Mauritius Budget 2022 Synopsis

Climbing through difficulty

Budget 2022 Synopsis

The better the question. The better the answer.
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Building a better working world

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Foreword

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Country Managing Partner

Our expectations in these difficult times were not too ambitious: help those in greatest needs, encourage production, transform our economy digitally, watch our public debt level, cut down on wastage and public spending focus on our youth. The compromise had to come from less prestigious infrastructure projects.

Minister Padayachy has pleasantly surprised us by managing to keep the budget deficit at 4% while reducing the public debt to an expected 78% by the end of fiscal 2023. GDP growth planned at a healthy 8.5% and unemployment down. All this while sticking to a "NO TAX BUDGET". In fact, by being generous to the low and middle income earners, with tax rate reductions and a clever MUR 1k monthly CSG income allowance to those earning up to MUR 50K per month. This favourably affects the majority of workers.

The elimination of Municipal Taxes altogether is a surprise measure – we were expecting an introduction of Rural Taxes: This will result in some 110,000 urban households saving taxes. Also, the transition to Electric Vehicles (EV's) will no doubt accelerate with the removal of excise duties on both hybrid and EV's. In fact, he goes beyond on EV's by giving a negative excise duties of 10%, capped at MUR 200k.

Green measures are many in this Budget: MUR 1bn for the Cleaning Agency, electricity production to shift aggressively to Solar PV, waste management to cater for recycling and compost. A "carbon credit trading framework" should encourage people to act more green. PPP projects planned in that space, expected to total MUR 20bn over next 3 years.

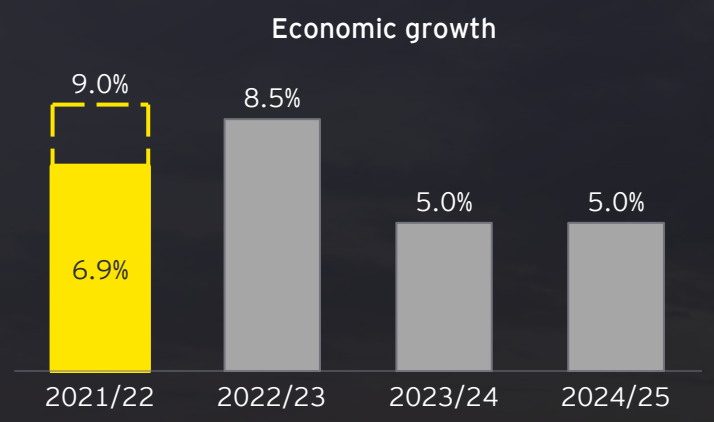
Finally, social measures targeted to the most needy are most welcome. Social Aid at +20%, social housing, big subsidies on gas, flour, rice and other basic commodities attempt to lower the effect of galloping inflation, at 8.6%.

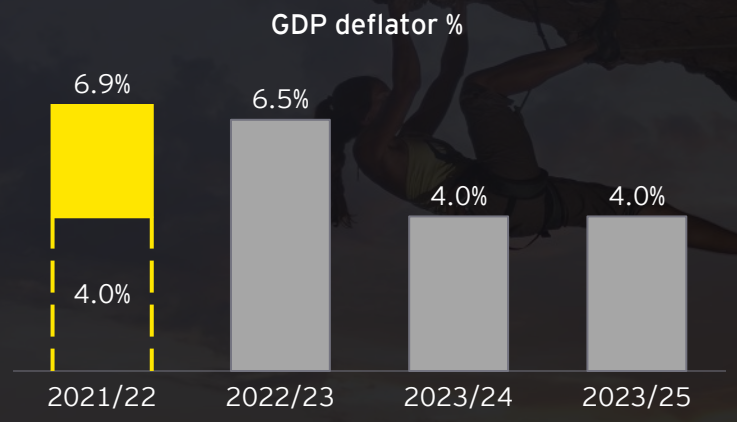
In summary, "***un budget bon père de famille***" but lacking innovation in new economic sectors such as digital and technology, Pharma and Research & Development.

