

# Budget Strategy and Outlook 2016

Estimates of Revenue and Expenditure and Appropriation Bill  
December 2015

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## Acronyms and Abbreviations

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BT	Business Tax
CBS	Central Bank Seychelles
CIF	Cost, Insurance and Freight
CSR	Corporate Social Responsibility Tax
EIB	European Investment Bank
EOY	End of Year
ET	Excise Tax
FAB	Forecasting and Analysis Branch
FPCD	Financial Planning and Control Division
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GST	Goods and Services Tax
HFC	Housing Finance Company
IMF	International Monetary Fund
ICT	Information Communications Technology
LMG	Locally Manufactured Goods
LPG	Liquid Petroleum Gas
PIM	Public Investment Management
PIT	Personal Income Tax
PEMC	Public Enterprise Monitoring Commission
PFM	Public Finance Management
PPBB	Performance Program Based Budgeting
PSIP	Public Sector Investment Program
SADC	Southern African Development Community
SSF	Social Security Fund
SRC	Seychelles Revenue Commission
NBS	National Bureau of Statistics
NTB	National Tender Board
MDA	Ministries Departments Agencies
MFTBE	Ministry of Finance Trade and the Blue Economy
MTFF	Medium Term Fiscal Framework
ODC	Other Depository Corporations
OT	Other Tax
SIDS	Small Island Development States
TT	Trade Tax
TMT	Tourism Marketing Tax
VAT	Value Added Tax
WEO	World Economic Outlook

## About the Document

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This document sets out the economic and fiscal context for the preparation of the 2016 Budget. It presents an overview of Seychelles economy, provides revenue and expenditure estimates for 2016 and the medium term. It briefly covers key measures and strategies influencing the budget and gives a brief overview of the main economic reforms being undertaken by the Government of Seychelles.

The budgeted revenue and expenditure numbers have been prepared in consideration of the outlook for the real, monetary and external sector using the best information available at the time of publication. The estimates are based on a range of economic and other parameters.

## Economic Outlook

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### Overview

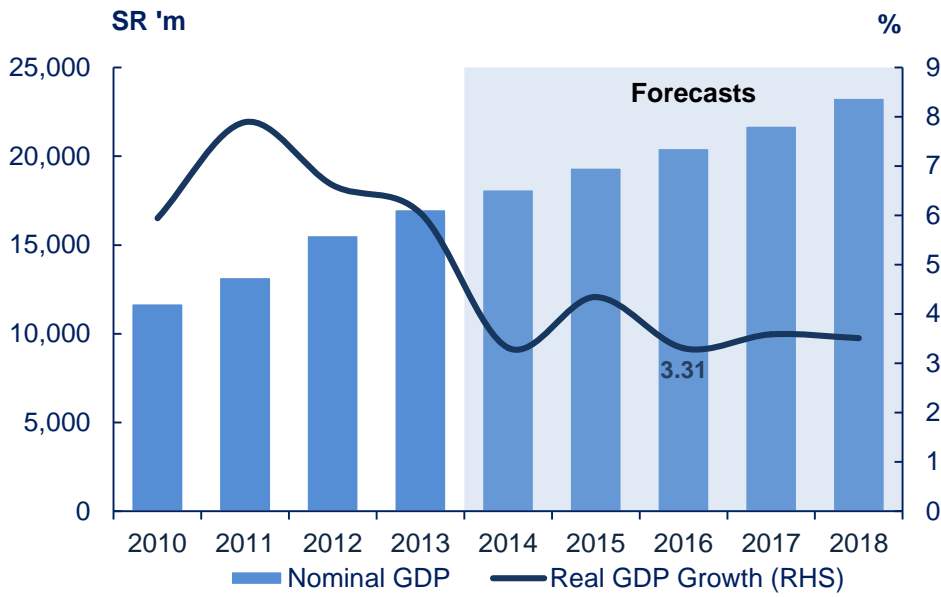
Relative to 2014, activities in advanced economies have picked up slightly in 2015. However, the growth of emerging market and developing countries continues to slow down. This predominantly reflects the weaker prospects of some large emerging market economies and oil-exporting countries. Furthermore, declining commodity prices, reduced capital flows to such countries and pressures on their currencies, as well as increasing market volatility, has led to a downward revision in the 2015 global growth forecast from 3.3 per cent to around 3.1 per cent (October WEO).

Despite the uneven forecasts across main countries and regions, the Seychelles economy has remained resilient in 2015. This has been strongly driven by activities in the Tourism sector. Visitor arrivals have grown by double digits throughout the year, with 2015 due to set a new record in total arrivals. Growth has also been reinforced by the positive outlook in the key sectors of 'Information and Communication', 'Manufacturing of beverages and Tobacco' and 'Financial and Insurance services'.

Real GDP growth was revised at mid-year to 4.2 per cent from an initial estimate of 3.0 per cent. With the continuous strong performances in the aforementioned sectors, and a more favourable outlook in the 'Wholesale and Retail' sector, following the weakening in commodity and oil prices, growth for 2015 is now anticipated to reach to up 4.3 per cent (Figure 1 overleaf). Despite strong real growth, nominal growth is estimated to remain stable at around 6.7 per cent. This is due to the large depreciation in the Euro this year which has resulted in a lower GDP deflator growth forecast.

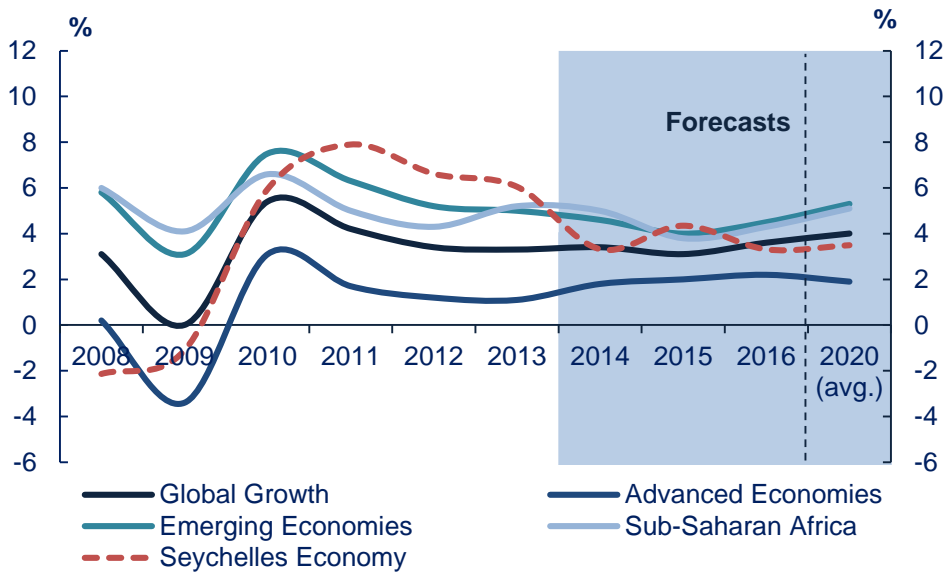
Following the strong performance this year, activities are expected to be less buoyant in 2016. It is estimated that the economy will grow by 3.3 per cent. Modest growth is estimated in the tourism sector given the high 2015 base. A similar pattern is expected in the 'Information and Communication' and 'Financial and Insurance services'. Growth is expected to fasten in the Fishing sector and 'Manufacture of Food' - primarily in the canned tuna production - based on the continued emphasis on the Blue Economy concept.

**Figure 1: Nominal GDP and Real GDP Growth Projections 2014-2018**



Source: MFTBE, Forecasting & Analysis Branch estimates

**Figure 2: Real GDP Growth Projections 2014-2020 for Different Types of Economies**



Source: MFTBE, Forecasting & Analysis Branch estimates

Figure 2 above shows Seychelles’ real GDP growth in comparison to the global growth and that of emerging and advanced economies, and that of sub-Saharan Africa. Being a highly vulnerable economy, Seychelles’ economic performance is greatly affected by other countries. The impact, however is amplified on Seychelles with positive growth being translated into even better growth for Seychelles.

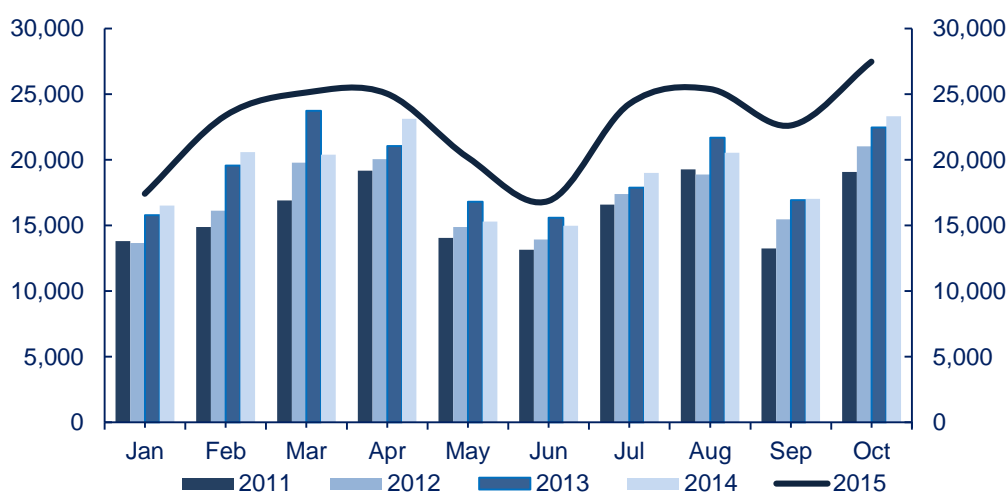


## Real Sector

### Tourism

The tourism sector has rebounded significantly this year following the poor performance in arrivals last year. By the end of October 2015, visitor arrivals were up by 19 per cent compared to same period in 2014. Throughout 2015, monthly arrivals have surpassed that of the last four years. This is evident in the graph below.

**Figure 3: 2015 Visitor Arrivals compared to 2011-2014**



Source: National Bureau of Seychelles

There are several factors that have contributed to this growth. At the forefront, the STB has strengthened its marketing campaign focussing primarily on our main European markets, following their contraction last year, whilst maintaining efforts on further developing the new emerging markets (such as China). There has also been an increase in the total number of flights to Seychelles this year. Emirates are now flying fourteen times per week (with now more capacity through an all-Boeing operation) and a similar number of flights are operated by Air Seychelles and Etihad to Abu Dhabi. This has immensely increased connectivity through the Middle East hub, thus facilitating connecting flights. Furthermore, Ethiopian Airlines and Air Austral resumed their scheduled flights to Seychelles in 2015. <sup>1</sup> There has also been numerous code sharing agreements between Etihad/Air Seychelles and several other Etihad partners.

<sup>1</sup> For profitability reasons, both Ethiopian Airlines and Air Austral withdrew their flight operations to Seychelles in March and May 2014 respectively.

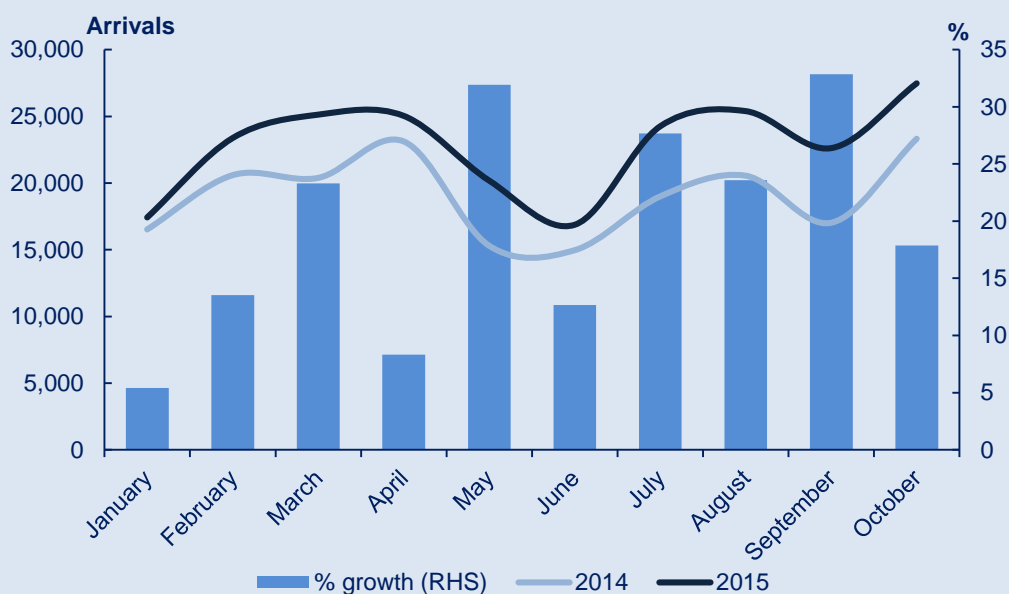
These include Jet Airways, Alitalia, Air Serbia, Air Berlin and Niki (airline). Additionally, Air Seychelles introduced new regional routes this year and in June 2015 there was a re-introduction of direct flights to Paris.

**Box 1: Tourism**

**Seychelles Tourism Performance**

As at October 2015, Seychelles has had 227,736 visitor arrivals, 19 per cent higher than the same period in 2014. This is a marked increase given that the country had experienced a 0.4 per cent decrease in the same period in 2014 compared to 2013. This box will to analyse the increase in tourism growth this year and look at pertinent issues facing the industry locally, as well as taking an international perspective on regional tourism.

**Figure 4: Tourism Arrivals and Growth Rate January-October 2015**



Source: National Bureau of Statistics

Figure 4 above shows the consistent increase in monthly arrivals this year compared to last year with a seasonal peak in the first quarter and what is looking to become a second peak in final quarter. This coincides with Easter holidays, ‘Carnaval de Victoria’ and ‘Festival Kreol’ respectively, which attract a large number of visitors.

Table 1 below shows the strong dominance of European markets driving the double digit growth in arrivals with the resurgence of the Euro area growing at 11 per cent. This is led by 14 and 10 per cent increase in French and Italian tourists respectively, and although no growth in the German market, it remains our second largest market. However, there has been a 13 per cent contraction in the Russian market following economic and political troubles in the region. Moreover, there has been consolidation work done in the emerging markets of United Arab Emirates and China, where although growth rates are high, the base is relatively small. Following the 89 per cent increase in Chinese tourists for 2014 up to Q3 over the same period in 2013, there has been a slowdown in growth at only 6 per cent this year.

**Table 1: 2015 Growth Rates of Markets (September YTD)**

Markets	2014	2015	Growth (%)
<b>Europe</b>	<b>110,906</b>	<b>123,145</b>	<b>11</b>
France	23,160	26,426	14
Germany	25,763	25,832	0
Italy	15,800	17,356	10
Russia	10,534	9,133	-13
<b>Africa</b>	<b>18,494</b>	<b>24,791</b>	<b>34</b>
<b>Asia</b>	<b>32,000</b>	<b>44,863</b>	<b>40</b>
China	10,976	11,655	6
India	1,796	5,160	187
UAE	10,077	15,894	58
<b>Americas</b>	<b>4,859</b>	<b>6,060</b>	<b>25</b>
<b>Oceania</b>	<b>1,177</b>	<b>1,415</b>	<b>20</b>
<b>Total</b>	<b>167,436</b>	<b>200,274</b>	<b>20</b>

Source: National Bureau of Statistics

While total arrivals and Euro earnings up to September are up 19 and 17 per cent respectively compared to the same period last year, the Rupee has appreciated by about 10 per cent against the Euro (Table 2 overleaf) or conversely the Euro has depreciated against the Rupee. A stronger rupee means that European tourists find it more expensive for a holiday in Seychelles compared to before as they receive less Rupees for every Euro they exchange. It is also an unfavourable exchange rate movement for the local tourist operators as a portion of their costs are in Rupees.

The Euro has additionally depreciated against the USD by about 18 per cent during our reference period. The impact on hotels of the lower EUR/USD cross rate is that they need more Euros to satisfy the same level of their Dollar costs. This extends to the entire country whereby our terms of trade (the ratio of an index of a country's export prices to an index of its import prices) is adversely affected as our exports are primarily in Euros while our imports are primarily in Dollars.

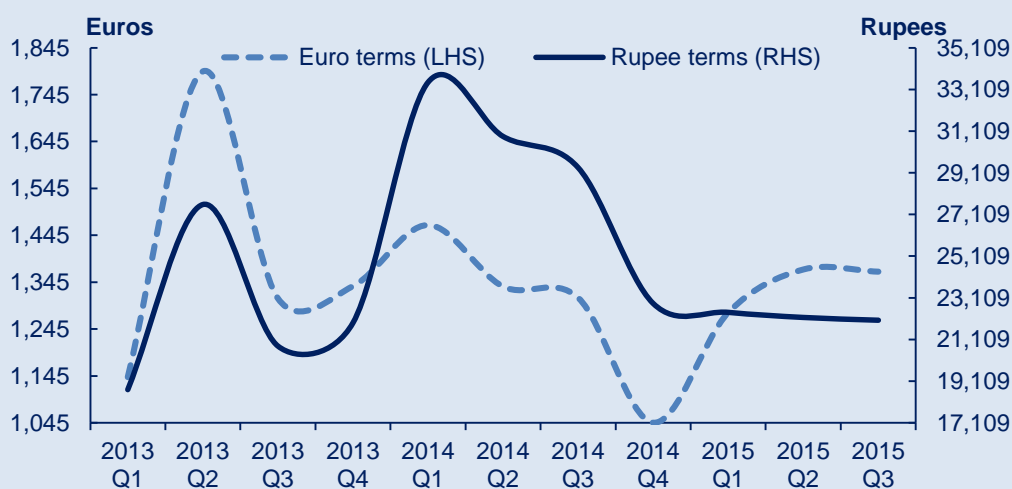
**Table 2: 2015 Aggregate Arrivals versus Earnings**

	2014 (up to Q3)	2015 (up to Q3)	% Difference
Tourism Arrivals (No.)	167,436	200,259	19
Tourism Earnings (EUR'm)	230	268	16.8
Tourism Earnings (USD'm)	214	189	-11.6
Average SR/EUR rate	16.71	15.13	-9.5
Average EUR/USD rate	1.36	1.11	-18.1

Source: Central of Seychelles and National Bureau of Statistics

Figure 5 below shows the pressure felt on falling earnings per visitor in Euro and Rupee terms. The divergence between the two lines represents an **appreciation of the Rupee against the Euro** whenever the solid line is below the dashed line, and a **depreciation of the Rupee against the Euro** when the solid line is above the dashed line.

**Figure 5: 2013 to 2015 Average Earnings per Visitor**

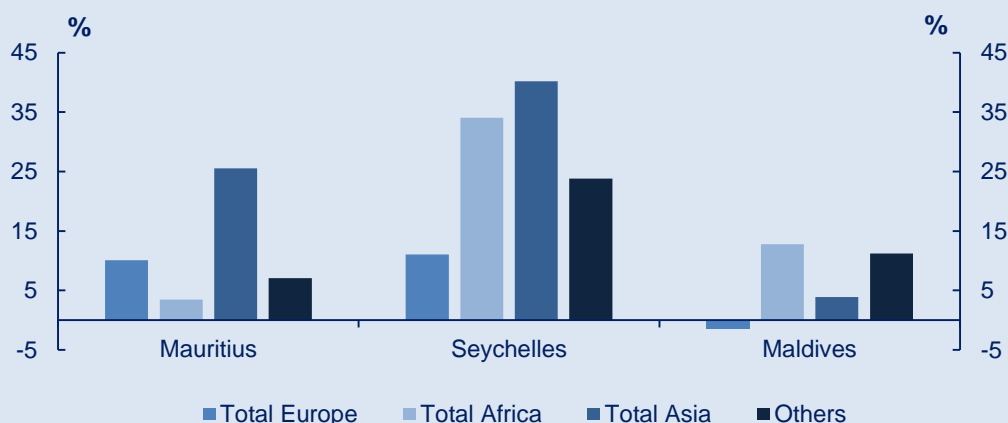


Source: Central of Seychelles

### Regional Tourism performance

It is also useful to compare the tourism performance of regional rivals, Mauritius and Maldives, with our own for a wider perspective on regional tourism. September 2015 statistics, in Figure 6 below, show that all three countries experienced growth in all the main markets with the only exception being the Maldives registering a 1 per cent fall in European visitors. Overall, Seychelles and Mauritius had double digit growth of 19 per cent and 11 per cent respectively while Maldives only registered a 2 per cent growth. In terms of absolute numbers, the reverse order is true with Maldives (Table 3) leading the way in mass tourism.

