recurrent Expenditure



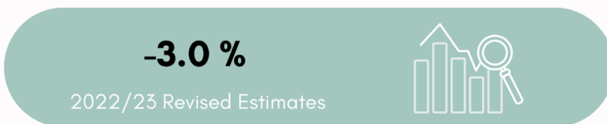
RECURRENT BALANCE AS % OF GDP	-0.9 % 2022/23 Revised Estimates	-0.2 % 2023/24 Estimates

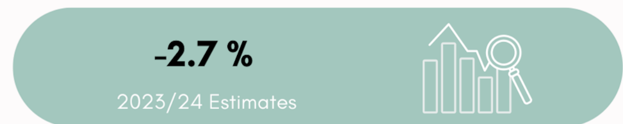
CAPITAL BUDGET

Capital Revenue

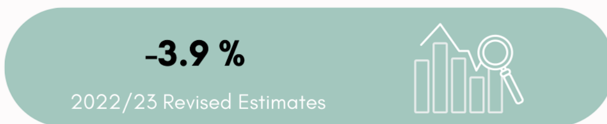
Capital Expenditure

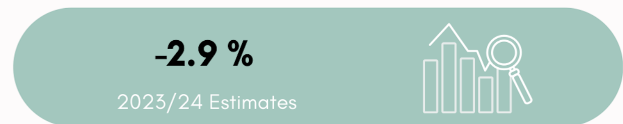
Capital Balance as % of GDP



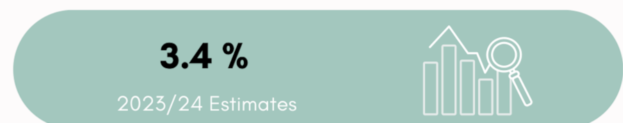


Budget Balance as % of GDP

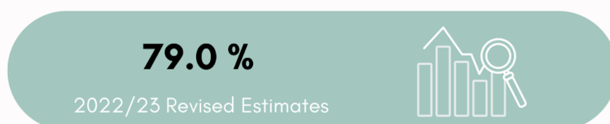


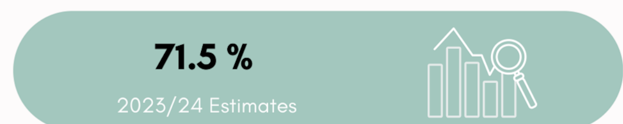


Government Borrowing Requirements as a % of GDP



Public Sector Gross Debt as a % of GDP



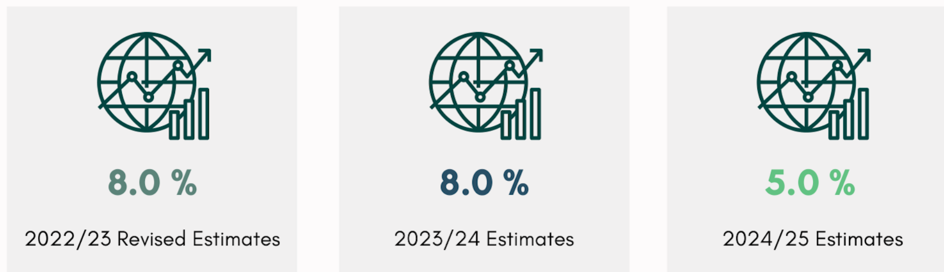


MAURITIAN ECONOMY

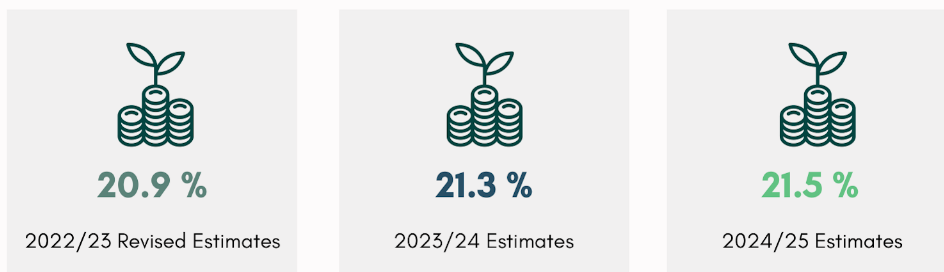
OUTPUT AND PRICES

Gross Domestic Product - current market prices (Rs bn)

Real Gross Domestic Product Growth Rate - constant market prices



Investment Rate (%)



THE ECONOMIC IMPACT OF THE FISCAL REFORM

The budget announced a major tax reform with regards to Personal Income Tax, shifting towards a more progressive regime with stepwise marginal income tax rates replacing the previous linear system. Under the linear system, the Average Cumulative Monthly Salary Rate is taxed at 10 percent if it does not exceed Rs 53,846, 12.5 percent if it exceeds Rs 53,846 but does not exceed Rs 75,000, and at 15 percent if it exceeds Rs. 75,000. Employees drawing monthly emoluments not exceeding Rs. 25,000 are not affected by the Pay As You Earn system.