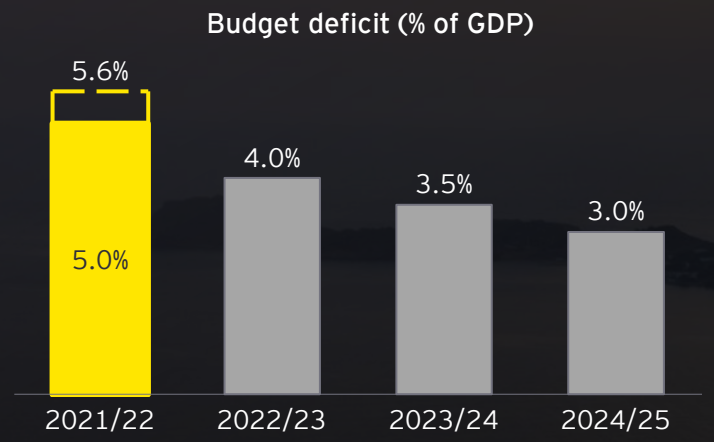
Highlights of the 2022/2023 Budget

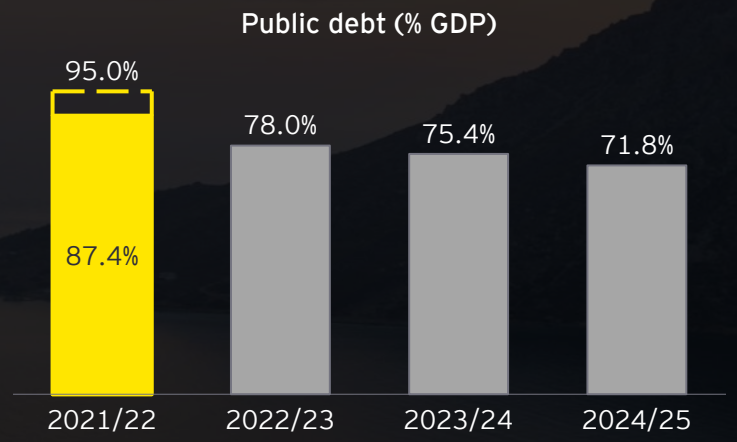
- Economic growth forecasted at 8.5% for the year 2022/23
- Forecast of 1.4 million tourists for the planned year 2022/23
- MUR3bn earmarked for farmers, planters, breeders, and fishers
- Creation of two regional feeders vessels routes to support industries
- Turnover threshold for SME criteria increased from MUR 50m to MUR 100m
- Monthly "Prime a L'Emploi" of MUR 15k for the first year of employment of 10,000 youth between 18 – 35 years and women up to 50 years
- Basic pension increased by MUR 1,000 (+additional MUR 1,000 above 65 years)
- Subsidies on basic commodities (flour, gas, rice)
- Municipal tax will be abolished as from July 2022
- 40% renewable energy target by 2025
- Hybrid & electric vehicles to be duty-free as from July 2022
- Reduction in income tax to 12.5% for annual earning of MUR 700k – MUR 925k
- MUR 1,000 allowance for those earning up to MUR 50k monthly