**Figure 6: September YTD Growth in Arrivals in the Region**



Source: From respective country tourism statistic departments  
 \*Others refers to Americas and Oceania

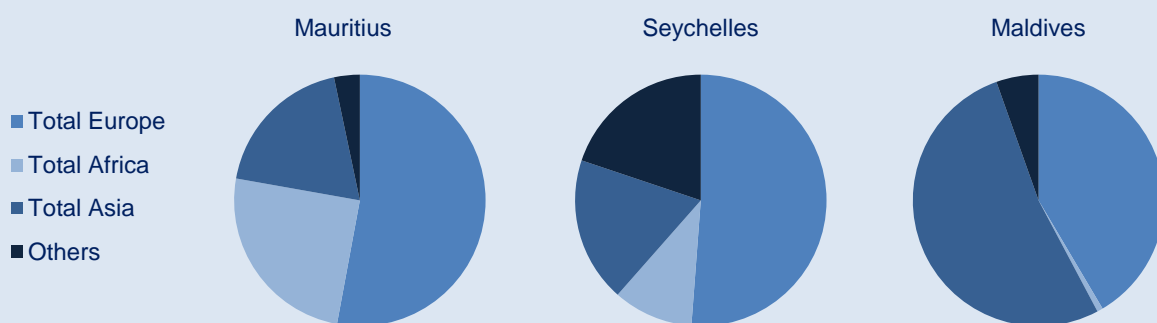
**Table 3: Leading Tourist Markets in 2015**

Markets	Mauritius	Seychelles	Maldives
<b>Europe</b>	<b>423,845</b>	<b>123,145</b>	<b>381,348</b>
France	167,823	26,426	31,100
Germany	50,680	25,832	73,558
Italy	19,768	17,356	46,823
Russia	8,157	9,133	30,964
<b>Africa</b>	<b>200,551</b>	<b>24,791</b>	<b>6,838</b>
<b>Asia</b>	<b>152,334</b>	<b>44,863</b>	<b>480,863</b>
China	71,040	11,655	292,689
India	54,227	5,160	35,504
UAE	7,174	15,894	5,466
<b>Americas</b>	<b>12,959</b>	<b>6,060</b>	<b>33,272</b>
<b>Oceania</b>	<b>13,697</b>	<b>1,415</b>	<b>16,713</b>
<b>Not stated</b>	<b>369</b>	<b>0</b>	<b>243</b>
<b>Total</b>	<b>803,755</b>	<b>200,274</b>	<b>919,277</b>

Source: From respective country tourism statistic departments

Of considerable note, is the change in importance of different markets in each country's tourism industry, shown in **Figure 7** below. For example, as mentioned earlier, the European market has bounced back for Seychelles with diversification into emerging markets in Asia. Similar shares are reflected in the Mauritian economy. Finally, Maldives is the only country that European share is not over 50 per cent of arrivals. Instead, the Asian market has grown in importance for the Maldivian economy.

**Figure 7: 2015 Tourist Market Shares**



Source: From respective country tourism statistic departments  
 \*Others refers to Americas and Oceania

Given the state of tourism in the world today, what is the future of tourism for Seychelles? The moratorium on the construction of large hotels and STB's strategies may give some indication. The moratorium is meant to limit the supply of rooms but it is not expected to have a tangible effect until 2017 given hotel projects already approved. It is hoped that this strategy will help better align the supply and demand of rooms where generally the supply outstrips the demand in the low season while the reverse is true in the peak season. This temporary measure may only be effective in the short-run when the moratorium is in place when the supply of rooms is fixed to an extent. Work on increasing demand will help stem the pressure on prices to fall in the industry.

Lastly, STB aims to sustain current growth rates in 2016 based on their strategy of using their SR 139m budget on different groups (Table 4 overleaf). The 'focus group' are the priority markets which receive most of the marketing budget, the 'consolidation group' are those markets which STB hopes to consolidate the existing gains made and the 'maintenance group' are non-priority markets until the Budget allows for it.

**Table 4: STB Market Priorities as at October 2015**

Focus	Consolidate	Maintenance
France	UK & Eire	Americas
Germany	Italy	Others Africa
South Africa	Switzerland	Others Europe
GCC/UAE	Austria	Japan
China	Russia/CIS	South Korea
Hong Kong	Scandinavia	Australia
India	Reunion	Others Asia

Source: Seychelles Tourism Board

To conclude, the tourism industry has faced challenges this year from adverse currency fluctuations and falling average spending per tourist but overall the sheer increase in arrivals has outweighed the negatives. The tourism industry is very sensitive to a number of factors, a lot of which are external such as global growth rates. However, there are factors which can be controlled including Seychelles' focussed marketing strategy and policies such as the hotel moratorium. Therefore, the outlook for tourism is positive with 3.5 per cent projected for 2016.

## Manufacturing

Following the implementation of new machinery by the major brewing company, growth in the 'Manufacturing of beverages and tobacco' has been forecasted to increase in 2015 at around 5 per cent. This will be backed up by a boost in alcohol consumption over the election period towards the end of the year. Based on production statistics, by the end of the third quarter, beer production was up by 21 per cent whilst spirits production was up by 35 per cent.

Growth is also anticipated to increase in the 'Manufacturing of food' sector, which mainly comprises of canned tuna production. Production statistics show that, up to the third quarter, canned tuna production had increased by 1 per cent, with a stronger outlook expected for the fourth quarter. The introduction of flavoured tuna cans in the final quarter will also help to support the growth. Most of the effect will be felt in 2016 depending on the market response to the new products.

In the 'Other Manufacturing' production sector such as production of paint, furniture, and textiles amongst others, 2015 growth is projected at around 3 per cent. This will be sustained by the new SME scheme<sup>2</sup> facilitating financing for the entrepreneurs in setting up their businesses.

## Construction

The construction sector is estimated to have grown moderately in 2015 compared to last year. This follows the completion and near completion of some major projects during the year. Some of the effects will spill over into 2016. These include the completion of the bridge connecting Ile Aurore to Perseverance, Nouvobanq Building, Hunt Deltel building, Carana Beach Hotel amongst other smaller projects. However, with no major projects foreseen by the main construction companies<sup>3</sup>, lower growth is anticipated for 2016. The few projects in the pipeline includes Felicite and Long Island hotel projects, continuous work on Eden Island, the completion of the fishing port project and a few privately owned luxury house projects.

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<sup>2</sup> The SME financing scheme was launched by Government in July 2013 with the participation of commercial banks to assist SMEs to obtain financing at concessionary interest rate.

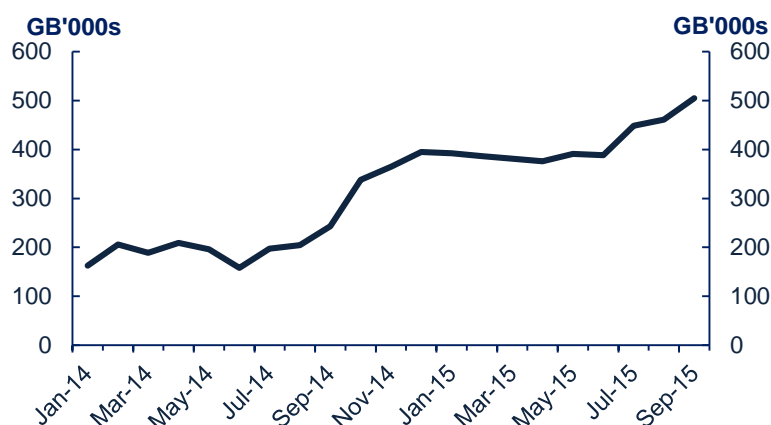
<sup>3</sup> These information was acquired through a Business Liaison Programme which the Ministry of Finance regularly conducts to assist in GDP growth forecasting.



## Telecommunications

The effect of the submarine cable established in 2012 continues to reinforce significant growth in the ‘Information & Communication’ sector. There has been considerable increase in the level of data usage recently and the demand is anticipated to continue increasing throughout 2015. Growth is forecasted to be 7 per cent in 2015, largely on account of new product developments such as Internet Protocol Television (IPTV), the introduction of 4G mobile broadband internet access and mobile money transfers. These are likely to have spillover effects in other sectors such as ‘Financial and Insurance services’ hence stimulating growth. Changes in data usage from 2014 up to September 2015 is depicted in the chart below. Total data usage increased by 111 per cent between January to September 2015 compared to the same period last year. Continuous moderate growth is anticipated for 2016 and the medium term.

**Figure 8: Data Usage 2014 to September 2015**



Source: National Bureau of Statistics

## Wholesale and Retail

The total margin<sup>4</sup> earned by Seypec on the re-export of petroleum products has increased by USD 2.8m, or 23 per cent, between the first three quarters of 2015 and that of 2014. The total re-export margin has reached USD 15m as at September 2015. Gas oil sales account for USD 1.7m (60 per cent) of the USD 2.8m increase in margin and is thus the main driver behind the growth in re-exports. The large increase in gas oil re-exports is due to a surge in fishing activity, supported by additional French and Spanish fishing vessels. Approximately USD 670,000 (24 per cent) of the increase was due to the sale of Jet fuel which has been driven by an increase in international flights linked to Seychelles. This includes the introduction of the

<sup>4</sup> The margin is equal to the difference between the sales revenue and the cost of sale of the petroleum products. The growth in margin is a proxy to the real GDP growth of that sector.

long haul Air Seychelles flights to Paris, the resumption of Ethiopian Airline flights and more frequent Emirates flights amongst others. In addition, Fuel oil re-export margins grew by USD 414,000 and was boosted by an upturn in cruise liner activities. This represents the remaining 15 per cent of the increase in total margin.

Domestic petroleum sales grew by 3.4 per cent in real terms when comparing the first three quarters of 2015 to that of 2014. The growth has been largely driven by higher motor gas and fuel oil demand. The quantity sold of the former grew by 1.4m litres, or 8 per cent, whereas the latter increased by 2.3m litres, or 4 per cent. The growth is due to an increase in both the number of motor vehicles and the demand for electricity produced by PUC as well as lower petrol costs.

Import growth is used as a proxy for the growth of the remaining wholesale and retail market. In dollar terms, total non-petroleum merchandise imports have fallen slightly by 1.5 per cent, adversely affecting overall real growth forecast for this sector. However, this could be due to the large non-retail component of imports and falling commodity prices.

## Monetary Sector

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Monetary targeting remains the adopted policy framework of the Central Bank of Seychelles (CBS), under which the price stability objective is achieved by targeting the liquidity level in the system where the operational target is reserve money. Hence, by meeting quarterly reserve money targets, CBS indirectly controls money supply in order to achieve its price stability objective.

As of 2013, CBS revised monetary policy implementation such that broader macroeconomic considerations are taken into account, which provides for more flexibility and should not lead to interest rate volatility.

CBS maintained a tight monetary policy stance for the first three quarters of 2015, with a cautious loosening implemented in the fourth quarter. Subject to external developments and domestic inflationary pressures, the Bank is expected to maintain an unchanged stance for 2016.

A general increase in key market rates has been observed in 2015, with the average prime lending rate, average lending rate and savings rate inclining by 1.5 percentage points, 43 basis points and 58 basis points respectively.

For the year 2016, CBS aims to improve the interest rate transmission mechanism through revisions in the implementation of monetary policy, including improved flexibility of open market operations.

## Inflation

The rebasing of the Consumer Price Index (CPI) in January 2015 contributed towards an initial spike in inflation data which later abated. However, seasonal inflationary pressures continued to impact on prices over the course of the year whilst the stable exchange rate and low global energy prices contributed towards lower domestic prices. As a result, the forecasted annual inflation rate is 4.3 per cent, which is 2.9 percentage points higher than in 2014 but lower than initial forecast at the start of the year.

Declining global food and oil prices were observed during 2015 due largely to positive production outcomes and prospects, alongside weaker demand, respectively. However, due to weak economic growth in the Eurozone area and sustained credit demand, despite a relatively

stable domestic currency domestically, the Bank opted to maintain a tight monetary policy stance for the first 3 quarters of the year.

In the second half of the year, as key indicators broadly suggested a dampening of inflationary pressures -including a slowdown in credit demand- and coupled with seasonality factors, CBS opted for a cautious loosening of monetary policy in the fourth quarter.

Going forward, the recovery in the Eurozone, sustained low global commodity prices and increased tourism inflows are expected to contribute towards a downward bias on imported inflation. On the domestic front, the drop in utility prices and stable exchange rate are expected to have second round effects on prices. Consequently, inflation is projected to decline in 2016.

## **Credit**

As at September 2015, total credit disbursed by other depository corporations (ODCs) grew by 7.2 per cent compared to the same period in 2014 due to increased claims on parastatals and the private sector, given that claims on government declined.

Credit to the private sector grew by 14 per cent, with particular expansion observed in lending to households, trade, tourism and real estate. Credit to the economy is projected to grow by 10.4 per cent, which would support growth in real economic activities.

## External Sector

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### Balance of Payment

The country's external position is projected to improve in 2015 relative to the preceding year. A narrowing of the current account deficit is forecasted from 22 per cent of GDP in 2014 to 18.4 per cent of GDP in 2015, with further improvement expected in the medium term.

### Current Account

The improved current account deficit is primarily as a result of a significant decline in imports related to foreign direct investment (FDI), with FDI forecasted to decline from USD 227m in 2014 to USD 184m in 2015. The leading factor being lower FDI inflows to the tourism sector as the country's tourism carrying capacity nears saturation point. The declining trend is expected to continue in the medium term with the government decision to impose a moratorium on large tourism developments in designated parts of the islands. As such, a reduction in the importation of FDI-related goods is forecasted which would contribute towards the narrowing of the current account deficit.

The country's trade balance remains relatively unchanged from last year at minus USD 545m. It is important to note however, that there has been a deterioration in the country's exports relative to 2014. Total exports for 2015 are expected to be 28 per cent lower than that of the preceding year. A weaker euro throughout the year has resulted in lower tuna exports in value terms although volume has remained virtually at the same level. Similarly, oil re-exports have recorded a drop in value terms in line with lower international oil prices. The lower overall imports anticipated for 2015 is primarily as a result of favourable (low) international oil prices and lower FDI-related imports.

The country is inherently a net exporter of services driven by the tourism industry. The positive performance of the tourism sector this year has been as a result of a boost in arrivals from Europe, the country's traditional source markets, although yield remains on the downside. Tourism arrivals for the year are projected to be 19 per cent above the 2014 level.

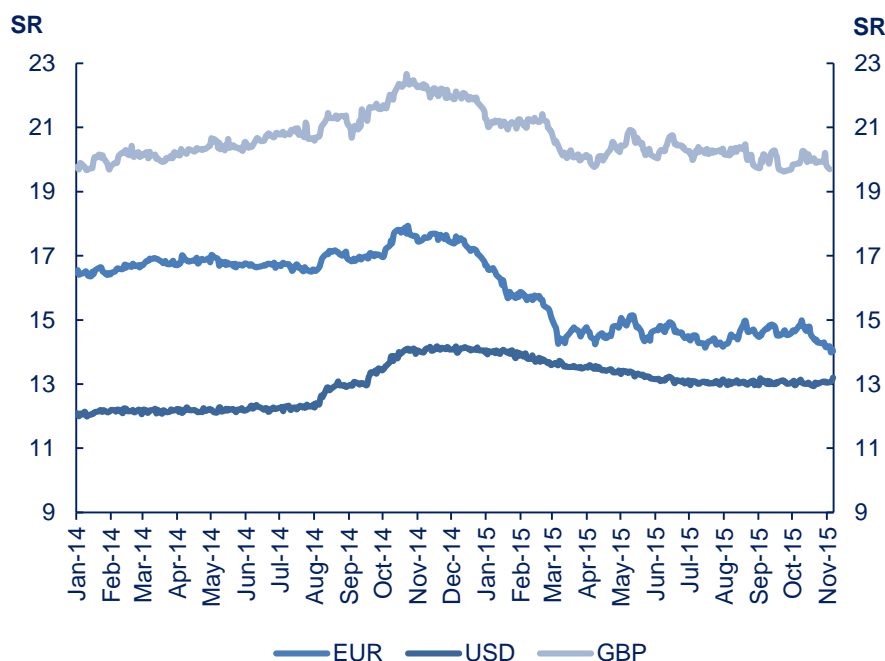
Gross international reserves are projected to stand at USD 533m by the end of the year compared to USD 464m at the end of 2014. Lower demand for foreign exchange on the domestic market has enabled CBS to opportunistically purchase foreign exchange for reserves accumulation purposes. As a result, gross foreign reserves in months of imports of goods and services have increased from 4.1 to 4.5.

## Exchange Rates

Developments in international currency markets greatly influenced movements in the rupee exchange rate in 2015. The euro began its period of sustained weakening in Q4 2014, following a cut in rates and announcement of a bond purchase programme by the European Central Bank, with the latter policy action continuing throughout 2015 and resulting in further declines in the euro. On the other hand, the strengthening of the US dollar vis-a-vis other major currencies was also reflected in the domestic market. As such, as at November 16, the year-to-date annual SCR/EUR average stood at 14.84, representing a rupee appreciation of 12 per cent against the euro in relation to the same period in 2014. In contrast, the rupee depreciated by 6.1 per cent against the dollar, with the year-to-date SCR/USD annual average standing at 13.34.

Figures for foreign exchange flows show that net outflows year-to-date were 38 per cent lower than in 2014, with inflows and outflows both falling by 19 per cent and 21 per cent, respectively. As for the remainder of the year and into 2016, the rupee is expected to remain stable against the major trading currencies, assuming no negative terms of trade shocks to the economy, but also being mindful of any possible changes in the euro-dollar rate in international markets.

**Figure 9: Exchange Rates January 2014 to November 2015**



Source: Central Bank of Seychelles

**Box 2: Impact of fall in Petroleum Prices on Seychelles**

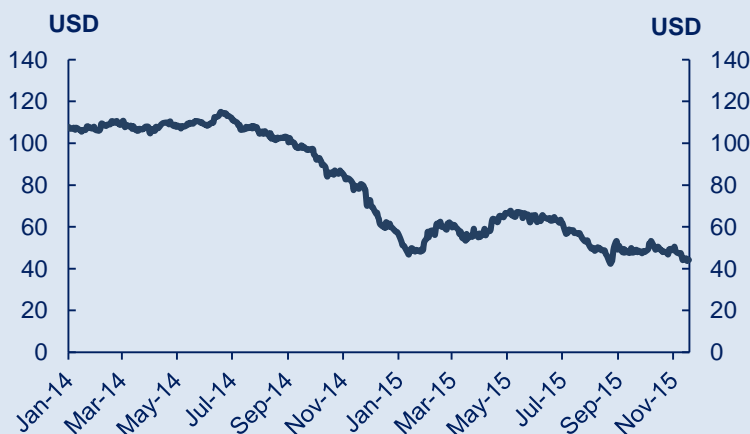
**International Context**

Petroleum has historically formed a large portion of Seychelles’ imports. In 2013 and 2014 figures, petroleum accounts for about 25 per cent of total merchandise imports, however, most is destined for re-exportation. Petroleum for *domestic use* accounts for about 10 per cent of total merchandise imports. Hence, the plummeting of world oil prices between 2014 and 2015 had a major positive impact on our small, import-dependent economy. Figure 10 displays the international Brent Crude oil price in 2014 and 2015. It shows that the crude oil price plummeted from **113 USD/barrel** in June 2014 to **47 USD/barrel** in January 2015. Since then, the price has stabilized to about 55 USD/barrel in 2015. This means that, on average, 2015 oil prices have been 44 per cent lower than 2014 prices.