In addition, the Solidarity Levy was applied to an individual whose leviable income exceeded Rs 3 million and was calculated at the rate of 25% of the leviable income in excess of Rs 3 million. The Solidarity Levy, to recall, was introduced as a measure to shore up public finances during the Covid-19 pandemic.

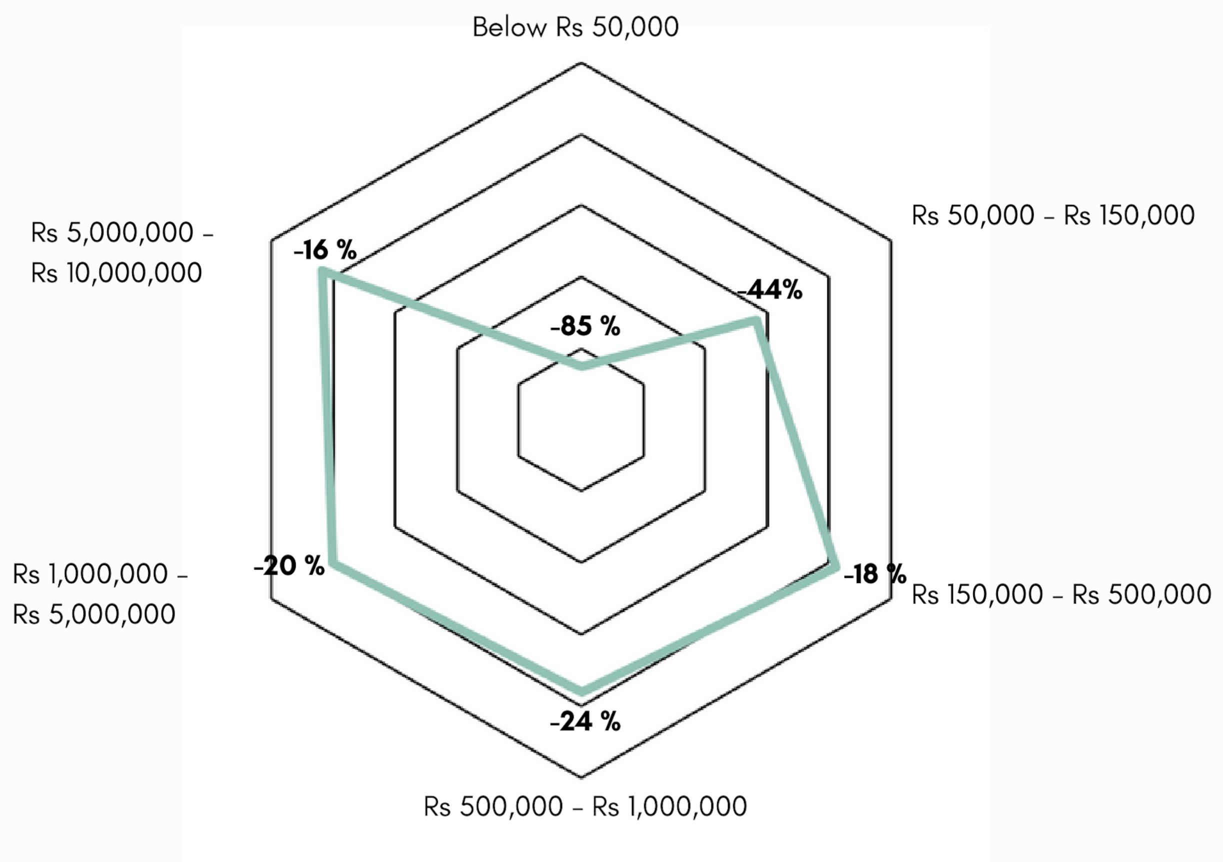
The new system abolishes the Solidarity Levy completely and introduces a more progressive tax system which aims at taxing marginal rather than average income with 11 brackets, as follows:

CHARGEABLE INCOME	TAX
First Rs 390,000	**0 %**
Between Rs 390,001 and Rs 430,000	**2 %**
Between Rs 430,001 and Rs 470,000	**4 %**
Between Rs 470,001 and Rs 530,000	**6 %**
Between Rs 530,001 and Rs 590,000	**8 %**
Between Rs 590,001 and Rs 890,000	**10 %**
Between Rs 890,001 and Rs 1,190,000	**12 %**
Between Rs 1,190,001 and Rs 1,490,000	**14 %**
Between Rs 1,490,001 and Rs 1,890,000	**16 %**
Between Rs 1,890,001 and Rs 2,390,000	**18 %**
Above 2,390,000	**20 %**

The new stepwise fiscal system introduces more fairness and equity in the tax system by significantly mitigating threshold effects which makes earning more become more expensive to the taxpayer. It further reduces the perverse impact of fiscal drags and reduces the attraction of tax evasion or avoidance.