Budget's macroeconomic forecast







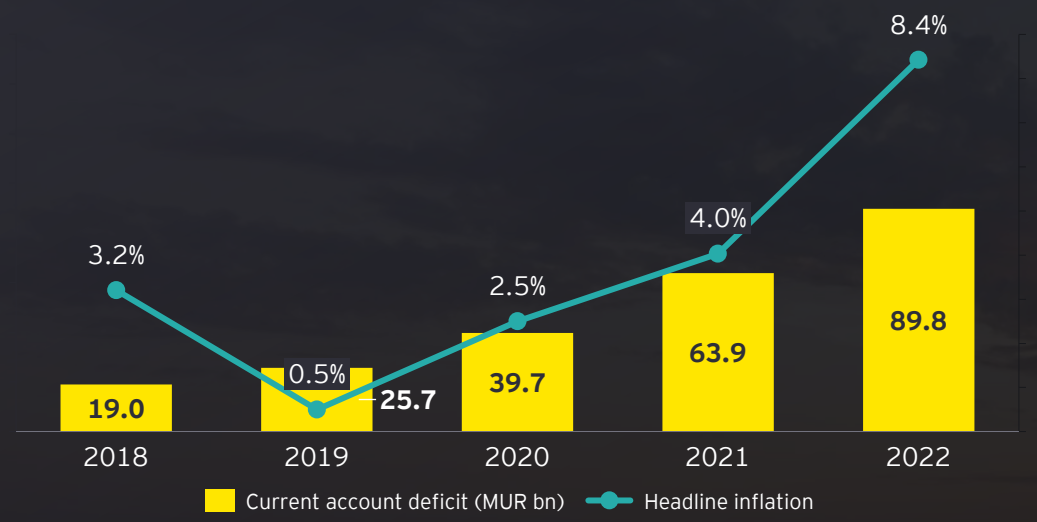


> Despite the gradual recovery of the economy, it remains fragile, particularly in these uncertain times.
>
> The budget estimates an economic growth in 2022/23 at 8.5% driven by expectation that all sectors are expected to exceed pre-pandemic economic output, with a major recovery in the tourism sector.
>
> Inflation pressures will continue as supply chain disruptions, and the Russia / Ukraine conflict pressuring energy and food prices, will remain a challenge for next fiscal year.
>
> The budget deficit for next fiscal year is expected to decrease to 4% of GDP with planned revenue increase of MUR 13.5bn being higher than public expenditure growth of MUR 11.3bn.
>
> The forecasted decrease in public debt as a % of GDP is significantly dependent on the 8.5% GDP growth as absolute public debt level remains high.

Note: GDP Deflator is a measure of inflation reported by the Minister of Finance and represents changes in prices of all goods & services produced by the economy
Source: Budget annex 2022/23

Actual (estimate) | Last year forecast | Current year forecast

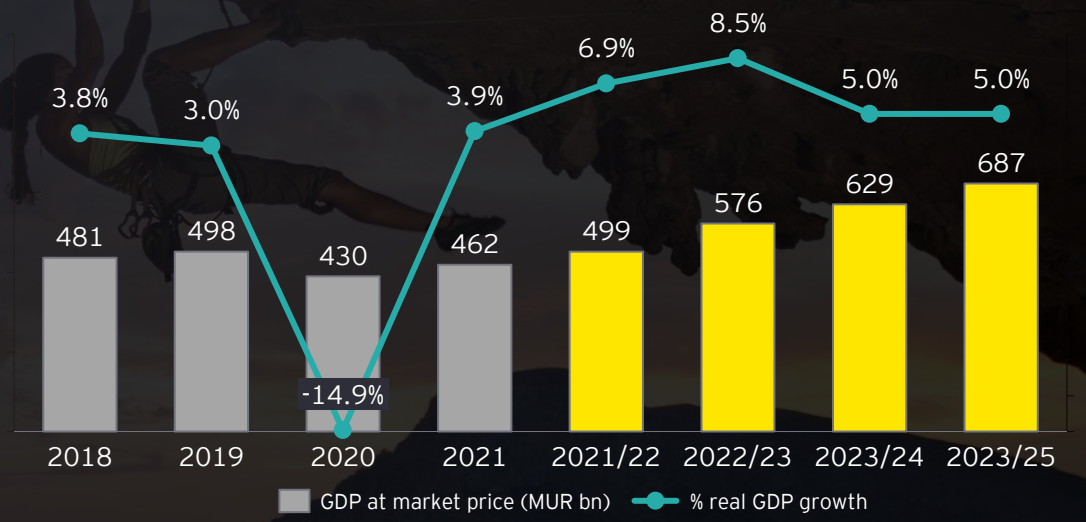
Inflationary pressures remains a challenge to consumption



Source: IMF World economic outlook April 2022, Bank of Mauritius and Oxford Economics Database

- Headline inflation is estimated at 8.4% (IMF) for this year as a result of (i) the deterioration in trade deficit following the pandemic, (ii) the depreciation of the MUR (MERI21 is +22% since Jan-19), and (iii) supply chain disruptions.
- High inflation disproportionately impacts lower income households and the Government's proposed targeted social measures appears appropriate in support of the most needy instead of broad measures affecting all income levels.