The main reason for the decline in oil prices is the rise in the production of shale oil in the US. As a result, USA has now become the world’s largest oil producer. Though it does not export crude oil, it now imports much less, creating significant spare supply resulting in a downward pressure on prices. Nevertheless, OPEC has not cut supply to keep prices high because Saudi Arabia and other Gulf allies have decided not to sacrifice their own market share to restore the price. If they did so, the main beneficiaries would be countries like Iran and Russia given that the latter would likely keep their output high and benefit from higher prices from Saudi Arabia’s sacrifice. Saudi Arabia can tolerate lower oil prices quite easily since it has USD 900m in reserves and it costs them only USD 5-6 per barrel to extract oil from of the ground.

On the demand side, there has been a switch to alternative sources of energy and the economic growth of Europe and developing countries has weakened. Both these effects have reduced the growth in demand for the excessive oil supply, contributing to the declining price. Although there are signs of a slowdown in oil exploration in the face of depressed prices, it is generally expected that international oil prices will remain relatively low in 2016.

**Figure 10: Price of Brent Crude (USD per barrel) between 2014 and 2015**

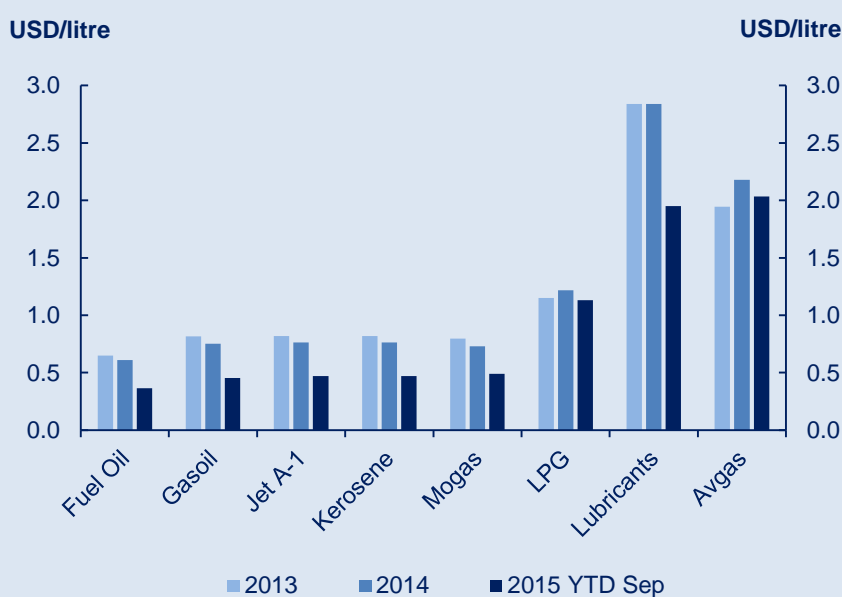


Source: Brent Crude

**Domestic Context**

Figure 11 below shows the import price of the different refined petroleum products in Seychelles. The price fell slightly in 2014 before plummeting in 2015. The 44 per cent reduction in international crude oil prices has resulted in an import price reduction for most refined petroleum products of about 37 per cent. The exceptions are Liquid Petroleum Gas (LPG) and aviation gasoline (avgas) which have fallen by only 7 per cent. The percentage fall in prices are all lower than the 44 per cent due to numerous factors including transportation cost, advance purchase contracts specific to Seychelles and the fact that the crude oil goes through additional processes before becoming refined petroleum products.

**Figure 11: Import Price of Refined Petroleum Products in Seychelles**

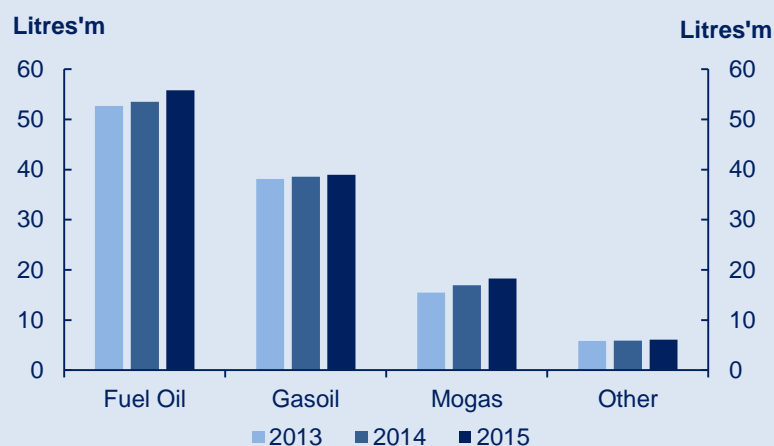


Source: Seypec

As can be seen from Figure 12 overleaf the overall volume of petroleum imports for domestic consumption has increased mildly between 2013 and 2015. Note that each year records volumes only until September. Fuel oil and motor gas (mogas) has experienced relatively strong growth so far in 2015. Mogas imports grew by 1.4m litres, or 8 per cent, whereas fuel oil imports grew by 2.3m litres, or 4 per cent by September year-to-date. The former reflects the increase in the number of vehicles while the latter reflects the higher levels of electricity production by PUC. Gas oil and Jet A1 fuel imports grew by more modest amounts of 350,000 litres and 181,000 litres respectively.



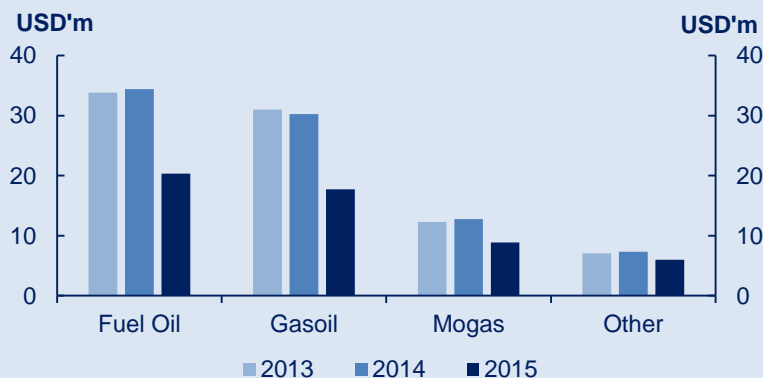
**Figure 12: Volume of Refined Petroleum Products for Domestic Consumption<sup>1</sup>**



Source: Seypec

As can be seen from Figure 13, the amount spent on importing the different refined petroleum products generally increased slightly between 2013 and 2014 because of an increase in the volume of imports. However, in 2015 the amount spent fell drastically despite the increase in volume of imports and this is due to the aforementioned collapse in world oil prices. The amount spent on petroleum imports for domestic use fell by USD 31.8m (SR 425m), or 38 per cent, when comparing the first three quarters of 2015 to the same period in 2014. This equates to a saving for the country of just over USD 10m each quarter and the savings is equivalent to 4 per cent of total import costs for the first three quarters of 2015.

**Figure 13: Expenditure on Petroleum Products for Domestic Consumption<sup>1</sup>**



Source: Seypec

The savings in import costs of petroleum has had numerous macroeconomic benefits for Seychelles. The fall in price has enabled a reduction in foreign exchange outflows and contributed to narrowing the balance of payments deficit between 2015 and 2014 YTD despite a fall in tourism earnings in dollar terms.

<sup>1</sup> 'Other' refers to the sum of Jet A-1, Kerosene, LPG, lubricants and avgas petroleum product volumes.

The USD 31.8m fall in petroleum imports has more than compensated for the USD 25m fall in tourism earnings between the first three quarters of 2015 and that of 2014. It also has the benefit easing inflationary pressures as well as reducing costs for individuals as well as commercial and government entities as elaborated in the following section.

### **Breakdown of Benefits**

Petroleum has widespread use in the economy and the reduction in fuel prices benefits both consumers as well as businesses by reducing their expenditure. This will in turn increase spending power of consumers and increase the profitability of businesses.

About 99 per cent of fuel oil is used by PUC to provide electricity, while Seybrew uses the remaining 1 per cent. Furthermore, approximately 20 per cent of gas oil imported for domestic purposes is used by PUC for the supply of electricity. The 40 per cent reduction in the price of fuel oil and gas oil has led to PUC making a savings<sup>2</sup> of USD 14.5m (SR 221m) for the first three quarters of 2015 and this represents about half of the total national savings on the fall in oil prices. Much of this benefit has been passed on to consumers by a 13 cent reduction in tariffs in October 2015. It is estimated that Seybrew would make a SR 1m savings<sup>2</sup> due to the fuel oil price drop for the same period.

Lower gas oil prices has also led to a reduction in costs for a large number of businesses who rely on this type of fuel. These include boat charter services, fishing vessels, ferries, hotels with their own generators, manufacturers and SPTC who would have seen a reduction in their costs. In particular, SPTC would have saved<sup>2</sup> approximately USD 600,000 (SR 8m) in the first three quarters of 2015 due to the lower gas oil prices. Given that SPTC relies on Government Budget support, this is essentially a savings for Government.

Aviation gas and Jet A1 fuel import prices fell by 7 and 38 per cent respectively. This benefits Air Seychelles, and other domestic flight operations such as IDC, by reducing their fuels costs and increasing their profitability. This also benefits the Government by reducing Air Seychelles' requirement for budget support. The estimated savings<sup>2</sup> in fuel costs for the first three quarters of 2015 for *all domestic flight operations* is estimated to be around USD 620,000 (SR 8.3m).

The 33 per cent fall in mogas prices delivers a major benefit to private individuals by reducing their required motor vehicle expenses and will also benefit businesses which utilise motor vehicles. Commercially registered vehicles account for about one third of total vehicles. The savings for all petrol vehicle users is estimated at USD 4.4m (SR 59m) for the first three quarters of 2015. The 7 per cent fall in LPG prices largely benefits private individuals, restaurants and hotels.

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<sup>2</sup> Fuel cost savings is defined here as the difference between the actual amounts spent in 2015 on petroleum imports and amount that would have been spent had 2015 prices remained at the higher levels of 2014.

## Risks to Budget and Economic Outlook

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The preparation of this budget was done by incorporating assumptions and judgments based on the best information available at the time of publication. Despite the Government's commitment to manage and mitigate fiscal risks, changes in economic parameters represent a risk to the budget estimates. Any unanticipated changes in the economic outlook of 2016 and the medium term poses a threat to the revenue and expenditure estimates in the budget.

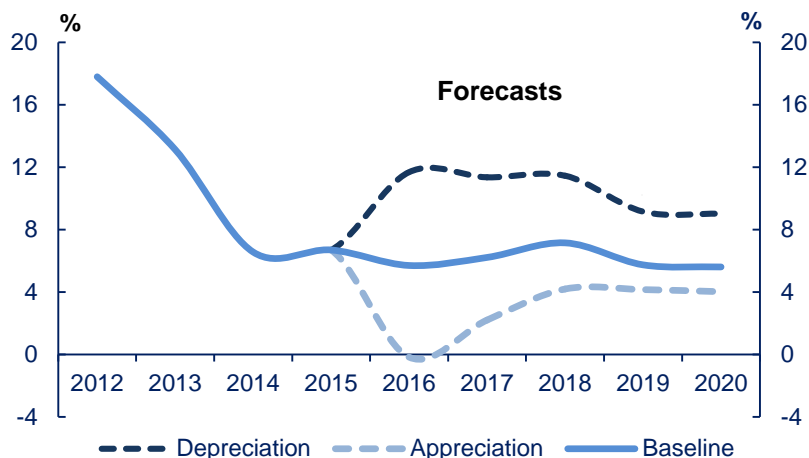
Seychelles economy remains highly vulnerable to external shocks due to its strong dependency on imports and tourism activity. These factors cast a shadow of uncertainty on the economy. In what follows, we present some shock scenarios associated with potential external shocks and its impact on macro indicators. For the purpose of this exercise we will consider two shocks scenarios; a combined exchange rate and inflation shock and also a shock on tourism arrivals as Tourism is the largest contributor to the GDP. Furthermore, the risks associated with uncertainty in foreign aid and risks related to fiscal transactions with State Owned Enterprises will also be addressed.

### Shocks on Exchange Rate and Prices

The current exchange rate regime in Seychelles allows the currency to appreciate or depreciate freely depending on market forces. This regime results in higher exchange rate volatility. Given that the country is highly dependent on imports and revenue inflows in foreign exchange is quite substantial, fluctuations in the exchange rate poses risks to the budget. The risks were felt in last year's budget. When compared to the original Budget, the end of year revised Budget is based on an unanticipated 13 per cent appreciation of the Rupee against the Euro and a 1 percentage point drop in the inflation rate. Together this resulted in a fall in nominal GDP level by SR 191m. The impact was, however, cushioned by more favourable real growth and a relatively stable SR/USD rate.

For the 2016 Budget, we consider a 15 and 10 per cent increase in the SR/USD and SR/EUR rate respectively. This depreciation is likely to cause an increase in the price of imports with minimal impact expected on demand given our high dependency on imports. Therefore, an initial increase of 5 per cent in prices is also assumed for this shock scenario based on the assumption that the increase in imports prices is passed on to the consumers. We also consider a 10 per cent appreciation in both the SR/USD and SR/EUR exchange rate accompanied with an initial 3 percentage point fall in the inflation level and settling to a new equilibrium in the medium term. The impact of these shocks on the nominal GDP growth is depicted in the figure below.

**Figure 14: Exchange Rate and Price Shocks on Nominal GDP Growth**



Source: MFTBE, Forecasting and Analysis Branch

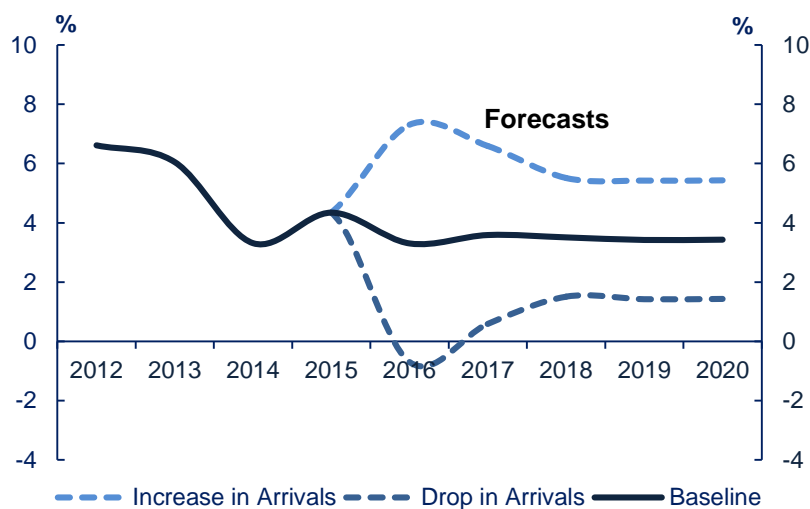
The direct effect of the depreciation and slight increase in prices result in a 6 percentage point increase in nominal growth. This is translated into an SR 1,154m increase in nominal GDP level compared to the baseline forecast. It is worth noting that the increase in nominal GDP will not necessarily have positive budgetary implications. Government’s tax revenues are likely to increase but at the same time expenditure will also increase. The rate of expenditure increase may be higher than growth in tax revenue. In contrast, the unanticipated appreciation shock will cause a 6 per cent fall in the nominal GDP growth. This will be translated into an SR 1,138m fall in nominal GDP.

### Shocks on Visitor Arrivals

The Seychelles economy remains highly dependent on the tourism sector. It is estimated that the sector contributes 29 per cent to the GDP. Any unforeseen changes in the sector will have an immediate impact on the real GDP growth and also affect other economic indicators. Tourism is mainly affected by changes in arrivals. In 2015, there was a 19 per cent increase in arrivals up to September. This was a significant increase compared to the 3 per cent growth forecasted at initial budget. The increase resulted in an 8 per cent upward revision to growth in the tourism sector.

Similarly to exchange rate shocks, we consider two scenarios. Firstly, we consider a 20 per cent increase in arrivals on the upside. For the downside we shall assume a 20 per cent fall in arrivals. The effect of these on the real GDP growth is shown in the graph below. Note that these are based on the assumption that growth in other sectors, not tourism related, stays constant.

**Figure 15: Arrivals Shocks on Real GDP Growth**



MFTBE, Forecasting and Analysis Branch

A 20 per cent increase in arrivals will result in an 8 per cent increase to the real GDP growth, assuming growth in other sectors remains constant. The impact of nominal GDP level is an increase of SR 792m. The growth is assumed to return to a new equilibrium in the medium term. If this assumption holds, real growth is estimated to increase by 6 per cent on average in the medium term. On the downside, a 20 per cent drop in arrivals will result in a 4 per cent fall in real GDP growth compared to the baseline and translate into an average 2 per cent fall over the medium term.

### Risks Related to State Owned Enterprises

Public enterprises operate within different levels of risk environment based on their size and industry sector within which they operate. The overall risks posed to the government from the public enterprises are both of a financial and non-financial nature.

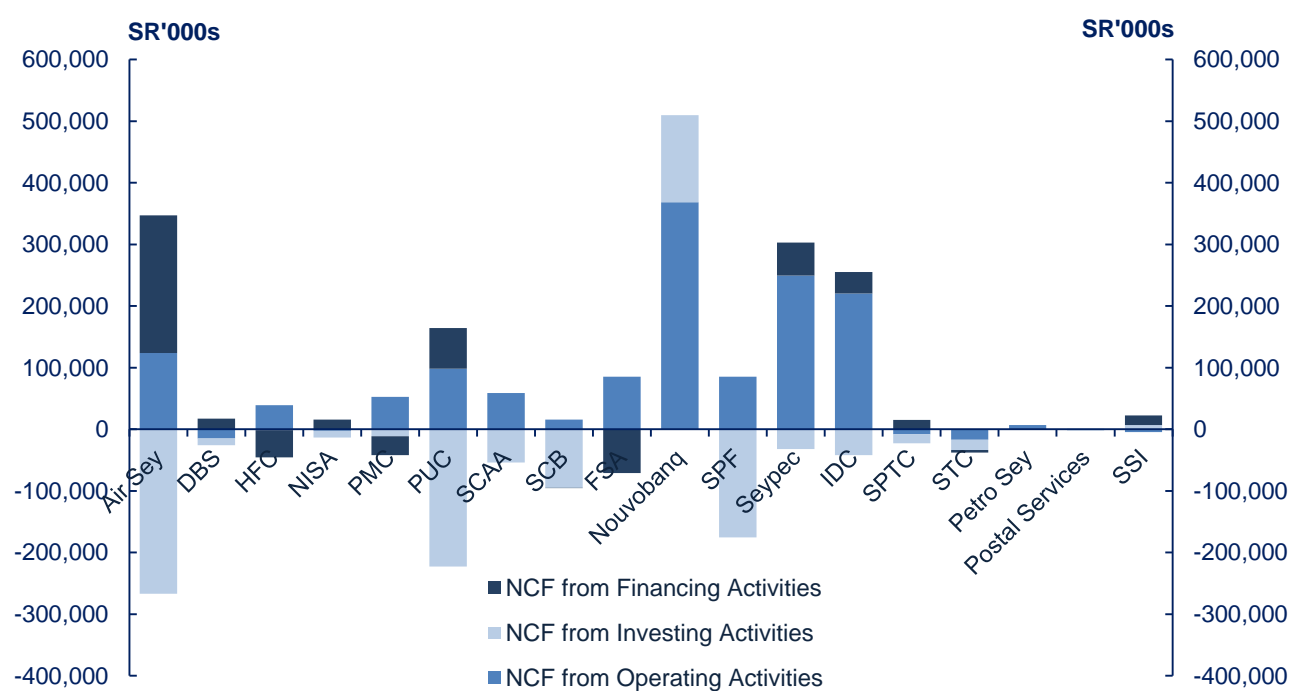
The level of risks posed by the public enterprises is closely monitored through regular submission of performance data to the Public Enterprise Monitoring Commission (PEMC). When entities fail to provide such data in a timely manner, effective monitoring is hindered and consequently a risk of timely detection of potential problems manifests.