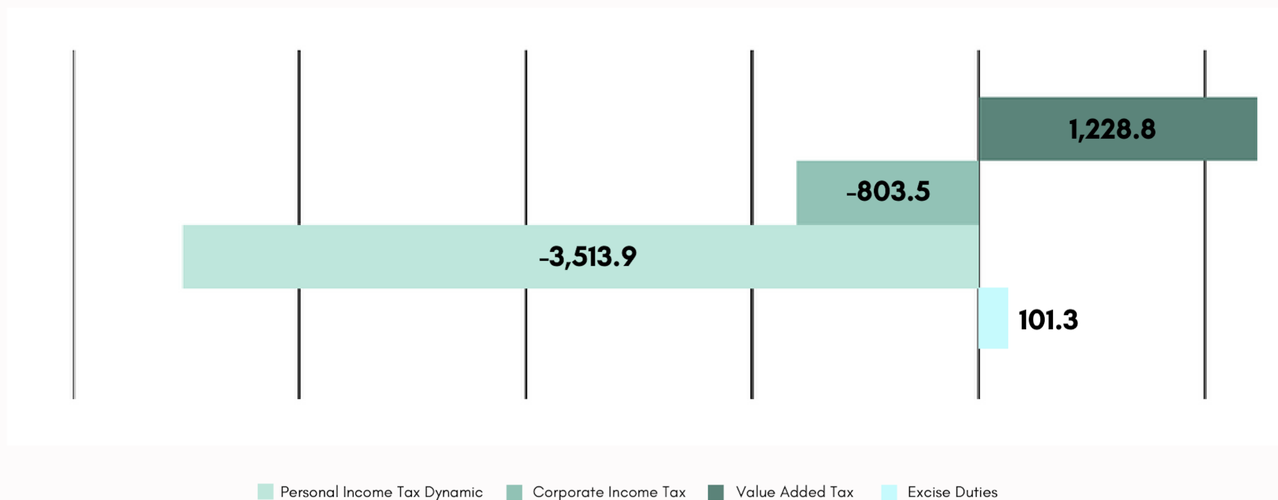
Nonetheless, the tax reforms imply a cost to government revenue, and this section looks at the impact of the Personal Income Tax reforms on public finances at both static and dynamic levels. At static level, the reform would cost the Government some Rs 5.3 billion in terms of revenue, including the amount foregone from the Solidarity Levy, which would have generated some Rs 3 billion in case it was maintained. The total amount foregone would have represented 33.1 percent of total PIT, with 19.6 percent of non-solidarity levy tax collected being written off.

Revenue Foregone by Government by Income Group



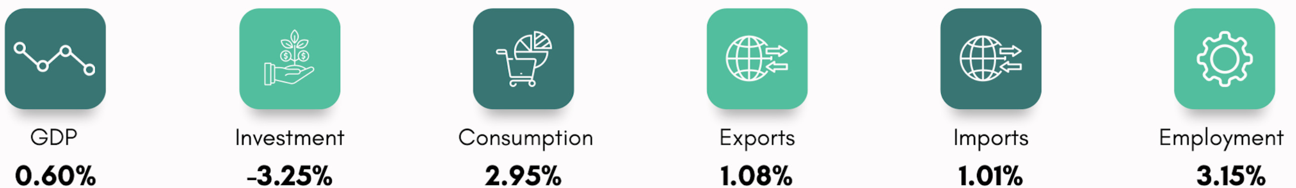
The radar chart shows revenue foregone by government by income group. With the tax rate brought to 0 percent on leviable income up to Rs 30,000 per month, 85 percent of the revenue derived by Government for individuals with chargeable income lower than Rs 50,000 is being foregone, while for the group with chargeable income between Rs 50,000 and Rs 150,000, 44 percent of the revenue is being foregone. 16 percent of tax collected from the highest income group is being foregone.

The dynamic analysis, performed through the CGE model shows that the impact will be mitigated and partially offset.



The CGE analysis shows that following the direct, indirect, induced, and catalytic effects associated with the fiscal reforms, the reduction in PIT collection would be 21.8 percent instead of 33.1 percent, that is, a shortfall of Rs 3.5 billion. Corporate tax is estimated to fall by 3.7 percent. VAT collections on the other hand are estimated to increase by 2.5 percent, bringing in additional revenue of some Rs 1.2 billion. Excise duties on the other would contribute to the extent of Rs 101.6 million.

The macro effects are summarised in what follows.



The tax reforms could, ceteris paribus, increase GDP at market prices for fiscal year 2023/24 by 0.60 percent, contributing an additional Rs 3.7 billion to national output. Consumption would increase significantly as a result of the changes in taxes, as the expected revenue foregone of Rs 5.3 billion goes back into the economy and the circular flow of income.