Rebound of the economy to pre-pandemic levels



Source: IMF World economic outlook April 2022, Budget speech - Annex

- The pandemic has impacted the GDP of the country with a 15% drop in real GDP in 2020.
- The Government expects the economy to exceed pre-pandemic levels in the next fiscal year and close the economic gap supported by all sector recovery, boost in consumption from budgetary measures, and an assumption of 1.4m tourists for the fiscal year 2022/23.
- The challenge is now to accelerate and create sustainable growth to move from a middle-income to a high-income economy.

Note 1: The Mauritius Exchange rate Index (MERI2) measures the weighted average exchange rate against the MUR. An increase means a depreciation of the MUR.

Budget lenses

Sectorial analysis

Manufacturing & agriculture

Agro-industry contribution to GDP
8%

Food requirement
>75% imported

Fish consumption
67% imported

Exports of manufactured goods
by 17%

Manufacturing sector recovery
11% in 2021

Budget proposition

Food security and reducing dependency on import
- Budget of MUR 3bn mobilised for farmers, planters, breeders and fishers.
- Investment in two food security clusters (agro-processing and fruit-processing).
- Income tax holiday of 8 years for planters engaged in innovative / sustainable agricultural practices.

Subsidies, grants and facilities
- Increase of grants to boost local production through subsidies on fruits and vegetables, livestock, apiculture, fertilizers and composting equipment.
- Increase of grants for semi-industrial fishing vessels.
- Leasing facilities from IFCM to finance Agri-Transformation Programme.

Sugar industry
- Waive of CESS for Crop 2022.
- Grant under cane replantation scheme increased from MUR 35k to MUR 50k per arpent.
- Introduction of Cane Replantation Revolving Fund at 2.5% p.a.

Support expansion of manufacturing
- 2 regional feeder vessels routes to support the industries.
- Extension of Freight Rebate and Trade Promotion and Marketing Schemes to Jun-23.

Our point of view

- Interesting initiatives to bolster our primary sector output and the food processing parks will generate value add.
- Measures will attract the younger generation and lead to the professionalisation of the sector. However, it is not realistic to expect that Mauritius should become self sufficient in food.

- The grants will help in reducing the financial burden on these operators given the price hikes of imported inputs.
- The facilities will support the transition from a labour intensive sector.

- Our concern is how successful will these cane replantation measures be, given the disinterest by the younger generation.
- We are disappointed that the long awaited Biomass Framework has not been elaborated.

- These measures are aimed at:
  1) boosting regional trade;
  2) supporting our export sector; and
  3) promoting our locally manufactured goods.

Tourism

Direct GDP contribution[1]	Direct employment[2]	Tourism receipts	Arrivals	Hotels' occupancy[3]
1.6%	27.9k	MUR 15.3bn	180k	24%

Budget proposition

- The Government has predicted that it will achieve 1.0m tourists by December 2022 and pre-pandemic level of 1.4m tourists in the year ended 30 June 2023.
- The 50% lease rent waiver for hotels on Government land to be extended to 30 June 2023.

- A 10 years strategy blueprint will be developed for the tourism industry.
- The marketing budget of the MTPA will be increased from MUR 360m to MUR 400m with the aim to both consolidate on existing markets as well as explore new market opportunities.

- Private sector will be invited to bring innovation, maintain and operate historical landmarks including Citadelle and Chateau Benares on a commercial basis, under a Public Private Partnership framework.
- MUR 1.0bn has also been earmarked for the clean up of various beaches, lagoons and coral reefs across the island.
- MUR 150m to be invested over 3 years for the renovation of the SSR Botanical Garden.