To effectively monitor risks, the public enterprises should develop or design a strategic plan approved by their individual boards detailing all significant investment plans, forecasted profits, liabilities including contingent liabilities. This information is vital for effective monitoring of any potential risks that any entity would pose on the Government Budget.

Presently this is achieved by the submission of a Statement of Corporate Intent to the Commission for review and certain public enterprises are yet to produce a complete and comprehensive Statement of Corporate Intent. This therefore contributes to the risk of timely detection of any potential issues that the entities may encounter in their future operations.

From data received by the Commission with regards to financial performance of the public enterprises, the overall risks from poor operations by the enterprises in general appears to have improved. Total cash flow from operations shown in Figure 16 have slowly grown over the past years and at year end 2014 showed a positive consolidated figure of SR 1.36bn.

**Figure 16: Net Cash Flow from Operations of SOEs**

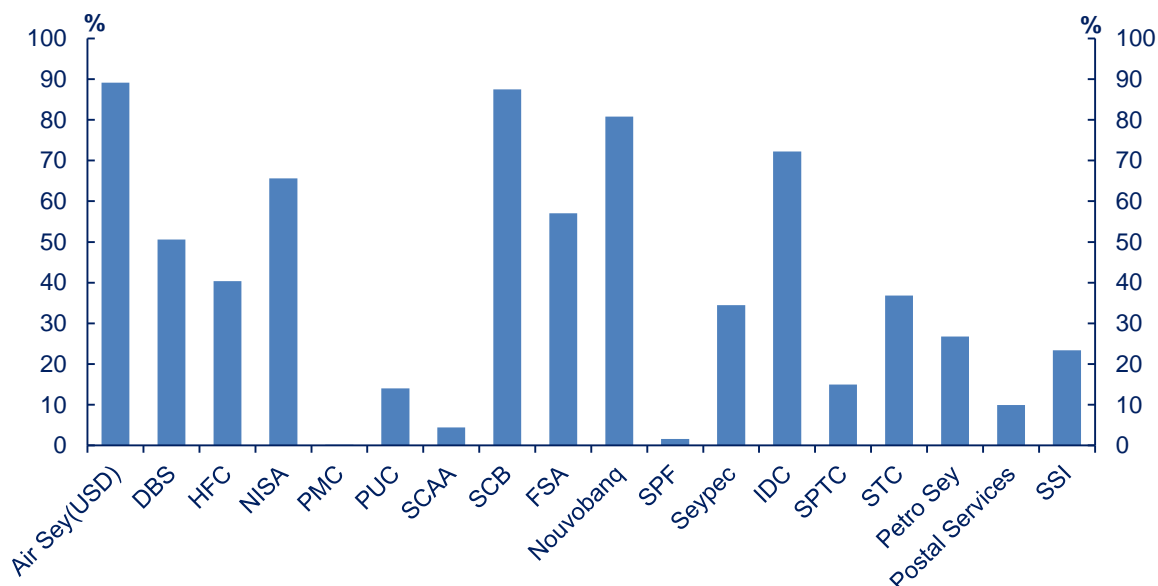


Source: PEMC

The Commission also ensures that close attention is paid to overall debt levels of the public enterprises as this also presents a key area of risk on the overall Government Budget should an enterprise fail to manage the repayment of its debt.

Figure 17 below shows the ratio for total debt as a percentage of total assets for public enterprises at year end 2014<sup>3</sup>. The figures are seen to vary across the different enterprises whilst the average figure nonetheless remains fairly low at 39 per cent.

**Figure 17: Debt to Asset Ratio of SOEs**



Source: PEMC

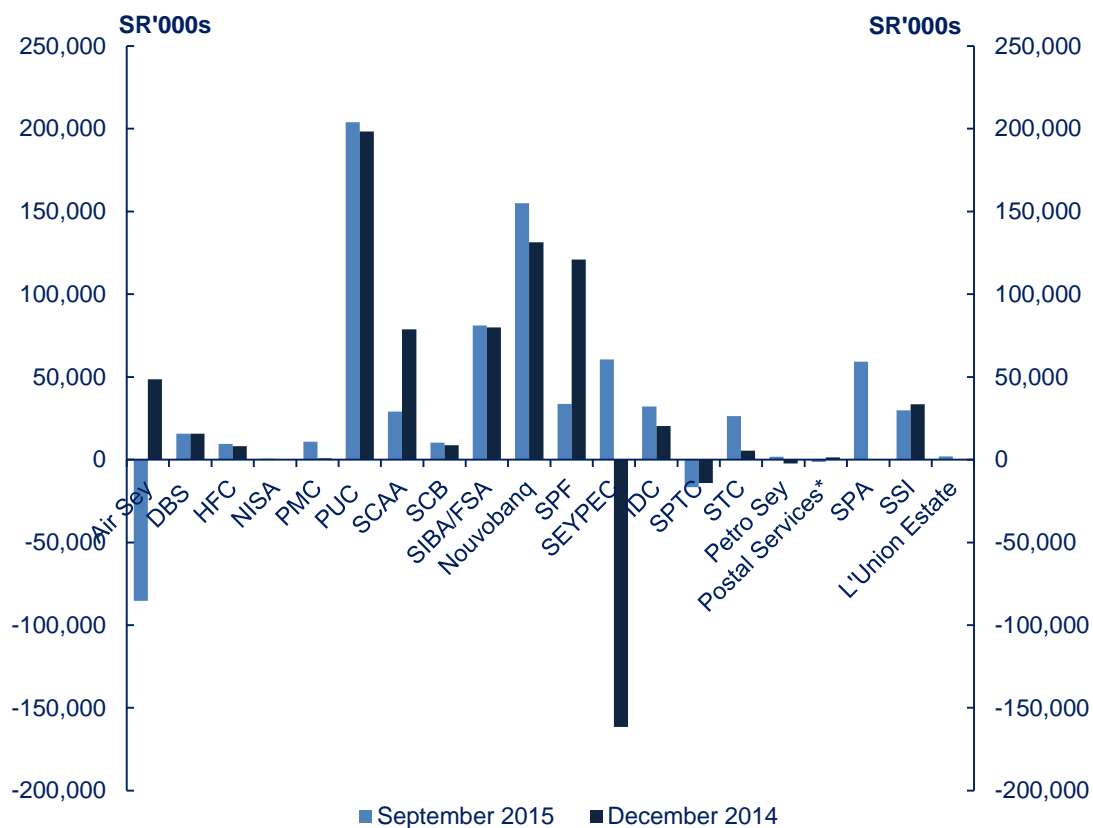
Regular discussions with management of the enterprises are constantly maintained to provide adequate explanations for results where necessary and ensure that all potential risky situations are identified and highlighted at the earliest and remedial action can be taken in a timely manner.

The performance of the public enterprises for 2014 was compared against the provisional outcome as at September 2015 for most public enterprises except for Seychelles Postal Services as at August 2015. This is shown in

Figure 18 overleaf. Apart from Seychelles Public Transport Corporation which is reporting losses for the two consecutive periods, both Air Seychelles Ltd and Seychelles Postal Services are reporting provisional losses as at September 2015 and August 2015 respectively. However, there are improvements in performances for certain public enterprises, which will thus reduce the prospect of going on Government Budget.

<sup>3</sup> All figures in graphs are only from Audited Financial Statements for year end 2014 received by the Commission from Public Enterprises at date.

Figure 18: Profitability of SOEs



Source: PEMC

### Risks Due to Uncertainty of Foreign Aid

Expectations about foreign aid poses another source of risk to the budget. Foreign aid, which comes in the form of grants, is estimated to be around 2.3 per cent of GDP for the 2016 Budget and this is assumed to decline in the medium term. The decline in oil prices may affect revenues of our donor countries; for example, the UAE, and thus affect their ability to give foreign aid. Furthermore, as Seychelles was recently re-classified to a high-income country from upper-middle income, this could have a negative impact on the aid given. However, these may be countered by Seychelles presence on the international scene as a proponent for Small Island Developing States requiring funds for sustainable environmental projects.



## Economic Reforms

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As part of Seychelles' 3 year Extended Fund Facility of SDR 11.4m (105 per cent of quota) with the IMF, the third review saw the country successfully meet most of its specific Structural Benchmarks (SB's) to satisfy the requirements for further disbursement of money. The following summarise the fiscal policies of the Memorandum of Economic and Financial Policies (MEFP) for 2015-2016. For the full table of SB's refer to the Appendix at the end of the document on page 89.

### Public Financial Management Reforms

The Ministry of Finance, Trade and the Blue Economy (MFTBE) will continue to pursue its reforms in the area of public financial management (PFM).

#### 1. Public Financial Management

The 2015 – 2018 PFM action plan is being implemented with considerable progress in the asset and capital project management. Discussion is underway for a Medium Term Budget Framework (MTBF) mission with AFRITAC South. To further assess the progress made and identify remaining challenges MFTBE will seek to undertake a new assessment of the government's financial operations under the Public Expenditure and Financial Accountability Framework (PEFA) standards in 2016, following which the PFM action plan will be revised and submitted to Cabinet for approval (proposed new SB).

#### 2. Programme Performance Based Budgeting (PPBB)

The PPBB remains an important reform being undertaken by the Government, as part of its Public Financial Management Reforms, to promote transparency and ensure its priority areas are being financed.

In 2015, the PPBB was implemented by the first two pilots – the Education portfolio and Fisheries & Agriculture portfolio. During the first few months, the pilots were faced with certain challenges in terms of the coding of the chart of accounts and the delegation of duties to the Programme Managers. Over the year, amendments have been made to certain key documents being used by the pilots when submitting the budget document to the Ministry of Finance, Trade & the Blue Economy. This has been beneficial to both sides. For the 2016 Budget, the pilots were formally informed of the main proposals which have been considered and a revised submission was made based on these. The PPBB statements were later submitted to reflect the final approvals.

For the 2016 Budget, we have another 3 portfolios which are piloting the PPBB – Land Use & Housing, Home Affairs and Finance, Trade & the Blue Economy. So far, the organisations piloting the PPBB have seen its benefits in terms of guiding it towards its priorities and ensuring sufficient funding is secured for those areas.

The Programme Performance Based Budgeting in the 2017 Budget will be rolled out to all organisations. However, given the limitations in terms of capacity within the Ministry to spearhead this reform amongst all of Government, its light format will be introduced within three portfolios. These organisations will have their budgets reflecting the main elements of PPBB but will not be reporting against any indicators initially. Full implementation will be proposed within two portfolios.

### **3. Public Investment Management (PIM)**

The Public Investment Management (PIM) guidelines was developed and recently approved by Government in June 2015. A project manager has now been recruited to see to the coordination of the PIM processes. With the assistance of the World Bank, project officers in government are currently being trained so that they become versed with the appraisal requirement under the adopted PIM guideline.

### **4. State Owned Enterprises (SOE)**

The Government Annual Financial Statement (AFS) for 2014 is currently being finalized with the Office of the Auditor General. The SOE accounts have been consolidated with central government with the exception of two SOE's which at the time of producing the accounts had not yet submitted their accounts. We will work with the two remaining entities to ensure full consolidation of government accounts in 2016.

### **5. Public Private Partnerships (PPP)**

The Government will balance progressive expansion of the country's infrastructure network within a framework of continued fiscal consolidation and financial risk management. In recognizing the potential value of Public Private Partnerships (PPPs) in furthering the expansion of infrastructure, the first component of the PPP framework, the development of the national PPP policy, has been completed and approved by cabinet on the 1st July 2015.

Upcoming work involves procuring the necessary services for the development of the PPP regulatory and operational framework being funded by the AFDB. A consulting firm is being sourced out to (i) draft the PPP regulations for submission to the cabinet (proposed new SB), (ii) develop a PPP implementation manual to guide the operational aspects of PPP.

Finally, a public and private forum is being organized in the first quarter of 2016 to be funded by ICF. The aim of the forum will be to present the PPP policy to the various stakeholders, to sensitize the public and private sector on key principles for successful PPP projects, share experiences of PPP projects in focus sectors identified in the policy and provide a platform for the public and private sector to discuss potential PPP projects in key sector areas. A communication strategy to promote the concept of PPP in Seychelles is also being developed.

#### **6. Seychelles Revenue Commission (SRC)**

In the area of taxation, SRC will continue its efforts to address remaining challenges such as improving the methods for collection of total tax arrears and improving filing rate. SRC will be working towards increasing collection of total arrears; this will involve a development of a Collection Enforcement Strategy to improve the methods for collection of total tax arrears. The strategy will aim to modify the approach used by tax officers based on age of debt and level of compliance by the taxpayers. The strategy will be completed by March 2016 followed by implementation with the purpose of strengthening compliance and enhancing revenue collections.

Going forward efforts will continuously be placed on the auditing of tax cases. The SRC has completed 66 tax audits by September (SB) and will conduct a further 60 business tax audits by November 2016. This will strengthen compliance and enhance revenue collections, especially in business taxes.

## Budget Outlook

By the end of the fiscal year 2015, the Government is expected to achieve a primary surplus of 3.8 per cent of GDP, equivalent to SR 737m, (Table 5 below). When compared to the initial target of SR 720m, this represents a slight increase of 0.1 per cent of GDP. A stronger fiscal balance for 2015 has only been possible as a result of a now more favourable Budget envelope, in light of better tax revenue performance with SR 42m more in tax revenue is now expected, as well as a lower expenditure outcome for certain lines, most notably interest payments which is now estimated at SR 207m less.

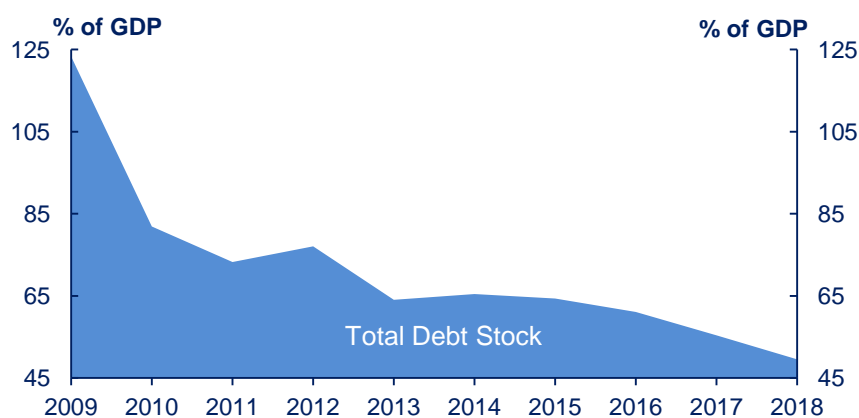
**Table 5: Government Revenue and Expenditure Projections, SR'000**

Revenue and Expenditure	2014 Actual	2015 EOY	2016 Budget	2017	2018
Revenue & Grants	6,477,992	6,504,591	7,316,862	7,344,422	7,730,248
Primary Expenditure	5,641,264	5,768,023	6,549,637	6,518,673	6,837,745
<b>Primary Balance:</b>	<b>836,728</b>	<b>736,568</b>	<b>767,225</b>	<b>825,749</b>	<b>892,504</b>
<b>% of GDP:</b>	<b>4.6</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>

Source: MFTBE, FAB, FPCD

The primary fiscal target for Government remains the reduction of public debt to 50 per cent by 2018. By the end of 2015, a total of SR 449m in external debt service payments will have been made and the stock will stand at 64.3 per cent of GDP. This strong commitment to reducing debt to sustainable levels, has yielded effectively halved total debt. Such effort will continue over the medium term through the maintaining of a primary surplus of 3.8 per cent of GDP. Through this, our debt stock will reach 49.6 per cent of GDP by 2018 as can be seen below in Figure 19.

**Figure 19: Total Debt Stock as a Per Cent of GDP, 2009-2018**



Source: MFTBE, Debt Division

## Revenue & Grants

Total Government revenue (including Grants) for 2015 has been revised downwards to SR 6.5bn, 2 per cent lower than the initial Budget estimate of SR 6.6bn (Table 6 below). Despite a slightly more favourable tax, and, to a lesser extent, non-tax position, total year-end revenue will be lower on account of a much lower inflow of grant income in 2015 than previously expected. This is an issue of timing delays, which should rectify in 2016. The lower grant revenue for 2015 is about only half of the 2014 level. As a result of this shortfall in grants, total revenue as a percentage of GDP will fall to 33.6 per cent in 2015, 2.1 percentage points lower than the 2014 level of 35.7 per cent of GDP.

In 2016, total revenue will be more buoyant (and return to 2014 levels at 35.6 per cent of GDP) given the continued upward trend of tax revenue in line with GDP, as well as the pick-up in grants. Over the medium term, a gradual slow-down in total revenue is projected, and will represent about 34.4 of GDP on average. This shift reflects Government intention to lower the overall tax burden over time as economic conditions continues to strengthen, as well as lower expected grant and dividend income.

**Table 6: Breakdown of Medium Term Revenue Projections, SR'000**

Revenue and Grants	2014 Actual	2015 EOY	2016 Budget	2017	2018
Tax Revenue	5,293,956	5,509,724	5,940,423	6,186,786	6,544,717
Non-Tax Revenue	652,238	715,421	870,325	916,005	905,071
Grants	531,798	279,455	468,657	262,070	380,740
<b>Total Revenue &amp; Grants:</b>	<b>6,477,992</b>	<b>6,504,599</b>	<b>7,279,404</b>	<b>7,364,861</b>	<b>7,830,528</b>
<b>% of GDP:</b>	<b>35.7</b>	<b>33.6</b>	<b>35.6</b>	<b>33.9</b>	<b>33.6</b>

Source: MFTBE, FAB, FPCD

## Tax Revenue

Tax revenue performance in 2015 has been buoyant. During the mid-year Budget revisions, the tax outlook for 2015 was raised by SR 99m to reflect strong year-to-date over-performances in several taxes, most notably import taxes and in petroleum excise. This then had to be lowered on account of the materialisation of several large and unexpected refund payments (relating to Business tax and VAT), all of which were due to be processed fully in 2015 (relating to Business tax and VAT, explained further in the ensuing respective sections). Given all of this, total tax receipts by the end of 2015 will amount to SR 5.5bn, 1 per cent lower than the mid-year estimate, but nevertheless 1 per cent higher than the initial Budget target of SR 5.47bn.

Import taxes – import VAT, excise on imports and customs duty – have all performed better than expected in 2015, and by the end of the third quarter were collectively 11 per cent higher than the Budget for the same period. Imports were due to grow at a slower pace in 2015 after the monetary tightening measures introduced by the CBS following the import boom in the latter half of 2014<sup>4</sup>. The fall in oil and food prices did much to support this expectation, which would have been the case had it not been for the depreciation of the Rupee vis a vis the US Dollar (which denominates the bulk of all imports in Seychelles) by 8.6 per cent at the end of quarter 3 on a year-on-year basis. Excise on petroleum (specific tax applied per litre) has also performed strongly in 2015 (12 per cent increase as year on year) and can be explained by higher demand, particularly of motor gas, given the sharp fall in global oil prices.