As aforementioned, 85 percent of the revenue foregone concerns individuals with chargeable income lower than Rs 50,000, that is, those with a higher marginal propensity to consume. Thus, the majority of the fiscal relief would get back into the economy, and through a higher multiplier, add to economic activity. Exports are expected to increase quicker than imports. The additional injection into the economy is also likely to generate more employment, with an increase of some 16,800 new jobs estimated to be created. Investment, on the other hand, is expected to register a decrease as a result of the reform.

The following could explain the impacts:

- Households would find themselves with additional disposable income which would go mostly into the economy, generating business activity through increased consumption and with a multiplier effect, soften the impact of the reforms on government revenue, increasing VAT and Excise Duty collections.

- The increased level of economic activity would also support employment creation, which would further increase employment, having an offsetting effect on Personal Income Tax collections.

- Investment is estimated to decrease however, as the reform would be effectively reducing the price of labour, leading to a substitution effect in favour of labour instead of capital. The increased demand from higher disposable income would be partially mitigating the decrease in their profits.

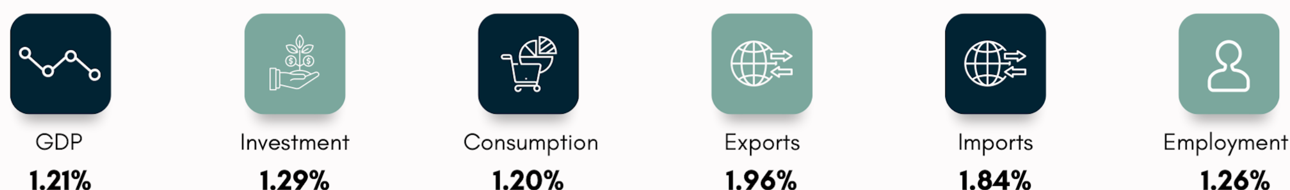
It is to be clarified that overall investment is still expected to increase over the fiscal year. The negative impact of the fiscal reform on investment would only mitigate but not offset the general increase.

THE ECONOMIC IMPACT OF SOCIAL WELFARE MEASURES

Budget 2023/24 announces a series of measures aimed at preserving and improving social welfare through transfers targeting vulnerable households, youths, the elderly, and women. The main measures in this respect, which are subject of our analysis include:

- An increase in the Basic Pensions by **Rs 1,000**
- Maintaining the CSG allowance of Rs 1,000 for individuals earning less than Rs 50,000, with an additional **Rs 1,000** for those earning less than Rs 25,000
- The monthly housing loan relief of **Rs 1,000** on loans less than Rs 5 million
- The "*Revenu Minimum Garanti*" of **Rs 15,000**
- The Independence Scheme of **Rs 20,000** for those reaching 18 years of age
- The monthly child support of Rs 2,000 for children of up to 3 years
- The "*Prime à l'Emploi*" of **Rs 15,000**
- The reduction in the price of Mogas by **Rs 5.10 per litre**
- Removal of VAT on **15** key items

Some **Rs 10.3 billion** have been earmarked to finance these measures, which will have a direct and indirect impact on consumption as a result of increased purchasing power of households and individuals.



The social transfers are predicted to add an additional Rs 6.7 billion to GDP through first and second round effects as additional injections to the circular flow. The effect permeates from increased consumption (+1.20%), increasing its level by Rs 5.9 billion.

It is further expected that this will increase investment as a result of higher activity, with an additional Rs 1.5 billion estimated to be invested directly as a result of the transfers. Employment is estimated to increase by some 6,700 following the increased requirements in terms of consumption and production. Exports and imports on the other hand, may register increases of Rs 6.3 billion and Rs 6.6 billion respectively.

The pervasive general increases across main indicators stem from the breadth and depth of the support and magnified by the higher marginal propensity to consume of those targeted, which are the main beneficiaries of the measures.

CONCLUSION

Budget 2023/24 is indubitably one which puts social welfare at the core of the development strategy of the government, while maintaining the resolve to further consolidate existing sectors or activity, diversify into new and emerging segments and maintain the momentum towards the transitioning of Mauritius as a greener and cleaner economy by engaging into rapid reforms to reduce dependence on non-renewable sources of energy. The impact of these policies is not the subject of the analysis, given their inherent complexities. They will nonetheless be the focus of future discussion papers of Maurice Stratégie.

The large envelope allocated to improving social welfare may be perceived to be generous and taxing on public finances. However, their direct effects on expenditure are balanced by rising revenues and positive indirect, induced, and catalytic effects of growth and other indicators. During the year, Maurice Stratégie will continue to monitor their implementation and effectiveness and issue timely updated revisions, if any, on the figures presented in this report.

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