Our point of view

- As the hotel industry is gradually recovering, no significant new measures announced to support hotels in this year's budget following MIC support and GWAS previously. Pre-Covid, tourism (directly & indirectly) contributed 24% to the economy's GDP. We yet have to recover to this level.
- Continued lease rent waiver is welcome given Mauritius tourism industry's post covid recovery has been slow, with only 243k tourists for the 4 months to April 2022 vs 1.4m in 2019. The forecast of 1.4m by June 2023 seems challenging.

- We would have expected a higher MTPA budget given depreciation of MUR vs foreign currencies and need to accelerate the recovery of the sector.
- As an island destination far from our main markets, air flights represent a significant portion of tourist' spend to Mauritius. We expected a clearer air access policy to support the sector, and hope this will be a key topic covered in the strategy blue print to be developed by the government and the private sector.

- Activities outside hotels (sea, sun and sand) contribute to the attractiveness of the Mauritius destination, and private sector will contribute to innovating and maintaining key cultural landmarks.

Source: Mauritius Statistics. Note 1: Direct contribution to GDP in 2021; Note 2: Direct employment by large establishments (10 or more people); Note 3: Excludes Quarantine centres

Construction & infrastructure

Construction % of GDP
5.4%

Flood management
MUR 3.8 bn

Road connectivity
MUR 2.6 bn

Social housing
13,758 units

Expected private investment
MUR 200 bn

Budget proposition

- Continued investment in infrastructure projects including road connectivity projects of MUR 2.6bn, National Flood Management Programme of MUR 3.8bn and health infrastructure of MUR 2.5bn.

- Merging of the Construction Industry Development Board (CIDB) and Building Control Advisory Council into *Construction Industry Authority (CIA)*.
- Setting up of a *"Construction Industry Training Council" ("CITC")*.

- Tenders for public construction contracts below an amount of MUR 20m will be opened only to small contractors.
- Restatement of the margin of preference for local contractors.
- Loan facility of up to MUR 25m by DBM Ltd at a concessional rate of 3.5% p.a.

- Home Ownership and Home Loan Schemes with a 5% refund up to MUR 500k for the Buyer. Each spouse married under regime "Corps et Bien" to benefit from the exemption of registration duty for first time buyer.

Our point of view

- We welcome the shift in the government spending pattern with a reduced portion allocated to infrastructure and more on social measures, aligned with the Government's mission to support "Our People".

- These measures should simplify the regulation of the construction industry, improve technical skills and introduce more efficient technologies to the Building and Construction industry.

- These will provide increased opportunities to the smaller local players in the construction industry, which may have a positive impact on the rate of employment within the industry in the longer term.

- Those measures will continue to encourage private home investment and land ownership. The Seller still pays Land transfer Tax at 5%.

ICT & Human capital

Prime a l'Emploi

MUR 15k

Digital Transformation Training

1000 individuals

Unemployment rate (M vs F)

9.1%

8.1% (M) 10.6% (F)

Budget proposition

Empowerment

- Monthly Prime à l'Emploi for the first year of employment of 10,000 youths between 18 and 35 years and women up to 50 years.
- Support to businesses as they invest in the training and skilling of 3,000 of our youths through increased monthly stipends.
- Promotion of women entrepreneurship at the grassroot level; some 50 women will be provided with 3 months mentoring and paid a monthly stipend.

Training

- The Digital Industries Academy will provide training in Data Communications, 5G, Cloud Computing, Artificial Intelligence and Cyber-Security as from July 2022, partnering with telco providers, banks and international players.
- women getting back into the job market by doubling the period of placement to two years.

Attract and retain foreign talent

- Support businesses by enabling them to recruit talents under the young professional occupation permit.
- Enable entrepreneurs and students completing their studies to benefit from the premium visa.
- Holders of Residence Permits will be given the opportunity, upon applications, to acquire a residential property of a minimum of USD 350k outside the existing schemes, subject to a 10 % contribution made to the Solidarity Fund.