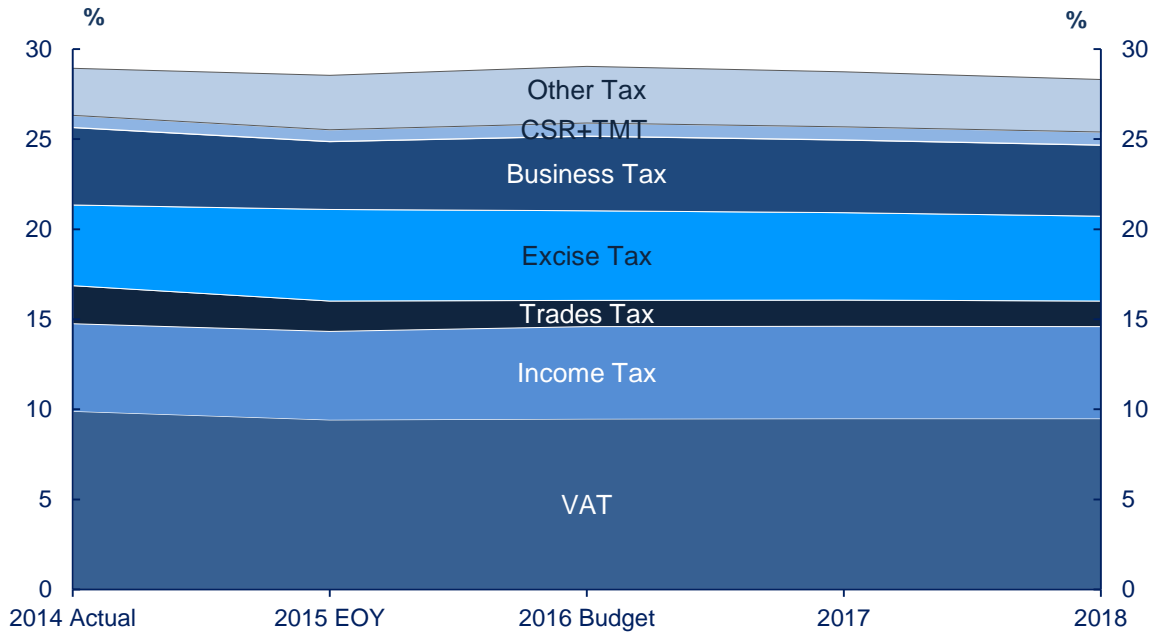
For the 2016 Budget, tax revenue is forecasted at SR 5.9bn, equivalent to 29 per cent of GDP. This represents a growth of about 8 per cent over the estimated 2015 outturn and is driven by strong outlooks for VAT given a higher base with no exceptional refunds anticipated, and Income tax on account of the 13<sup>th</sup> month salary public policy. An election effect, based on previous trends, has also been added to both the 2015 and 2016 tax estimates.

Over the medium term (Figure 20 overleaf), tax revenue is projected to continue growing, but at a lesser pace, as is evidenced by the fall to about 28.5 per cent of GDP on average, pointing to a lessening of the overall tax burden.

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<sup>4</sup> The 2014 boom in imports was caused by higher domestic consumption in the economy driven by structural wage increases and credit incentive schemes. The boom resulted in an increase in import tax revenue by 25 per cent above 2013 levels.

**Figure 20: Tax Revenue as a Per Cent of GDP**



Source: MFTBE, Forecasting & Analysis Branch estimates

## Income Tax

### Background

Income tax is a withholding-based tax on wage income for nationals and resident expatriates. Also levied on Non-Monetary employee benefits, this tax was introduced on the 1st of July 2010 and replaced the previous Social Security Contribution system. This had no adverse effect on individual salaries which were grossed upwards to account for the new tax. The Income tax rate was harmonized to 15 per cent for all workers in January 2011.

### 2015 Context

In 2015, Income tax has remained positive with year-to-date collections at the end of the third quarter standing at SR 699m, about 3.4 per cent (or SR 23m) higher than the initial Budget estimate. Better performance has been the case for all segments of Income tax, with the 'Other Public Sectors' segment (comprising of non- Budget dependent public entities/state owned enterprises) the most buoyant and over-performed the most.

In lieu of this performance vis a vis the Budget, the end of year Income tax estimate for 2015 has been revised upwards to SR 950m, equivalent to 4.9 per cent of GDP (Table 7 below). This is SR 21m higher than the initial Budget for 2015 and only about SR 2m higher than the mid-year Budget revision (as the bulk of the over-performance had been factored for these revisions).

**Table 7: Income Tax Projections 2015-2018, SR'000**

Income Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
Central Government	228,683	253,941	282,670	293,199	304,121
Other Public Sector	102,554	117,750	129,127	138,774	149,143
Private Sector	546,291	578,801	635,204	682,663	733,667
<b>Total Income Tax:</b>	<b>877,528</b>	<b>950,492</b>	<b>1,047,001</b>	<b>1,114,636</b>	<b>1,186,930</b>
<b>% of GDP:</b>	<b>3.8</b>	<b>4.9</b>	<b>4.5</b>	<b>4.9</b>	<b>4.6</b>

Source: MFTBE, Forecasting & Analysis Branch estimates

### Policy Changes

No new direct policies are planned for Income tax in 2016<sup>5</sup>. The new expenditure policy of 13<sup>th</sup> month salary for public sector workers (explained fully on page 59), is expected to have an indirect revenue effect however, with about SR 12m estimated in additional Income tax revenue to be collected in 2016.

<sup>5</sup> The previous policy change was in 2014 with the increase of the national minimum wage by 20 per cent and the upward revision in Public sector wages by 13 per cent (on average).



Furthermore, as of 2017, the Government will look to introduce reforms and establish a progressive Income tax system, in line with its mandate to promote income equality and uphold social justice<sup>6</sup>. This will be done under advice from the IMF who will be conducting a technical mission in January 2016.

#### *2016 Projection and the Medium Term*

In 2016, Income tax will remain a key revenue earner for Government and is forecasted to exceed the billion Rupee mark for the first time since its introduction in 2010. More specifically, total collections are forecasted to amount to SR 1.05bn, equivalent to 5 per cent of GDP, again a first for this tax. This will be driven by ‘Central Government’ wages which will experience an increase of about 11 per cent in 2016 vis a vis 2015 – the majority of which is on account of the 13<sup>th</sup> month salary and also the usual salary enhancements, promotions and recruitment. This peak, however, will be short lived, and with limited growth envisaged for the medium term (in line with Government efforts of maintaining the wage bill at sustainable levels). The other components of Income tax will have steady growth in the medium term.

## **Trades Tax**

#### *Background*

Trades tax is levied on specified goods that are imported to Seychelles based on their CIF (Cost, Insurance and Freight) value. However, approximately 90 per cent of the tariff lines are subject to a zero per cent rate. The applicable tax rate depends on the nature of the Trades tax component, whether it is specific or ad valorem. Tax collections on ad valorem rate items tend to grow in tandem with the nominal GDP. Tax collections on specific rate items grow in tandem with real GDP only. As a result of WTO ascension certain Trades tax rates have been significantly reduced and others, such as petroleum and levy, have been or are expected to be transferred out of Trades tax.

#### *2015 Context*

The EOY projection for 2015 is SR 326m which is SR 49m higher than the initial budget projection. This is predominantly a classification issue whereby the ‘Levy’ forecast of SR 48m was added back to Trades tax after being initially placed under Other tax for 2015. This has resulted from an unexpected delay in its transfer. There was a combined downward revision of SR 8.5m in ‘Prepared Food’, ‘Others’ and ‘Documentary’ charges due to weak performance in the first 3 quarters of the year. In fact, the revenue in all these three tax lines are expected to

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<sup>6</sup> The medium term Income tax outlook does not feature progressivity as of yet.

be lower than 2014 levels revealing a slowdown in demand for these products. 'Alcohol' and 'Textiles', on the other hand, were revised upwards by SR 6m and SR 3m respectively.

#### *Policy Changes*

During 2015 a number of Trades tax policies were implemented. In January 2015 there was an amendment of alcoholic description volume threshold from 15 per cent to 16 per cent. The implementation of the SADC Free Trade Agreement occurred in May 2015 whereby the rates for SADC countries are either equal or lower to the general Trades tax rates. In July 2015, the Trades tax rate on electric vehicles were reduced from 15 per cent to zero per cent. Furthermore, the rate on hybrid vehicles were reduced from 15 per cent to 5 per cent.

Minor Reductions of Trades Tax EU rates on a large range of Products as part of the EU phase down schedule are expected to continue into 2016. This involves a reduction in the EU Trades tax rates mainly of 'Prepared Foods', 'Others', 'Textiles' and to a much lesser extent 'Motor Vehicles'. The rates are to be reduced from 20 to 17.5 per cent for most lines in 2016. Certain line rates are lowered from 5 to 2.5 per cent or from 5 to 4 per cent. The Budget cost were considered negligible.

There will also be a continued phase down of SADC Trades tax rates continuing into 2016 which involve similar reductions. However, certain lines whose EU rates are being phased down already have a SADC Trades tax rate of zero. The Trades tax rate on bicycles will also be reduced from 15 per cent to 0 per cent in 2016. The budget impact of these Trades tax rate reductions is expected to be negligible.

#### *2016 Projection and the Medium Term*

The projected 2016 revenue for Trades tax is SR 298m, which is SR 28m lower than the 2015 projection despite the revenue being forecast to increase for all but one of the Trades tax lines. Therefore, the lower overall projection is due to the transfer of 'Levy' out of Trades tax and into Other tax which led to a reduction in 2016 Trades tax revenue by SR 48m as compared to 2015. The Trades tax projection on 'Motor Vehicles' was increased by SR 9m between 2015 and 2016, which was higher than any of the other lines. This is because 2015 revenues are relatively low given that a large amount of vehicles were purchased in December 2014 before the announced Levy rate hike was implemented. This led to revenues which would normally have been collected in 2015 to be collected in 2014, therefore the 2016 projection is quite significantly higher than that of 2015.

**Table 8: Trades Tax Projections 2015-2018, SR'000**

Trades Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
<b>Trades Tax Direct Imports</b>	<b>381,082</b>	<b>331,446</b>	<b>302,941</b>	<b>318,984</b>	<b>337,777</b>
Alcohol	108,368	102,088	105,465	109,252	113,088
Petroleum	13,527				
Textiles and textile articles	27,419	27,595	29,171	30,987	33,205
Motor Vehicles	71,913	56,865	65,873	69,974	74,982
Tobacco	1,245	1,403	1,449	1,501	1,554
Prepared Food	19,764	17,737	18,749	19,917	21,342
Others	88,402	76,140	80,488	85,499	91,619
Levy	48,320				
Documentary Charges	2,125	1,651	1,745	1,854	1,987
<b>Trade Tax Exemptions</b>	<b>(5,337)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
<b>Total Trade Tax:</b>	<b>375,745</b>	<b>326,446</b>	<b>297,941</b>	<b>313,984</b>	<b>332,777</b>
<b>% of GDP:</b>	<b>2.1</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>

Source: MFTBE, Forecasting &amp; Analysis Branch estimates

## Excise Tax

### *Background*

Excise Tax is applied to specific imported and locally manufactured goods in order to control consumption because of health or environmental reasons. The former reason applies to alcohol and tobacco while the latter applies to petroleum and motor vehicles. Excise Tax on all goods, other than motor vehicles, is specific.

Imported petroleum products account for the highest contribution to the Excise Tax as a whole. Demand for excisable goods generally show a minimal response to price fluctuations, given that most of these goods, in particular tobacco, are relatively non-responsive to price change. Hence, this tax line proves to be a significant revenue earner for the government.

### *2015 Context*

Up until the end of September 2015, Excise tax showed a slight under-performance of SR 10.9m compared to the mid-year Budget revision. This is attributed to several reasons for the different line items. Part of it is due to a classification issue whereby a portion of Petroleum excise revenue was falsely classified as part of Trade tax, thus causing it to under-perform. Also, it was observed in the third quarter that there was a drop in the value of imported vehicles. Finally, Excise tax on imported alcohol also dropped in the third quarter. This has, however, been compensated for by over-performances on locally manufactured alcohol sales which was over the Budget forecast.

During the mid-year revision, Excise tax was revised upwards by SR 85m to factor in some reclassification of imported alcohol from Trade tax, as well as some readjustment to previous costings for the rate increase on alcohol and tobacco. No major revision has been made to the overall end of year number compared to the mid-year.

### *Policy Changes*

Following the increase in locally manufactured and imported alcohol and tobacco excise rates this year, no policy changes will be made in 2016.

### *2016 Projection and the Medium Term*

The table overleaf shows Excise tax projections for 2016 and the medium term. Excise tax collection is expected to increase by SR 37m, or 3.8 per cent, compared to 2015. In the medium term, excise is expected to decrease as a percentage of GDP, as real GDP growth stabilises.

**Table 9: Excise Tax Projections 2015-2018, SR'000**

Excise Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
<b>Excise Tax - Imports</b>	<b>633,249</b>	<b>687,013</b>	<b>710,608</b>	<b>736,602</b>	<b>763,954</b>
Alcohol (Beverages Spirits and Vinegar)	109,277	126,763	130,956	135,554	140,313
Petroleum (Mineral Products)	459,585	518,032	535,166	553,957	573,408
Motor Vehicles ( Vehicles, Aircrafts, vessels)	60,994	36,338	38,413	40,805	43,725
Tobacco Imported	3,393	5,879	6,074	6,287	6,508
<b>Excise Tax - Locally Manufactured Goods</b>	<b>225,001</b>	<b>293,678</b>	<b>307,391</b>	<b>318,184</b>	<b>329,357</b>
Alcohol	114,540	148,436	157,345	162,870	168,589
Tobacco	110,461	145,242	150,046	155,315	160,768
<b>Total Excise Tax:</b>	<b>858,250</b>	<b>980,691</b>	<b>1,018,000</b>	<b>1,054,787</b>	<b>1,093,311</b>
<b>% of GDP:</b>	<b>4.5</b>	<b>5.1</b>	<b>5.0</b>	<b>4.9</b>	<b>4.7</b>

Source: MFTBE, Forecasting &amp; Analysis Branch estimates

## Goods and Services Tax

### Background

The Goods and Services Tax (GST) was applied to selected locally manufactured goods; the vast majority of imported goods; as well as selected services. **GST was replaced by VAT as of the 1<sup>st</sup> of January 2013.**

### 2015 Context

As was the case in 2014, there are still some GST arrears payments being collected this year. GST arrears amounted to SR 6.5m in 2014 and by the end of September 2015, a total of SR 3.5m had been collected. It is forecasted that around SR 4.3m will be collected by the end of the year.

### 2016 Projection and the Medium Term

No projection is being made for 2016 and the medium term.

**Table 10: GST Projections 2015, SR'000**

GST	2014 Actual	2015 EOY
Arrears	6,574	4,268
<b>Total GST:</b>	<b>6,573</b>	<b>4,268</b>
<b>% of GDP:</b>	<b>0.0</b>	<b>0.0</b>

Source: MFTBE, Forecasting & Analysis Branch estimates

## Value Added Tax

### Background

VAT commenced in 2013 to replace the previous GST tax regime as the last phase of the major tax reforms undertaken by the Government as of 2008. VAT is charged on all taxable imports and not on exports, also known as the 'Destination Principle'. It is imposed on the value addition of all taxable goods and services that are produced and consumed domestically provided by VAT registered companies. VAT is the largest tax line accounting for 34 per cent of Government revenues.

### 2015 Context

By the end of September, VAT was more or less in line with the mid-year budget revision, showing an over-performance of SR 7.7m, or 1 per cent. The forecast deviated between the lines, with Domestic VAT over-performing and Imports VAT under-performing. The former's

over-performance is attributed to a profiling issue with the third quarter's forecast. This is expected to even out in the final quarter. On the other hand, VAT Imports under-performed due to a sudden drop in the value of imports in the third quarter of 2015 despite the strong positive performance in the first half of the year.

As a result of large unexpected refund towards the end of the year, the VAT forecast has been revised downwards from the mid-year revision by SR 61.9m, or 3.3 per cent. Overall the VAT forecast has been revised downwards by only SR 14.9m or 0.8 per cent compared to the initial Budget forecast.

#### *Policy Changes*

Following the gradual reduction in the VAT Threshold from SR 5m in 2013 to SR 2m in 2014, no major policy changes are being made to VAT for 2016. The VAT exemption list will also not be altered for 2016. This will ensure a more stable year for VAT collections which will enable more accurate policy costing in the future.

#### *2016 Projection and the Medium Term*

The table below summarises VAT collection for 2016 Budget and the outer years. It is expected that collections will amount to SR 1,939m. VAT on Domestic foods and services will account for 56 per cent of the total collection, or SR 1,089m, while VAT on imports is expected to be about SR 875m. In the medium term, VAT collections are estimated to represent 9.5 per cent of GDP, growth in line with nominal GDP.

**Table 11: VAT Projections 2015-2018, SR'000**

Value Added Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
VAT- Domestic	1,010,571	979,137	1,089,486	1,157,314	1,240,150
VAT- Imported Goods	807,813	827,319	874,560	929,008	995,503
VAT- Exemptions	(21,527)	-	(25,000)	(25,000)	(25,000)
<b>Total Value Added Tax:</b>	<b>1,796,857</b>	<b>1,806,456</b>	<b>1,939,046</b>	<b>2,061,322</b>	<b>2,210,653</b>
<b>% of GDP:</b>	<b>9.9</b>	<b>9.4</b>	<b>9.5</b>	<b>9.5</b>	<b>9.5</b>

Source: MFTBE, Forecasting & Analysis Branch estimates

## Business Tax

### Background

The Business tax revenue consists of a provisional payment (called Pay As You Go – PAYG) paid by businesses in monthly instalments for the current year. Additionally, the businesses are assessed on their profit of the previous year. Based on this assessment, the company either has an additional tax liability (PAYG paid is less than actual tax payable) or due for a refund (PAYG paid exceeds actual tax payable). Although companies are required to lodge their returns by March, extensions of this lodgement date are provided under the SRC lodgement program.

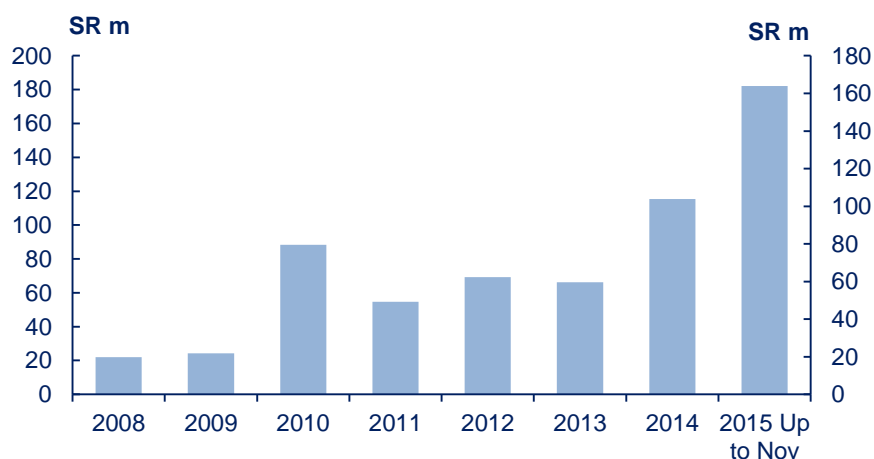
### 2015 Context

2015 Business tax collections is estimated to amount to SR 729m, as seen in

**Table 12.** This figure is SR 120m lower than the initial 2015 Budget. Business tax from ‘Companies’, which alone accounts for about 80 per cent of this tax, was reduced by SR 150m since the start of the year; of which SR 62m were refund spill overs from 2014, with a further SR 59m in additional unforeseen refunds were claimed by large companies. Around SR 30m in positive assessment income was collected at the end of the third quarter, but was not nearly enough to compensate for the significant refunds already issued.

Figure 21 below shows the historic refunds with large increases seen after the implementation of the Business Tax Act 2009. The last two years have recorded the largest ever refunds at SR 115m and SR 155m for 2014 and 2015 up to November respectively.

**Figure 21: Business Tax Refunds SR'm, 2008-2015**



Source: Seychelles Revenue Commission

Downward revisions were also seen in ‘Residential Dwelling’, ‘Trusts’ and ‘Others’ for the end of 2015 compared to the beginning of the year and relates to current performance of the tax line.



On the other hand, 'Withholding Tax', 'Sole Traders' and 'Partnerships' have year to date over collections SR 21m, SR 12m and SR 1m above Budget respectively. The former relates to arrear payments being settled this year whilst the Sole Trader strong performance may be related to better performance from this segment of the economy and may reflect efforts in providing cheaper credit for Small and Medium Enterprises through the SME Financing Scheme. This has helped buffer a small portion of the decrease in 'Companies' tax revenue.

#### *2016 Policies*

There will be no policy changes made to Business tax for 2016. However, the Government, in collaboration with the IMF, will be reviewing the current Business tax regime, to identify leakages, and areas where further reform is needed. An IMF technical mission is scheduled for January 2016.

