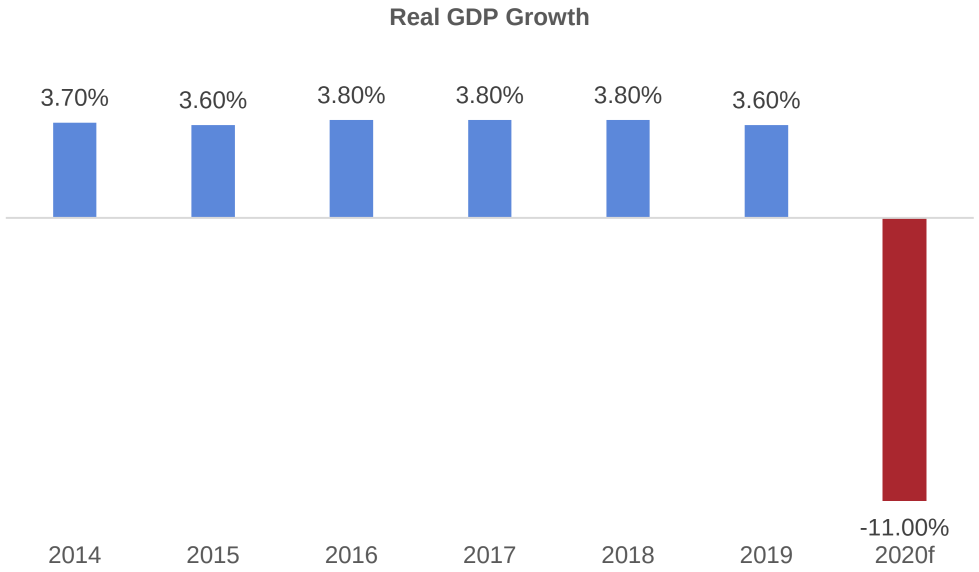
# BUDGET 2020\21 HIGH LEVEL REVIEW

## Aggressive Government spending to boost the economy

At the outset, it must be said that the context is unprecedented and that the conditions, especially with the lockdown, were not ideal to prepare a Budget that would meet the expectations of all stakeholders. Nonetheless, expectations were high as the Minister of Finance and Economic Planning and Development, unlike his predecessors, has an economics background and many were hoping that he would set him apart and make a difference.

Clearly the battle against the recession will not be won from this Budget alone. The real GDP is forecasted to contract by 11% and it is still too early to forecast the timing of the recovery and it now looks like 2021/22 shall be another difficult year indeed.




*Source: National Accounts, 2020/2021 budget speech*

Fiscal responsibility was not going to be the order of the day and so as in the previous years, the government is relying on both the execution of large capital projects, the low interest rate environment and direct subsidies to shift the aggregate demand curve and to boost the economy in the next year or so.

The Budget speech amalgamates the Capital Budget of the Government and the funds from the Mauritius Investment Corporation Limited (an entity owned by the Bank of Mauritius over which the Ministry of Finance has no direct control per se) to support the investment plans to the tune of Rs100 Billion.

Now, economic growth only comes from projects that are both economically and financially viable. The problem with large capital investments is that they are rarely completed on schedule and within their budgets and even when completed many fail to meet expected revenues. The economic viability of these projects ought to have been at the centre of the Budget speech and where the population is expecting a rigorous framework covering project analysis, assessment evaluation and post-audit, all combined with a dose of transparency to ensure that positive returns are monitored. From the speech, a list can be drawn starting from those with zero or negative returns such as the rescue of the national carrier, the financing of African projects with no direct multiplier effects in Mauritius and those where the project feasibility in the current context is uncertain, for e.g. Data Technology Park at Cote D’or and Pharma projects, especially where there is already a global shortage of skilled workforce.

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Coming back to the other macroeconomic problems facing the country such as unemployment, inflation and the depreciation of the rupee, the Minister of Finance has conspicuously relegated them as probably not important given his urgency to ‘relancer l’economie’ in the short term. The unemployment is probably the one socio-economic problem that will hit households mostly affecting the young and the unskilled labour force. The unemployment rate is projected to reach double digits by end of this year depending on how fast the economy can recover. This is a serious issue which has not been adequately addressed as (1) the capital spending is not going to bear fruits for quite a while (2) the Government has increased the tax burden on Companies through a solidarity levy and the extra burden of the new pension reform which directly increase the cost of employment.

The Minister of Finance attempts to come up with reforms of the current pension and tax system. He looks only at the Lorenz curve whilst ignoring the high concentration of accumulated wealth in the form of real estate in the hands of a few. A reform of the system without recognizing the imbalance of wealth only creates disincentive to work and encourages rent seeking as there are no capital gains tax and inheritance tax. Therefore, he keeps the same solidarity tax (which was meant to be temporary) to tax the high earners which is also a double tax on the same income base (as it includes dividends for individuals and reserves for some corporates). There is no debate on the regressiveness of the current VAT tax system and the need to shift the burden.  But the question is: will the solidarity tax benefit the economy in the long run when a flat income tax rate has shown positive results of attracting foreigners and high skilled labour in Mauritius?  Only time will tell.

His *Contribution Sociale Généralisée* (“CSG”) does not correct the deficiencies of the current system as he (1) keeps the same ‘unfunded’ system (with employees and employers now contributing more to ease the fiscal burden) and hoping that future unborn employees will fund their retirement and (2) he maintains the current inequity i.e. a rich pensioner will continue to earn the same as the poor one.

On the social side, the Budget appears balanced as we note a host of measures which are commendable to reduce absolute poverty and to support the SME sector. It also makes provision for the construction of 12,000 social housing units to the tune of Mur 12B for vulnerable groups and also additional wage assistance schemes to support in cash low earning workers in the coming months.

Overall the Budget deficit is expected to be 13.6% of the GDP although no mention is made as to the  size of the Government debt and its sustainability. Thus to conclude: an aggressive government spending for a hopeful fast recovery.

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***Notice***

*All information is believed to be correct at the time of publication. This is not intended to be a comprehensive package of measures in the budget and should not be relied upon as such. The information presented in this document has been extracted from the Budget Speech delivered by the The Minister of Finance and Economic Planning and Development, Dr the Honourable RENGANADEN PADAYACHY to the National Assembly on 04 June 2020. Specific advice should be sought in any specific matter.*

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