Our point of view

- We welcome the measures provided to develop, retain and attract talent in Mauritius. Our future development will depend on our talent pool.
- To ensure continuous growth of the various sectors of the economy, we note that the government is encouraging employment and development of both local and foreign resources in a post-Covid era.

- Upskilling our people to the digital economy is essential in world of digitalisation. We are pleased that the government will contribute to this through the Digital Academy.
- We believe more incentives could have been provided to various sectors, including the public sector, to boost the use of digital and drive efficiency.

- We need to open our economy to foreigners, incentives provided to those foreigners to enable the acquisition of property in Mauritius will definitely be a mean to attract and retain these foreign talents.
- We also need to accelerate the Young Professional Occupation Permit by aggressively marketing Mauritius as a great place to live and work.

Commerce

Imports[1]	Export[1]	Main partners	SMEs[2]	Employment in SME[3]
MUR 215.1 bn	MUR 82.1 bn	China/South Africa	~ 142k	~ 284k

Budget proposition

Amendment of the Small and Medium Enterprise ("**SME**") **definition**

- Turnover threshold to meet SME criteria will double to MUR 100m. A new category , Mid-Market Enterprise, will be created for companies with turnover of MUR 100m to MUR 250m.

Availability of funding for SMEs

- The SME interest free loan scheme and Covid-19 special support scheme will be extended to June 2023.
- The MIC will set up a Venture Capital Fund of MUR 5bn to support SMEs and Mid-Market Enterprises.

Extension of Freight Rebate Scheme

- The Freight Rebate Scheme is being further extended to June 2023 to maintain competitiveness of exports. Moreover, SMEs will benefit from the scheme for the South African market.

Promotion of Local Businesses

- The Virtual Exhibition Platform will be operational as from October 2022.
- A 'Semaine de l'Industrie locale' will be organised to promote the local 'savoir-faire'.

Our point of view

- We welcome this measure as more SMEs will have access to cheaper finance that will further boost the economy and encourage local production.

- This continued financial support is necessary to sustain SMEs given the current economic context and high inflation rate. The challenge however remains the ability of some SMEs to repay their loans given their levels of vulnerability and lower resilience due to their size.

- The measure was expected given the context of increasing freight costs and will be most welcomed by export oriented SMEs.

- This platform, which was announced last year, will be key to promote and connect our local businesses. We, however, encourage implementation of measures to monitor the quality of locally produced goods.

Source: Mauritius statistics. Note 1: Import and export figures relate to calendar year 2021; Note 2: Number of SMEs under new definition; Note 3: Employment by SMEs under previous definition

Environment & sustainability

Environment Performance Index
2020: 82nd
2022: 77th

Disaster prevention
MUR 4.3bn

Cleaning & embellishment
MUR 1bn

Renewable energy
40% by 2025

EV's
Duty-free as from July 2022

Budget proposition

Green frameworks
- Setting up of a carbon credit trading framework and issuance of a sustainable bond.
- Emphasis to incentivise industrial sector to go green as one of the biggest consumers of energy.

Energy
- 40% renewable energy target by 2025 (corresponding to an additional 200MWh from solar production) driven by CEB actions and related schemes, PPP projects and improved pricing of green energy produced by households.

Protection of environment
- MUR 1bn under NECA for cleaning, embellishment and protection of beaches, lagoons, reefs and coastlines.
- Total of MUR 4.3 bn for disaster prevention and management schemes, incl. oil spillage, landslide & flood prevention measures.

Electrification of the transport sector
- Hybrid & electric vehicles to be duty-free as from July 2022; excise duty rebate of 10% , up to MUR 200k; electrification of CNT bus fleet (200 buses).

Circular economy
- 50% grant to corporates for the purchase of recycling equipment/ transportation vehicles (up to MUR 500k).
- Incentives towards resource recovery through composting.