Furthermore, the Government will begin a systematic reduction of Business tax rates as of 2018 with the aim of harmonising rates at 25 per cent for all companies.

#### *2016 Projection and the Medium Term*

Table 12 (on page 46) highlights the projections from 2016 to 2018 with all the lines expected to grow with nominal GDP growth over the medium term. Note that the business tax rate reductions are expected to start in 2018. 'Companies' have been on a downward path the last two years but for the 2016 Budget, we expect that the Seychelles Revenue Commission will collect a portion revenue from audits<sup>5</sup> conducted on companies. Combined with their strategy on debt reduction and intensified tax collections, this line is expected to have upside potential, growing around 23 per cent compared to 2015 end of year estimates and reaching around 2014 levels.

'Sole Traders' have experienced a 51 per cent growth rate from 2014 to end of year 2015 and the higher performance is expected to be maintained in the medium term as small enterprises enhance their business acumen and are able to increase profits. The same is expected of 'Partnerships' but at a modest rate.

Only 'Withholding Tax' is expected to see a drop in 2016 as 2015 was an exceptional year in terms of a one-off payment of tax arrears.

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<sup>5</sup> A structural benchmark under the MEFP, the SRC conducted a tax audit on 66 companies in 2015.

**Table 12: Business Tax Projections 2015-2018, SR'000**

Business Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
Companies	638,975	543,044	663,843	684,507	714,331
Sole Traders	27,794	42,039	44,440	47,207	50,586
Partnerships	9,616	11,480	12,136	12,891	13,814
Trusts	7	15	16	17	19
Withholding Tax	67,019	92,850	83,847	89,067	95,442
Others	168	149	157	167	179
Residential Dwelling	37,275	39,483	41,738	41,738	44,725
<b>Total Business Tax:</b>	<b>780,853</b>	<b>729,061</b>	<b>846,177</b>	<b>875,595</b>	<b>919,096</b>
<b>% of GDP:</b>	<b>4.3</b>	<b>3.8</b>	<b>4.1</b>	<b>4.0</b>	<b>3.9</b>

Source: MFTBE, Forecasting & Analysis Branch estimates

## Corporate Social Responsibility Tax

### *Background*

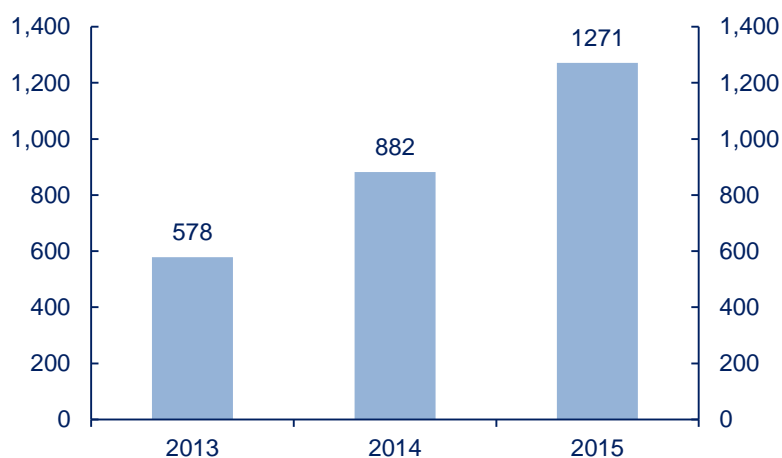
Corporate Social Responsibility Tax (CSR) is a newly introduced Tax as of January 2013 and is applicable to all businesses with a turnover of SR 1m and above. CSR entails compliance with ethical and regulatory standards, promoting accountability for businesses' actions that can lead to a positive impact on the communities and markets in which they operate. It is a tax levied on monthly company turnover at a 0.5 per cent rate. Half of this can also be offset against any donations or sponsorships a company chooses to make.

### *2015 Context*

CSR tax has continued growing in 2015 – collections are estimated to reach SR 80m by the end of the year, equivalent to 0.4 per cent of GDP. At a glance, this equates to a fall in revenue from 2014, where collections amounted to SR 84m. Upon closer inspection, however, this is misleading, given a large SR 12m late payment made in 2014 relating to 2013. If we correctly allocate this payment, collections in 2015 are actually 12 per cent higher than in 2014, almost double GDP growth in percentage terms. Such growth is attributed to better compliance in what is now the third full year of implementation of this tax. This has translated to a broader base and as such the number of companies paying CSR in 2015 has more than doubled as compared to 2013 (

**Figure 22).**

**Figure 22: Rise in the Number of Businesses Paying CSR 2013 to 2015**



Source: SRC statistics

Note: This compares the number of companies paying CSR up to November on a year-on-year basis.

*2016 Policies*

There will be no policy changes made to CSR Tax for the 2016 Budget.

*2016 Projection and the Medium Term*

CSR tax revenue will continue to grow over the medium term, albeit at a slower pace than the previous years. This is also evident in the shares to GDP for this tax, which is projected to remain constant at 0.4 per cent.

**Table 13: Corporate Social Responsibility Tax 2015-2018, SR'000**

Corporate Social Responsibility Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
Corporate Social Responsibility	83,983	80,448	85,042	90,337	96,803
<b>Total CSR:</b>	<b>83,983</b>	<b>80,448</b>	<b>85,042</b>	<b>90,337</b>	<b>96,803</b>
<b>% of GDP:</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

Source: MFTBE, Forecasting & Analysis Branch estimates

## Tourism Marketing Tax

### Background

Tourism Marketing Tax (TMT) is a newly introduced tax, as of January 2013 and is applicable to all Tourism operators, Banks, Insurance, and Telecom companies with turnovers of SR 1m and above. It is a 0.5 per cent tax levied on company turnover with the aim of having greater private sector contribution to the Tourism Marketing Fund.

### 2015 Context

2015 collections for Tourism Marketing tax is forecasted to stand at SR 47m, representing 0.2 per cent of GDP. This figure has been revised marginally upwards from the mid-year Budget estimate of SR 46m (Table 14 below). This is due to higher nominal GDP assumptions and minor windfall gains for the first three quarters of the year.

### 2016 Policies

Under S.I 16 of 2013, TMT is currently paid by:

- tourism operators,
- banks,
- insurance companies (excluding brokers) and
- telecommunications services providers

with an annual turnover of SR 1m or above, at 0.5 per cent on the monthly turnover of the current year of payment. For 2016, construction class 1 licence holders and casinos are expected to be included in the group of companies that are liable to pay TMT.

### 2016 Projection and the Medium Term

As a result of the above policy, we are expecting an additional SR 14m as a lower bound, bringing total Tourism Marketing tax collections to SR 64m. This will bring up its contribution to GDP by 0.1 percentage points to 0.3 per cent of GDP and is expected to be sustained during the medium term.

**Table 14: Tourism Marketing Tax 2015-2018, SR'000**

Tourism Marketing Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
Tourism Marketing Tax	40,194	47,139	64,030	68,017	72,885
<b>Total TMT:</b>	<b>40,194</b>	<b>47,139</b>	<b>64,030</b>	<b>68,017</b>	<b>72,885</b>
<b>% of GDP:</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>

Source: MFTBE, Forecasting & Analysis Branch estimates

## Other Tax

### *Background*

Other Tax consists pre-dominantly of licence fees charged and covers a variety of sectors in the economy. The main components of Other Tax are 'Road Tax', 'Telecommunications Licences', fishing license fees, 'FSA Fees' and 'Stamp Duty'. These five components account for more than 95 per cent of Other Tax Revenues. The regulation and collection of these tax lines involves a range of authorities including SLA, SFA and FSA.

### *2015 Context*

The 2015 EOY projected Other tax revenue is SR 585m, which is SR 11m, or 2 per cent, higher than the initial budget projection. The main over-performing tax lines were 'Stamp Duty', 'FSA Fees' and 'Non-EU Fishing Licence Fees'. The over-performance in Stamp Duty was due to a number of exceptionally high value land sales. In particular there was a February 2015 collection on a sale of land, which was given sanction in July 2014, which brought in SR 19m in Stamp Duty revenue. FSA revised their forecast upwards by SR 22m due to strong collections during the first three quarters of 2015. Non-EU Fishing Licence Fees were revised upwards by SR 16m due to the higher than expected collections in 2014 which would imply that 2015 collections were also likely to be higher.

On the other hand, a SR 43m downward revision in 'Road Tax' dampened the over-performance in Other tax. This reflected a classification issue rather than a genuine under-performance whereby 'Levy' was expected to be collected under Other tax in 2015. Delays in effecting this change means that 'Levy' is expected to remain under Trades tax until January 2016. 'Telecommunication Licence Fees' were revised downwards due to delayed payments from a telecom operator who had experienced temporary cash flow issues. 'Vehicle Testing Fees' were revised downwards by just over SR 4m given that budget figures did not take into account the late policy decision to increase testing fees by only 100 per cent rather than 246 per cent.

### *2016 policies*

Initially the transfer of 'Levy' from Trades tax to Other tax was expected to occur in 2014 as per the WTO ascension requirements, however, this has not materialised yet. 'Levy' is now expected to be collected under its own line in Other tax from January 2016.

*2016 Projection and the Medium Term*

The Other tax revenue projection for 2016 is SR 643m which is SR 58m higher than the 2015 projected revenue. The large increase is predominantly due to the introduction of SR 50m of 'Levy' into Other tax which was previously collected under Trades tax. Most tax line revenues were expected to grow in 2016. The Annual EU Fishing Licence Fee forecast, however, was reduced by SR 6m due to a lower schedule of fees based on the EU Protocol.

**Table 15: Other Tax Projections 2015-2018, SR'000**

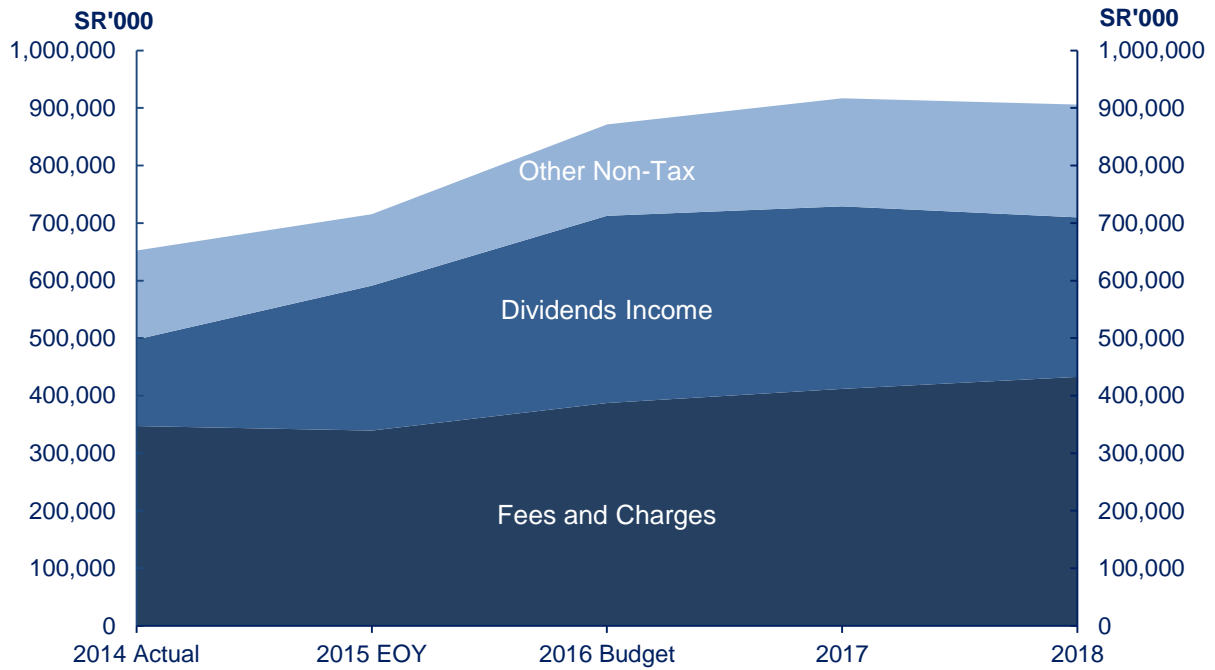
Other Tax	2014 Actual	2015 EOY	2016 Budget	2017	2018
<b>Ministry Of Finance</b>					
Trade/Ind Licences	7,355	8,350	8,350	8,350	8,350
Licences and Other Licence Registration	2,456	2,562	2,562	2,562	2,562
Road Tax and Other Licences	59,188	87,339	90,228	93,468	96,749
Telecommunications Licences	61,929	74,412	80,067	84,071	88,274
Casino Licences	3,350	3,517	3,634	3,764	3,896
Hotel Licences	125	126	130	134	139
Liquor and Toddy Licences	298	245	253	262	272
Radio Broadcasting Licences	2,367	2,050	2,050	2,050	2,050
SIBA Fees	132,627	152,000	156,000	160,000	160,000
<b>Sub Total:</b>	<b>269,695</b>	<b>330,601</b>	<b>392,826</b>	<b>405,993</b>	<b>415,427</b>
<b>Ministry Of Environment, Natural Resources &amp; Transport</b>					
Annual EU Fishing License Fees	46,841	43,308	37,232	38,056	39,371
EU Fishing License: Vessel Fee	21,078	33,281	28,150	29,461	31,190
Non-EU Fishing License Fees	40,061	45,509	46,418	46,888	46,888
Local Fishing Licence Fees	77	502	518	537	537
<b>Sub Total:</b>	<b>108,058</b>	<b>122,599</b>	<b>112,318</b>	<b>114,942</b>	<b>117,986</b>
<b>Department Of Legal Affairs</b>					
Stamp Duty	91,411	124,869	131,169	139,336	140,558
<b>Department Of Transport</b>					
Vehicle Testing	3,354	6,653	6,873	7,120	7,114
<b>Total: Other Tax</b>	<b>472,517</b>	<b>584,723</b>	<b>643,186</b>	<b>667,390</b>	<b>681,085</b>
<b>% of GDP:</b>	<b>2.6</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>	<b>2.9</b>

Source: MFTBE, Forecasting & Analysis Branch estimates

### Non-Tax Revenue & Grants

Figure 23 below portrays the trend being forecasted for Non-tax revenue over the medium term. Total budgeted amounts for Non-tax revenue in 2016 totals up to SR 871m.

**Figure 23: Non-Tax Revenues, 2014-2018, SR'000s**



Source: MFTBE, FPCD estimates

## Dividend Income

In 2016, dividend income is forecasted to record an increase of 29 per cent over the revised 2015 figures, resulting in an amount of SR 325m. The main increases are from SEYPEC, Land Marine Ltd, Island Development Company (IDC) and Seychelles Commercial Bank (SCB). Development Bank of Seychelles (DBS) and Housing Finance Company (HFC) will start paying out dividends to the Government in 2016.

**Table 16: Dividend Income, SR'000**

Entity	2014 Actual	2015 EOY	2016 Budget	2017	2018
SIMBC Nouvobanq	77,000	105,825	85,800	80,000	80,000
SEYPEC	-	26,640	100,000	100,000	65,000
Land Marine Ltd	-	4,000	8,000	8,000	8,000
Port Authority	25,000	25,000	25,000	30,000	30,000
SIBA	-	-	-	-	-
SACOS	-	-	-	-	-
SCAA	37,400	54,200	50,000	50,000	45,000
Naval Services	300	-	-	-	-
IOT	7,424	27,184	36,660	36,880	36,880
IDC	3,000	3,500	4,000	4,000	4,000
Afrexim Bank	389	481	375	375	375
Shelter Afrique	-	2,500	2,500	2,500	2,500
SCB	-	2,520	10,080	2,520	2,520
DBS	-	-	2,000	2,000	2,000
HFC	-	-	1,000	1,000	1,000
<b>Total Dividend:</b>	<b>150,513</b>	<b>251,850</b>	<b>325,415</b>	<b>317,275</b>	<b>277,275</b>
<b>% of GDP:</b>	<b>0.8</b>	<b>1.3</b>	<b>1.6</b>	<b>1.5</b>	<b>1.2</b>

Source: MFTBE, FPCD estimates

## Fees and Charges

The fees and charges budget for 2016 sums up to SR 387m. This represents an increase of 33 per cent increase from its 2015 figures.

The Haemodialysis Unit at the Ministry of Health will offer its services to international patients. Based on the forecasts of international patients and the signed agreement, the forecasted revenue through these fees is set at SR 28m.

The Seychelles Fishing Authority will also be introducing a new fee in the 2016 Budget. This relates to the plots of lands being provided at Ile du Port. The total revenue as a result of this is SR 4.4m for 2016.

In an attempt to modernise the operations carried out by the Judiciary and Seychelles Bureau of Standards, a review of their rates is to be carried out in 2016. An increase of 20 per cent and



25 per cent is being proposed for the Judiciary and Seychelles Bureau of Standards, respectively. This increase will allow the organisations to better absorb the high costs incurred in providing these services.

The Department of Transport was to revise its fees in 2015. However, this did not materialise hence the downward revision of the 2015 forecast. As such, the revision of the registration, survey and certification fees are to be effected in 2016.

On the other hand, the Ministry of Land Use & Housing is forecasting a downward trend in its fees and charges for 2016. Revenues are expected to decrease by almost SR 25m, or 67 per cent, from its 2015 revised figures. For 2016, most fees are expected to be close to the levels budgeted for 2015.

## Other Non-Tax

### *Background*

Other Non-tax relates to revenue from rent and royalties, interest income, statutory transfers from CBS, and other miscellaneous income.

### *2016 Projections*

The 2016 Budget for Other Non-Tax is stands at SR 159m. This signifies an increase of 28 per cent from the revised 2015 figures.

Rental amounts from 'Deep Sea Extraction and Sales' is budgeted at SR 2.2m for 2016. This reflects a reduction of SR 6.6m. The 2016 figures have been forecasted at the 2015 budgeted levels. The 'Leve Debourye Building', managed by the Industrial Estate Authority, is to attract rents upon completion of the grace period of the tenants. An approximate of SR 4m is expected for 2016.

The Government has guaranteed two PUC loans - with European Investment Bank (EIB) and Agence Francaise de Developement (AFD). The first interest amounts are due for payment in 2016. Given the arrangement, the Government will pay the interest due which the PUC will then refund. Revenue from this interest refund is expected to total up to SR 5m in 2016.

**Table 17: Other Non-Tax Revenue, SR'000**

Other Non-Tax Revenue	2014 Actual	2015 EOY	2016 Budget	2017	2018
Other Non-Tax Revenue	154,520	124,227	158,815	187,776	196,038
<b>% of Total Revenue:</b>	<b>2.6</b>	<b>2.0</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>
<b>% of GDP:</b>	<b>0.9</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>

Source: MFTBE, FPCD estimates

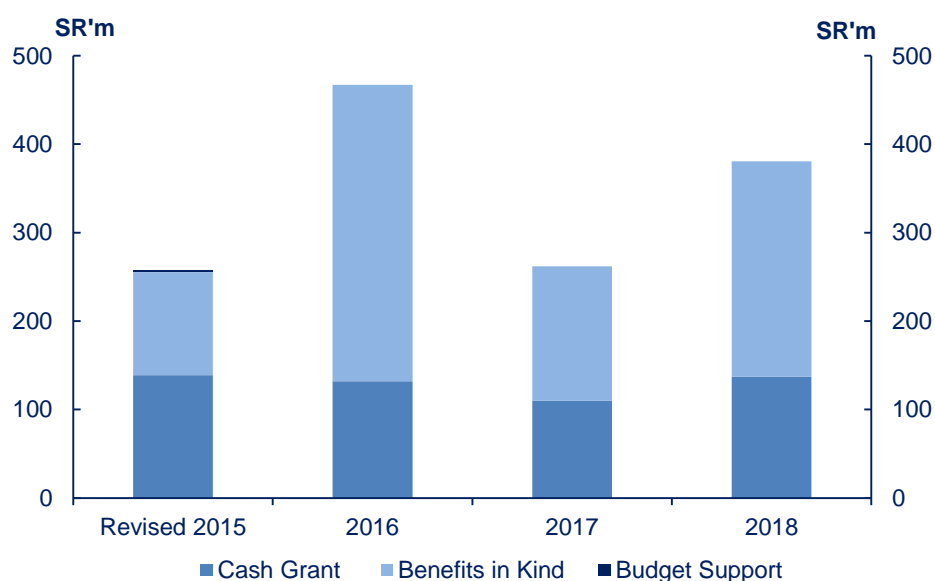
## Grants

For the year 2016 a total amount of SR 469m is expected to be received as external grants, of which SR 132m will be in the form of cash grants and SR 337m in kind.