Our point of view

- The introduction of carbon credit trading framework will create real incentives for all stakeholders to invest in carbon reduction activities and technologies.
- We expect carbon credit trading and sustainable bonds to represent a new source of growth for the financial sector.

- Incentives for private solar production plants existed before, and success of new solar production will depend on financial returns and attractiveness of investment.
- Many countries are missing their sustainability targets – the mechanisms for governing, monitoring and reporting progress in Mauritius have yet to be clarified and are essential for stakeholders to operate from a basis of trust and confidence.

- Increased funding to environment protection and disaster recovery is welcomed and aligned to the UNDP Climate Promise. We hope part of this funding will be allocated to NGOs to capitalise on the great work already done and avoid duplication.

- Strong message on transition to EVs. However, measures could have gone further with the gradual phasing out of combustion engines.

- Recycling and resource recovery measures are welcomed. There is an opportunity to go further by tackling waste triage at source.

Source: Environmental Performance Index (EPI)

Social measures

Basic pension
MUR 30 bn (FY21)
MUR 25 bn (FY20)
(+20%)

Employees earning < MUR 15k
49% (FY21)
47% (FY20)

Major subsidies
Flour: MUR 1.4 bn
Gaz: MUR 2.0 bn
STC: MUR 500 m

YoY Inflation rate
11.0%
(Apr 22)

Dholl Puri
MUR 17 (FY22)
MUR 15 (FY21)
(+13%)

Budget proposition

General
- Purchasing power and human capital seem to be at the centre of this year's budget. Subsidies, social aids, benefit thresholds, employment premiums and stipends will address the topical inflationary concerns of the population.

Basic Pension
- Basic pension increased by MUR 1k to MUR 10k per month (+11%) and by another MUR 1k (+22%) to MUR 11k for those above 65 years old.

Social measures to address inflationary pressures
- Increase in subsidy on basic commodities.
- Price control on specific essential products.
- Regressive mark-up regime on pharmaceutical products.
- Imposed discounts on products nearing expiry date.

Municipal tax
- Municipal tax will be abolished as from 1st July 2022.

Our point of view

- Government has been very sensitive to the eroding purchasing power especially for those in the lower and middle income groups and has also introduced a sense of fairness through the progressive income tax rate. However, we await to see to what extent growth will finance all these measures.

- We welcome the increase in basic pension to reflect current inflationary pressures. In dire conditions, we would have expected the budget to be more wisely spent through targeting.
- On the other hand, no mention is made of minimum wage (MUR 11,075). Is it appropriate for a pensioner to earn as much as a working person?

- In the current economic context, we commend all the measures proposed to alleviate the burden of households in these challenging terms as there is a strong focus on integrating vulnerable members of society.
- The budget is particularly silent about the price and price mechanism of petrol.

- We welcome this measure which will benefit 110,000 households and promotes fairness between urban and rural communities. Now that it is level playing field should a fairer national property tax not be eventually introduced?

Source: Statistics Mauritius

Fiscal measures

Overview of corporate tax

Budget proposition	Our point of view
Global Minimum Tax ‣ Appropriate amendments will be made in the context of Mauritian resident companies forming part of an MNE Group with a global annual revenue of more than Euro 750m to comply with the minimum tax rate of 15%.	‣ This measure is in the context of Two-Pilar Solution to address the tax challenges arising from the digitalisation of the economy adopted by the OECD/G20 Inclusive Framework ("IF") on Base Erosion and Profit Shifting ("BEPS") Project.
Tax holiday for Freeport Companies ‣ 8 year income tax holiday for a freeport operator or developer with a minimum investment of at least MUR 50m if the company starts its operations on or after 1 July 2022 and complies with the OECD substance requirements.	‣ It would be useful if further details can be provided on the qualifying activities. Consistent with Action 5 of the OECD/G20 BEPS Project, we presume that the 8 year corporate tax incentives would only apply if the company performs substantial activities in the relevant freeport area.
Transfer of assets between related companies ‣ Related party transactions on transfer of assets will be extended to any assets subject to depreciation.	‣ This proposal ensures to a large extent consistency with the group relief provision in item (f) of the Eight Schedule to the Land (Duties and Taxes) Act. The position on assets not subject to depreciation and intangible assets should be clarified. In our view, the provision should apply to all assets.
Taxation of digital economy ‣ The Minister will be empowered to prescribe regulations to cover internationally agreed policies in the context of the digitalisation of the economy.	‣ We presume that this amendment is the result of the IF in the context of Pillar One which seeks to adapt the new international tax system to new business models through changes to the profit allocation and nexus rules applicable to business profits.
Share buy back ‣ The relevant legislation will be amended so that share buy back will be subject to land transfer tax and registration duty.	‣ A share buy back is conceptually not the same as a share transfer and we assume that a share buy back that does not result in a change in control will not be within the scope of the proposed change. Any abusive arrangements would in any event be caught under the general anti avoidance clause.