Compared to the revised estimate for the year 2015 of SR 279m, the 2016 total grants receipts are forecast to be higher by SR 190m (or 68 per cent). The higher forecasted grants in 2016 relative to 2015 is due to the expected disbursement of the largest proportion, approximately SR 287m, of a Grant from the Government of India.

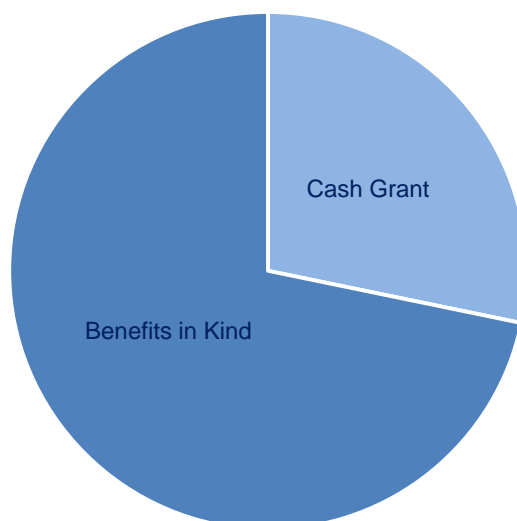
Total grant receipts are forecasted to decrease in 2017 and 2018 to SR 262m and SR 381m respectively. This downward trend is mainly due to two large housing projects coming close to completion and other donor funded projects, such as the AFDB Marie Culture Project. below shows the forecasted grant receipts for 2015-2018.

**Figure 24: Grants Receipts 2015-2018, SR'm**



Source: MFTBE, FPCD estimates

**Figure 25: 2016 Grant Receipts Composition**



Source: MFTBE, FPCD estimates

New grant spending expected in 2016 is mainly from the Indian grant whereby a total amount of SR 261m is expected to be spent in various sectors as follows:

- Health : Medical equipment and medicines (SR 70m)
- Education : Stationary and ICT equipment (SR 10m)
- Energy : Solar home systems (SR 46m)
- Law and Order: Police vehicles, fingerprint equipment and chemicals, uniform material, equipment for crime laboratory, drugs analysis and toxicology equipment (SR 16m)
- Defence: Heavy maintenance of military aircraft and ship and acquisition of equipment ( SR 119m)

#### *Benefits in Kind*

Grants in kind in 2016 is expected to be SR 335m which is higher than 2015 by 187 per cent but is forecast to reduce to SR 152m in 2017 and increase to SR 244m in 2018. The hike in 2016 compared to 2015 is largely due to the Indian grant of which 80 per cent of the disbursement is expected to be in kind. Other projects in the form of benefits in kind for the year 2016 are as follows:

- Three housing projects funded by the Abu Dhabi Government – Estimated value of SR 61m

- Corgate Estate housing project funded by the Chinese Government – Estimated value of SR 25m

*In Cash (project related)*

Grants receipts in terms of cash is expected to decrease in 2016 to SR 132m compared to SR 139m in 2015. This represents a fall of 5 per cent or SR 7m which can be explained by the completion of some projects in various sectors.

Some of the projects which were completed in 2015 includes the sustainable land management project and the project on strengthening Seychelles protected areas funded by the Global Environment Facility (GEF) and implemented by the Ministry of Environment and Climate Change as well as the demersal fish project implemented by the Seychelles Fisheries Authority.

Major ongoing projects being financed from grants in cash with expected spending in 2016 are as follows:

- The environment sector with a total expected disbursement of SR 17.6m for the various GEF projects.
- The energy sector is expected to receive an amount of SR 3.3m in respect of the photovoltaic solar energy project funded by the GEF.
- The Seychelles Fishing Authority is expected to receive SR 36m under the EU support for the implementation of Seychelles' sectoral fisheries policy and maritime policy.
- The Regional Integration Programme funded by COMESA with expected disbursement of SR 14m.
- The ADB Agricultural Sector Development and the Marine Aquaculture project of SR 13.2m.

*Budget support*

No budget support grant is expected in the year 2016 and the next two years.

## Expenditure

This section focuses on the expenditure to be incurred by the Government ministries and budget dependent entities during the 2016 financial year. During 2015, the budgeted figures were revised downwards from SR 6,535m to SR 6,206m. The downward revision was made to reflect the savings expected within certain line items.

A total of SR 7,298m is being budgeted for 2016. This represents an increase of 18 per cent over the revised 2015 figures.

The forecasted revenue and expenditure for 2015 will result in a fiscal surplus of SR 784m, or 3.8 per cent of GDP.

**Table 18: Summary of Expenditure, SR'000**

Description	2014 Actual	2015 EOY	2016 Budget	2017	2018
<b>Expenditure and Net lending</b>	<b>6,045,760</b>	<b>6,206,245</b>	<b>7,297,806</b>	<b>7,296,763</b>	<b>7,688,799</b>
<b>Current expenditure</b>	<b>4,874,396</b>	<b>5,038,519</b>	<b>5,958,148</b>	<b>5,998,124</b>	<b>6,116,077</b>
<b>Primary Current Expenditure</b>	<b>4,469,901</b>	<b>4,600,456</b>	<b>5,172,396</b>	<b>5,237,163</b>	<b>5,367,111</b>
Wages and salaries	1,229,163	1,138,241	1,253,638	1,243,555	1,255,975
Goods and services	1,288,199	1,037,213	1,080,249	1,065,507	1,076,080
<b>Transfers</b>	<b>1,931,473</b>	<b>2,396,282</b>	<b>2,810,301</b>	<b>2,900,777</b>	<b>3,007,730</b>
Social program of Central Government	343,426	365,501	143,123	141,265	141,265
Transfers to Public Sector from Central Government	1,069,789	1,483,216	1,966,361	1,978,951	2,008,303
Benefits and approved programs of SSF	518,259	547,565	700,817	780,561	858,161
<b>Other</b>	<b>21,066</b>	<b>28,720</b>	<b>28,208</b>	<b>27,324</b>	<b>27,326</b>
<b>Interest due</b>	<b>404,496</b>	<b>438,063</b>	<b>785,752</b>	<b>760,961</b>	<b>748,966</b>
External	175,042	192,372	233,957	226,692	219,529
Domestic	229,454	245,691	551,795	534,269	529,437
<b>Capital expenditure</b>	<b>998,406</b>	<b>1,021,180</b>	<b>1,204,972</b>	<b>1,035,253</b>	<b>1,158,532</b>
<b>Net lending</b>	<b>119,601</b>	<b>114,903</b>	<b>109,687</b>	<b>238,386</b>	<b>389,190</b>
<b>Contingency</b>	<b>53,357</b>	<b>31,642</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
<b>Primary balance, Accrual basis (GFS)</b>					
Including Grants	836,728	736,417	768,498	829,932	891,603
Excluding Grants	304,930	456,963	299,841	567,862	510,863
<b>Overall balance, Accrual basis (GFS)</b>	<b>432,233</b>	<b>298,354</b>	<b>(17,254)</b>	<b>68,971</b>	<b>142,637</b>

Source: MFTBE, FPCD estimates

## Current Expenditure

### New Policies

A large portion of the 18 per cent increase in expenditure figures for the 2016 Budget is attributed to the implementation of several new policies as of January 2016. The following will have direct implications on the budgets of Government bodies:

- *Thirteenth Month Salary*

As approved by the Government, all public sector employees who are on continuous employment will receive a thirteenth month salary from 2016 onwards. This will be paid in January of each year to reflect the individual's performance during the preceding year. In addition, the thirteenth month will apply only to the basic pay. The thirteenth month salary will act as a catalyst to increase productivity and improve service delivery in the public sector. This will be applicable only to employees who have been in the service for at least one year.

In addition, individuals performing non-core services which are currently being outsourced will also benefit from the thirteenth month salary. These include:

- Community Development Field Technicians
- NSC Sports Facilities maintenance staff
- Cleaners' Cooperative
- Home Carers
- Sensitive Security Building staff
- Other maintenance staff

The cost implication of the thirteenth month is summarised as follows:

**Table 19: Cost Implication of 13th Month Salary, SR'm**

Description	2016 Budget
Wages & Salaries	43
Goods & Services	6
Contribution to Regulatory Bodies	42
Contribution to Public Bodies providing essential services	7
<b>Total :</b>	<b>98</b>

Source: MFTBE, FPCD estimates

- *Revised Gratuity Scheme*

Individuals employed on continuous service currently benefit from a gratuity scheme which compensates them for their years of service in the public sector. This is paid at five year intervals. A revision in the amounts being paid has been incorporated in the 2016 Budget. The increases are as follows:

**Table 20: Revised Gratuity Scheme, SR**

Number of years	Current		Proposed		Increase	
	Amount	Cumulative	Amount	Cumulative	Amount	Cumulative
5	6,667	6,667	7,500	7,500	833	833
10	6,667	13,333	7,500	15,000	833	1,667
15	6,667	20,000	10,000	25,000	3,333	5,000
20	10,000	30,000	15,000	40,000	5,000	10,000
25	10,000	40,000	15,000	55,000	5,000	15,000
30	15,000	55,000	20,000	75,000	5,000	20,000
35	15,000	70,000	20,000	95,000	5,000	25,000
40	15,000	85,000	25,000	120,000	10,000	35,000
45	15,000	100,000	25,000	145,000	10,000	45,000

Source: MFTBE, FPCD estimates

The revision in the gratuity rates will be implemented as of January 2016. The budget implication of this in 2016 sums up to SR 1.18m.

- *Graduate Housing Allowance*

As a means to ensure that the public sector continues to attract and retain highly educated individuals within its workforce the graduate housing allowance is to be revised upwards to SR 4,000 per month for a period of 5 years. Previously, the allowance was paid at a rate of SR 3,000 for three years. This revision in Graduate Housing Allowance will result in an increased requirement of SR 1.3m in the Budget.



## Wages and Salaries

A sum of SR 1,254m, or 6.1 per cent of GDP, has been allocated towards the Wages and Salaries budget for 2016. This represents a marked increase of 10 per cent over its revised 2015 figures. This increase is primarily as a result of the implementation the new policies of the 13<sup>th</sup> month salary, revised gratuity scheme and the graduate housing allowance.

The Budget will also reflect certain new schemes of services which are to be implemented in 2016. They are:

- Ministry of Environment,
- Climate Change and Energy Inspectorate cadre,
- Administration cadre,
- Human Resources cadre,
- Senior Driver cadre,
- Department of Public Administration,
- Department of Defence,
- NIHSS lecturer cadre,
- DRDM,
- Procurement Oversight Unit,
- Health Care Agency's Allied Services,
- Seychelles Tourism Board,
- Agency for National Human Resources Development,
- Technical officers cadre and
- Veterinary cadre at the Seychelles Agricultural Agency.

This is to sum up to SR 20.5m. In addition to this, the 2016 Budget will cater for SR 45.9m in terms of full year implication of schemes introduced during 2015.

Given the limitations in terms of ability to increase the wage bill, recruitment for 2016 has been restricted to key positions. As much as possible, organisations are required to maximise the ability and skills of its current workforce.

### *Constitutional Appointees*

The 2016 budget makes provisions for an increase of SR 30.3m, or 43 per cent, over the revised 2015 figures. This is mainly as a result of the end of term payments which are to be made towards the members of the National Assembly.

## Goods and Services

The Goods and Services budget has been allocated with a total of SR 1,080m. This represents an increase of 4 per cent over the 2015 figures.

For 2016, a freeze on the allocation of non-essential items within the goods and services will be executed as well as maintaining most goods and services budget line items at the 2015 levels. In addition, an approximate 1 per cent cut in most MDAs budget will be applied targeted mostly so as to reduce spending on stationary, hospitality and consumables items. This has resulted in a minimal growth in the Goods and Services budget for 2016.

In line with the move to the Programme Performance Based Budgeting in 2017, the 2016 Budget has incorporated budget lines which were previously outlined in the Social Programs of Central Government into its respective parent Ministry's Goods and Services budget. The following budget lines have been moved:

- SBFA micro financing: SR25m added to SBFA recurrent budget
- Fuel incentive scheme for fishermen: R24.4m added to SFA's recurrent budget
- Tertiary education training fund: SR142.9m added to ANHRD
- Local training for public sector servants and UNISEY Diploma: SR 8.0m added to ANHRD
- Training fund local: SR 8m added to Ministry of Education
- Social safety net: SR 70m allocated to Benefits & Approved Programmes of Government as a separate line item
- Seychelles Football Federation: SR 0.6m added to NSC's budget
- Contribution to Creole Festival: SR 1m added to Department of Culture's budget
- Maintenance and upkeep of monuments: SR 0.8m added to Department of Culture

### *Ministry of Labour and Human Resources Development*

With the move of the Ministry to the Independence House Annexe building, an approximate reduction of SR 2.2m is expected in its Goods & Services budget. The Ministry will not have any rental commitments to be effected from its budget upon its move.

### *Ministry of Health*

In 2016, the Ministry's budget will record a reduction of SR 90.1m, or 62 per cent, in its budget. This is as a result of the alignment of the budget with the structures of the Ministry and the

Health Care Agency. The Agency will record a similar increase in its budget. The budgeted amount caters for the rent of its new premises to be incurred as of January 2016.

*Office of the Ombudsman and Human Right Commission*

The Office is currently undergoing a review in terms of its operations and mandate. The review is to look at the options of merging the Office of the Ombudsman and the Human Rights Commission into a single entity. The increase of 127 per cent over its 2015 budget reflects the operational costs of the merged entity.

## Transfers

The 2016 Budget reflects a total allocation of SR 2,810m towards the Transfers budget. This represents an increase of SR 414m, or 17 per cent. This comprises of:

**Table 21: Summary of Total Transfers by Different Categories, SR'm**

Transfer type	2014 Actual	2015 EOY	2016 Budget	2017	2018
Social Programs of Central Government	343	366	143	141	141
Transfers to Public Sector	1,070	1,483	1,966	1,979	2,008
Benefits and approved programs of SSF	518	548	701	781	858
<b>Total:</b>	<b>1,931</b>	<b>2,396</b>	<b>2,810</b>	<b>2,901</b>	<b>3,008</b>
<b>% of GDP:</b>	<b>10.7</b>	<b>12.4</b>	<b>13.7</b>	<b>13.4</b>	<b>12.9</b>

Source: MFTBE, FPCD estimates

### *Transfers to Social Programs of Central Government*

For 2016, a total of SR 143m has been allocated towards the Transfer of Social Programs of Central Government. This represents a reduction of SR 222m, or 61 per cent. This is largely as a result of the re-allocation of the amounts which were previously allocated within this category to the respective parent Ministries.

- *Housing Finance Scheme*

An increase of SR 4m is recorded for this scheme, resulting in an allocation of SR 24m in 2016. This is largely to cater for the increased applications within this scheme. In addition, the Ministry of Finance, Trade and the Blue Economy will work with Housing Finance Company (HFC) to establish a special home improvement loan to allow time for homeowners above the age of 63 to enable them to repair their houses. The loan will be interest free as long as the house is occupied by the elders. This will be implemented in January 2016 and the interest components will be paid by Government.

- *Youth Employment Scheme:*

A total allocation of SR 25m has been allocated towards this scheme for 2016. The budget is to support the 'My First Job' scheme. This scheme is incentivise employers to recruit post-secondary students from the Young Professional Centres upon completion of their studies.

The aim of the scheme is to provide temporary wage subsidies to employers who recruit and provide work experience and skills enhancement of candidates who have completed post-secondary education. Under the scheme, the financial incentive to employers will help offset salary costs of hiring post-secondary graduates. A contribution rate for wage subsidies will be applied to participating employers at 40 per cent by Government and 60 per cent

by employers for an initial period of one year, for monthly salaries up to a maximum of SR 7,000.

- *Youth Entrepreneurship Scheme*

A budget of SR 1m has been allocated towards this scheme in 2016. This represents the Government's contribution towards the scheme. The scheme is to help young entrepreneurs with their small businesses.

- *Paradis Des Enfants*

An increase of SR 3.1m, or 221 per cent, is recorded for the 2016 allocation towards Paradis Des Enfants. This represents the Government's contribution towards the operations of the playground.

- *District Council Preparation*

In line with the reforms being carried at the level of the districts, there is a need to set up District Council. In 2016, the SR 1m budget is to be targeted towards the initial setting up of the framework and operations of the Councils.

- *Laptop scheme*

The laptop scheme is currently limited to S5 and professional centres' students. As of 2016, this will be extended to S4 students. This initiative will allow students at an earlier stage to own their device with a view to inspire them to embrace the IT age in sectors of the economy currently untapped. The budget provision for 2016 is SR 2.25m.

- *Seychelles Heritage Scheme*

The scheme has an aim of preserving the national heritage of the country. As such, funds will be targeted towards preserving structures which represent key areas of our heritage. To start off, in 2016, a budget of SR 0.5m has been allocated.

- *New Trust Funds*

In 2016, Government will establish special dedicated funds for the promotion and development of talent and excellence in:

- Arts: SR 400,000 allocation
- Sports: SR 400,000 allocation
- Culture: SR 400,000 allocation

These funds will be primarily managed by representatives of Government, private sector and other stakeholders. The private sector will be encouraged to contribute meaningfully to those special funds through the CSR scheme.

In addition Government will support physically and mentally-challenged people through special programs that aim to empower them to live a dignified and fulfilling life in spite of

their disabilities. A special fund will be set up in collaboration with the private sector and a total SR 400,000 has been allocated in 2016.

*Transfers to Public Sector of Central Government*

A total amount of SR 1,966m has been allocated towards the Transfers to Public Sector in 2016. The 33 per cent increase is largely as a result of the incorporation of certain budget lines which were previously in Social Programs of Central Government into the budgets of the concerned entities. In addition to this, the implications of the new policies of schemes, 13<sup>th</sup> month salaries and gratuity revisions have been reflected.

- *Seychelles Revenue Commission*

The Commission's budget for 2016 represents a total increase of SR 10.7m, or 12 per cent. This is largely as a result of their move to their new premises. An increase of almost SR 7m is required in their rent budget alone.

- *National Drugs Enforcement Agency*

In 2016, a total budget of SR 59.8m has been allocated towards the Agency, resulting in an increase of 20 per cent. Other than the implications of the new policies being implemented in 2016; the increase will also cater for the increased expenses incurred as a result of its increased operations carried out to reduce drug trafficking in the country.

- *Seychelles Bureau of Standards*

The 2016 budget of the Bureau is to increase by SR 3.3m. Of this, SR 2m is to be channelled towards the purchase of laboratory supplies to improve its operations and performance.

- *Health Care Agency*

The increase of SR 165m allocated towards the Agency is largely as a result of the re-allocation of the budget from the Ministry to ensure it is in line with its set structure. The increase also caters for its increased operations.

- *Seychelles Tourism Board*

During 2016, a total budget of SR 139.6m has been allocated to the entity. SR 4.8m has been allocated to STB Tourism marketing fund for 2016 as part of the assistance to marketing in Germany for Condor to introduce the second long haul flight.

- *Landscape & Waste Management Agency*

Its 2016 budget of SR 151.4m caters for the costs relating to its existing cleaning contracts. It will also cater for the operational costs relating to the new pre-treatment leachate plant as of July.

*Benefits and Approved Programs of SSF*

A total budget of SR 700.8m has been allocated towards this budget line.