Overview of personal income tax

Budget proposition

Increase in deduction for Tertiary Education pursued by dependent child

- The amount of the deduction is increased from MUR 225k to MUR 500k per dependent child.
- The deduction would apply for both undergraduate and postgraduate courses

Relief for Medical Insurance Premium

- The allowable deduction for premium paid will be increased from:
  - MUR 20k to MUR 25k for an individual and his first dependent; and
  - MUR 15k to MUR 20k for every other dependent

Contribution to Personal Pension Schemes

- The maximum allowable deduction has been increased from MUR 30k to MUR 50k

Donations to Charitable Institutions

- The maximum allowable deduction has been increased from MUR 30k to MUR 50k, respectively
- The deductions are limited to the actual amounts contributed.

Deduction for Dependent who is a Bedridden Next of Kin

- The definition of bedridden next of kin has been extended to the spouse of the individual irrespective of any financial assistance provided to the bedridden spouse under the National Pensions Act.

Our point of view

- This measure would increase the disposal income of resident individuals who have dependent children studying at an approved local or foreign University.
- The measure impacts low and high income earners and to that extent places all individuals on an equal footing.

- This proposal will benefit individuals with a premium exceeding Rs 20,000 per annum. In the same manner, the deduction for a dependent will increase the disposable income of the individual if the yearly premium exceeds Rs 15,000.

- The increase in the maximum contribution is 67%.
- The affected individual will have a higher disposal income.
- This measure encourages individuals to contribute to a personal pension scheme irrespective of any other schemes which may be operated by his employer.

- This measure encourages individuals to make donations to approved charitable institutions
- The charitable institution is still required to submit the return for donations received, otherwise the individual should provide evidence for the donation made so that the deduction may be allowed as a deduction.

- This measure will lead to an increase in disposable income and would enable an individual to claim deductions in respect of a Bedridden Next of Kin irrespective of the medical costs which may be incurred by the individual.

Overview of personal income tax (cont'd)

Budget proposition

Exempt portion of travelling allowance

- The monthly exempt amount for travelling allowance payable by an employer to an employee has been increased from MUR 11.5k to MUR 20k.

Our point of view

- The effective increase is of 74%.
- Travelling allowance is exempt to the extent the employee uses a private car registered in its own name for attending the duties towards his/her employment.
- With the recent increase in the price of fuel, this measure is welcomed as it is expected that the travelling allowance for a number of employees would be increased.

Budget proposal

Progressive rate of income tax

- Affected persons: Individuals
- Effective date: 1 July 2022
- Financial impact: Medium

Our analysis

- The progressive tax system would enable individuals with lower net income a fairer share of net disposal income.
- The credit system where the annual net income ranges between MUR 650k and MUR 700k would no longer be relevant.
- An individual earning annual net income of up to MUR 700k will be liable to tax at the rate of 10%.
- Individuals with net income of MUR 700k to 975k (i.e 75k per month) would be liable to tax at the rate of 12.5%.
- We expect that the reduced income tax rate applies on any pension or director fees which may be received by an individual.

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