- *Social Security Benefits*

The following adjustments will be made with the social security benefits to reflect the price adjustments:

**Table 22: Revision in Social Security Benefits, SR**

Benefits	Current rate	New rate in 2016	Increase
Orphan benefit	1,490	1,540	50
Invalidity benefit	2,770	2,820	50
Injury benefit	2,430	2,480	50
Survivor (widows) benefit	2,430	2,480	50
Sickness benefit	2,430	2,480	50
Maternity benefit	2,430	2,480	50
<b>Total:</b>	<b>6,690</b>	<b>6,840</b>	<b>150</b>

Source: MFTBE, FPCD estimates

The total impact on the 2016 budget will be SR 2m.

- *Home Carers Scheme*

The 2016 budget of SR 121m represents an increase of SR 12.2m over the revised 2015 figures. The main factor contributing to this is the cost implications of the 13<sup>th</sup> month salary.

- *Social Safety Net*

Given the nature of this budget line, it has been categorised within Benefits and Approved Programs of SSF. Previously it was part of Social Programs of Central Government. For 2016, a total budget of SR 65m has been allocated.

## Public Sector Investment Programme

The Central Government Investment Programme for the period of 2016-2019 period is estimated at a total of SR 3.8bn. A total of SR 1.1bn worth of projects is to be financed from the 2016 Budget, representing 29 per cent of the medium term investment plan 2016-2019. An amount of SR 0.86m (23 per cent of PSIP) is expected to be financed in 2017, SR 0.98m (26 per cent of PSIP) in 2018 and 0.86m (23 per cent of PSIP) in 2019.

**Table 23: Projected Investments 2015 to 2019, SR'm**

Public investment	2015 EOY	2016 Budget	2017	2018	2019
Total Allocation	949	1,062	862	981	859
<b>% of GDP:</b>	<b>4.9</b>	<b>5.2</b>	<b>4.0</b>	<b>4.2</b>	<b>3.5</b>

Source: MFTBE, FPCD estimates

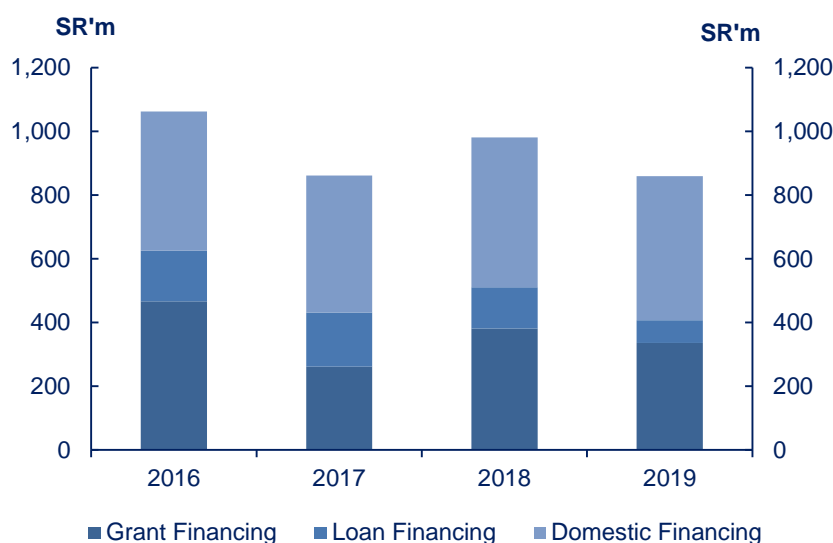
The PSIP is mainly financed by the Government of Seychelles and external development partners through loans and grants. The government is expected to fund a total amount of SR 1.8bn out of the planned investment of SR 3.8bn (47 per cent) for the period 2016-2019.

A total amount of SR 0.53bn worth of projects of the 2016-2019 PSIP is being proposed to be financed through foreign loans whilst SR 1.4bn is expected to be financed from external grants (both in cash and kind). The main external donors/creditors are the Government of Abu Dhabi, Governments of China and India; Agence Française de Développement (AFD), the European Investment Bank (EIB), European Union, International Fund for Agricultural Development (IFAD), African Development Bank (AFDB), Kuwait Fund for Economic Development (Kuwait Fund), OPEC Fund for International Development (OFID), Arab Bank for Economic Development in Africa (BADEA). Figure 26 below shows the source of financing for the PSIP 2016-2019.

The Government will also engage in Public Private Partnership (PPP) as a source of financing in projects where deemed feasible. PPP will also enable for the provision of public infrastructure with more efficiency and less time.



**Figure 26: PSIP by Source of Financing 2016-2019, SR'm**



Source: MFTBE, FPCD estimates

#### *2015 Overview*

The initial capital budget allocation for the year 2015 was SR 1.069bn but has been revised downwards to SR 0.9bn (16 per cent). The downward revision is mainly due to some projects due to start in 2015 which did not materialise; delays in the implementation of some projects. These are mostly projects to be financed by external financing.

Large projects which did not start as planned in 2015 include the reconstruction of the Agricultural and Horticultural Centre. The reconstruction of the La Rosiere School as well as the construction of the Ile Perseverance Health Centre showed slow progress in 2015. The non-disbursement of the India Line of Credit as well as the Kuwait Fund for Development loan for the procurement of schools equipment also contributed to the downward revision in capital budget for 2015.

One key project completed in the health sector in 2015 is the medical oxygen production unit at a total cost of SR 7m of which SR 6m was spent on the plant itself and SR 1m on civil works.

The construction of the Glacis primary school which was set to be completed in 2015 will now complete in 1<sup>st</sup> quarter 2016 in view of additional work around the campus deemed necessary by the Ministry of Education.

#### *2016 Outlook*

A provision of SR 1.1bn has been made in the 2016 Budget to finance projects in the PSIP for the year. This represents an increase of SR 113m or 12 per cent over the 2015 revised capital

budget. Out of the total 2016 provision SR 437m will come from the Government Budget, SR 158m will from foreign loans and SR 467m will be financed by external grants.

#### *Domestic Financing*

A total of SR 437m is being proposed for the year 2016 as Government budget allocation. This represents 41 per cent of the total project financing for 2016 and a decrease of SR 213m (33 per cent) compared to the revised budget of SR 649m for 2015. Housing and community projects will account for the largest share (39 per cent) of the 2016 PSIP domestic financing followed by the economic affairs sector (28 per cent). 17 per cent of domestic financing will go towards the education sector whilst 10 per cent will finance project in the health sector. The chart below shows the allocation of domestic financing for the various sectors.

#### *Loan Financing*

A total of SR 158m worth of projects is being financed through loans representing 15 per cent of the total PSIP for the year. Below is a list of some of the major projects being funded fully/partly by loan financing:

- Ile Perseverance secondary school: SR 21.2m (BADEA and OFID)
- Ile Perseverance Health Centre: SR 5.3m (BADEA and OFID)
- La Rosiere Primary School: SR 4.5m (Kuwait Fund)
- Seychelles Agricultural and Horticultural Training Center: SR 13.3m (Kuwait Fund)
- Infrastructure Phase II Perseverance: SR 37m (BADEA and OFID)
- CLISSA project for Agricultural Development: SR 16m (IFAD)
- Health Information System: SR 27m (Indian Government)

#### *Grants financing*

A total of SR 467m of the total projects to be implemented in 2016 is expected to be financed by grants (in kind and cash). This represents 44 per cent of the total planned capital investment for the year. The main projects for grant financing are as follows:

- Cash Grant financing
  - Implementation of sectoral fisheries and maritime policy: SR 36.3m (EU)
  - Various environment projects: SR 13.6m (GEF and UNDP)
  - Agriculture sector development and marine aquaculture development: SR 13.3m (AFDB)

- Procurement of buses for the Seychelles Public Transport Corporation: SR 20.7m
- Benefits in Kind:
  - Housing Projects:
    - Ex Desaubin SR 19.1m (Abu Dhabi Government)
    - Ex Ion and Ex Kashugy SR 41.3m (Abu Dhabi Government)
    - Corgat Estate SR 18.8m (Chinese Government)

*Planned Investment by Sector (Functional Classification)*

The total projected investments are largely taken up by two key sectors; ‘housing and community’ and ‘economic affairs’. This reflects the Government’s commitment to address housing issues and ensure that the country has the necessary infrastructure for sustainable economic and social development as well as create avenues for growth. Table 24 shows the allocation of investment by sectors.

**Table 24: Allocation of PSIP by Sector, SR'000s**

Sectors	Total Project Cost	Projections				
		2015	2016	2017	2018	2019
General Public Services	231,394	52,357	22,407	48,213	43,223	41,453
Public Order and Safety	403,876	38,836	166,062	37,933	37,912	37,247
Economic Affairs	1,451,780	196,560	291,137	196,947	276,595	318,674
Housing and Community	2,967,288	251,668	297,153	280,639	344,605	250,726
Health	2,262,696	34,100	150,923	133,434	109,225	106,102
Education	573,446	99,852	133,300	162,120	168,103	104,807
Social Protection	15,195	525	990	2,659	1,270	150
<b>Total Requirement:</b>	<b>7,905,675</b>	<b>673,898</b>	<b>1,061,972</b>	<b>861,945</b>	<b>980,933</b>	<b>859,159</b>
<b>% of GDP:</b>						

Source: MFTBE, FPCD estimates

*General Public Services*

The total planned investments in the general public services stands at 2 per cent of total investment or SR 22.4m of which SR 7.1m comes from the local budget. The largest investment in this sector from the government budget remains the digitalisation television project being implemented by the Seychelles Broadcasting Corporation (SBC). A provision of SR 5.5m has been made in 2016 budget for the completion of the project.

### *Public Order and Safety*

The Government plans to spend a total amount of SR 166.1m, on public order and safety in 2016. The highest spending department in the category will be the Department of Defence for an amount of SR 134.5m, of which SR 118.9m will come from a grant from the Indian Government for the upgrading of vessels. The Ministry of Home Affairs is expected to spend a total of SR 31.3m, of which SR 13.6m will be finance by a line of credit (LOC) and SR 15.2 will be financed by grant. Both the LOC and grant will be from the Government of India and will be used for the procurement of fire tenders by the Seychelles Fire and Rescue Agency, patrol vehicles and laboratory equipment for the Department of Police.

### *Economic Affairs*

**Table 25: Economic Affairs Main Projects, SR'm**

PROJECT	Total Project Cost	Estimate Costs to Completion	2016 Budget Allocation
Disaster Mitigation	198	150	8
Ile Du Port Bridge	27	27	25
Solar Energy Photo-Voltaic Scheme	25	10	5
Solar Home Systems	46	46	46
IFAD Agricultural Projects	46	27	17
Construction of Roads	125	93	19
<b>Total:</b>	<b>466</b>	<b>353</b>	<b>118</b>

Source: MFTBE, FPCD estimates

For the year 2016 a total of SR 291.1m has been allocated to the economic affairs sector as capital budget. The Ministry of Fisheries and Agriculture has been allocated the highest share of the budget at SR 77.1m in total, of which SR 16m are from loans and SR 49.6m are from grants. The Ministry will be undertaking several various agricultural projects being financed by IFAD, the agricultural sector development and marine aquaculture being financed by AFDB and the implementation of the Seychelles Fisheries Policy being supported by the European Union.

The Ministry of Environment, Energy and Climate Change accounts for the sector largest share of investment in that sector with a total allocation of SR 76.6m of which SR 66.1m to be financed by grants. Grant financed projects includes the Solar Energy Photo Voltaic roof top grid project, solar home systems and various environment protection and sustainable development projects. A total of SR 7.8m has also been allocated to the Ministry for disaster mitigation works including river channels de-silting, rehabilitation of storm outlets and improvement of drainage system financed by Government.

The Department of Transport has been allocated with a total capital budget of SR 76.2m (out of which SR 5.4m are in the form of loans). Main projects to be implemented by the Department of Transport in 2016 include the construction of road on the Anse Etoile to Perseverance Link Bridge, construction of the Ile du Port bridge and the La Rosiere road widening.

#### *Housing and Community*

**Table 26: Housing and Community Main Project, SR'm**

Project	Total Project Cost	Estimate Costs to Completion	2016 Budget Allocation
Ile Perseverance Housing Project	1,339	996	53
Land Bank Project	73	49	7
<b>Total:</b>	<b>1,412</b>	<b>1,045</b>	<b>60</b>

Source: MFTBE, FPCD estimates

The Housing and Community sector remains the biggest sector for Government investment in the country with a total allocated capital budget of SR 297.2m in 2016.

A total of SR 58.3m is expected to be spent on the Ile Perseverance housing project for ongoing and new housing units. Of which SR 25.5m will be from a loan from BADEA and OFID. Other major housing projects ongoing in 2016 are: Corgate Estate Phase II (financed by the Chinese Government), Ex-Desaubin, ex-Ion and ex-Kashugy (co-financed by GOS and the UAE) and the Ex-Dominic Savio (financed by GOS). A total of SR 9.3m is also expected to be spent on the development of Land Bank.

#### *Health*

**Table 27: Health Main Projects, SR'm**

Project	Total Project Cost	Estimate Costs to Completion	2016 Budget Allocation
Health Information System	-	-	27
Construction of Ile Perseverance Health Centre	46	44	5
Renovation and Upgrading of Health Centres	38	24	16
Renovation and Upgrading of Hospitals	90	23	21
<b>Total:</b>	<b>174</b>	<b>91</b>	<b>70</b>

Source: MFTBE, FPCD estimates

The health sector has an investment plan of SR 150m in 2016, out of which SR 70.4m will be financed by grants and SR 36.6m from foreign loans.

For the year 2016, the Government has allocated a total of SR 21m for the renovation and upgrading of facilities within hospitals and SR 16.4m for community health centers.

The construction of the Ile Perseverance Health Centre expected to cost a total of SR 5.3m in 2016 is being co-financed by Government of Seychelles, Badea and OFID. The Les Mamelles health center is also being reconstructed through Public Private Partnership and the Government is expected to contribute to SR 2.7m in 2016 through the budget. The health information system is expected to be financed by the Indian Government through a line of credit in 2016, costing SR 27m.

### Education

**Table 28: Education Main Projects, SR'm**

Project	Total Project Cost	Estimate Costs to Completion	2016 Budget Allocation
Ile Perseverance Secondary School	81	79	28
Glacis Primary School	23	0	0
Renovation of Primary Schools	92	49	21
Renovation of Secondary Schools	60	35	17
La Rosiere Primary School	53	40	6
School of Agricultural and Horticultural Training Centre	41	34	18
<b>Total:</b>	<b>350</b>	<b>237</b>	<b>91</b>

Source: MFTBE, FPCD estimates

The education sector has a total forecast investment of SR 133m for the year 2016. This sector remains a sector of priority for investment for Government, representing 13 per cent of the total capital investment. In 2016 the Government will continuously invest in renovations of existing school infrastructure with a total amount of SR 20.7m to be spent on the renovations and upgrading of primary schools, SR 17.3m on secondary schools and SR 11.6m on post-secondary schools.

The reconstruction of La Rosiere primary school will continue throughout 2016 with an expected spending of SR 6m of which SR 4.5m would be from loan financing and the balance from Government. The reconstruction of the Seychelles Agricultural and Horticultural Training Center is expected to start in the year 2016 (after some delay in 2015) with an expected SR 17.8m to be spent. Both schools are being co-financed by the Government and the Kuwait Fund for Arab Economic Development in Africa through a loan.

The construction of the Ile Perseverance secondary school started in 2015 and an amount of SR 28.3m is expected to be spent in the year 2016, of which 20.2m is from loan financing. The school is estimated to cost SR 82m and is being co-financed by the Government, BADEA and OFID.

The Glacis primary school was expected to be completed in July 2015 however due to unforeseen circumstances, the school is now set to be ready by 1<sup>st</sup> quarter 2016.

## Net Lending

A total of SR 109.7m has been budgeted as Net Lending for 2016. The allocations are as follows:

- Public Utilities Corporation SR 128.4m: This relates to the EIB/ AFD loan for the infrastructure master plan.
- DBS repayment of SR 8.7m: This was an Agence Francaise loan taken by the Government and on lent to DBS. The loan is now being repaid to the Government.
- STC repayment of SR 10m: The loan was taken by STC from the Government in order to ensure the organisation's smooth transition from SMB to STC. The loan is now to be repaid to the Government.

## Contingency

A total provision of SR 25m has been made within the 2016 Budget for the Contingency. This represents 0.12 per cent of GDP.



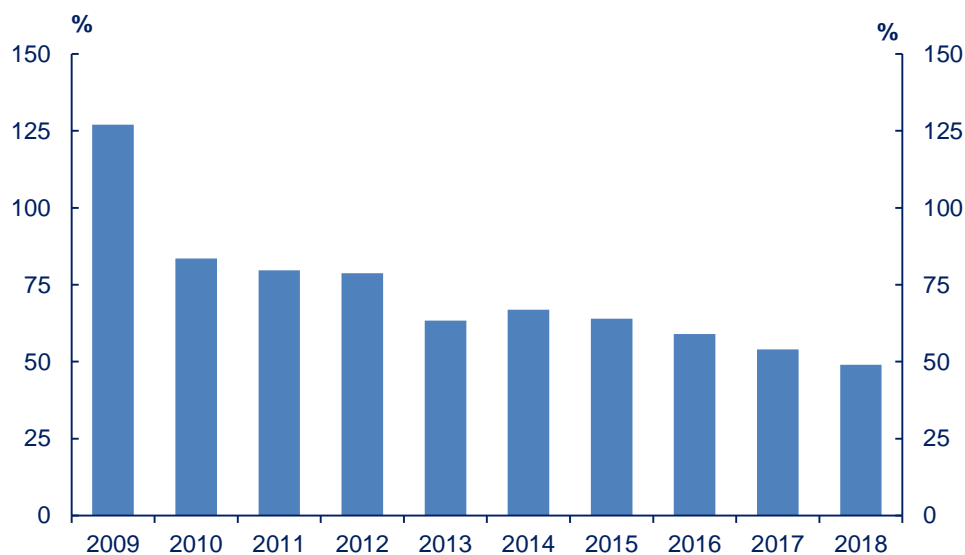
## Debt Outlook

The Government’s comprehensive economic reform and debt restructuring programme implemented with the support of the International Monetary Fund (IMF), the World Bank and other national and international institutions, has successfully reduced and transformed public debt over the past 6 years. The total debt stock fell from 127 per cent of GDP in 2009 to 64.3 per cent by the end of 2015 with the overarching goal being to reach a target of 50 per cent of GDP by 2018. This section contains a brief overview of debt, more detail can be found in the accompanying Debt Management Strategy document.

### Debt to GDP

Following the introduction of the economic reform programme in 2009, the public debt to GDP ratio has decreased consistently over the years to reach 64 per cent in 2015. The reduction in the public debt ratio, from 127 per cent in 2009, was as a result of debt forgiveness and policies introduced to stabilize the economy, the latter of which includes strengthening fiscal discipline and promoting GDP growth in the real sector.

**Figure 27: Actual Debt to GDP Ratio and Projections**



Source: MFTBE, Debt Division estimates

## 2016 External Debt Stock

Although the external debt stock has decreased from its 2008 and 2009 levels, the last couple of years saw fluctuations. This is attributed to movements in foreign exchange rates, new borrowings for development and repayments on existing loans. In the medium term, the debt strategy is to limit new borrowings to concessional or semi-concessional, with the objective of maintaining the debt stock at sustainable levels.

**Table 29: External Debt Stock 2008-2016, SR'm**

Years	External Debt Stock
2008	7,200
2009	7,760
2010	5,538
2011	6,221
2012	6,109
2013	5,764
2014	6,511
2015	5,999
2016	6,327

Source: MFTBE, Debt Division estimates

## External Debt by Creditor Category

External debt stands at SR 5,891m as at September 2015. Private creditors, mostly holders of an external bond, make up the bulk of external debt with 38 per cent of the total. It is followed by the multilaterals (mostly the African Development Bank) with 26 per cent, and almost on par by the bilateral creditors (mostly France and UK) with 25 per cent. Commercial banks round off the group of creditors holding about 11 per cent of Seychelles' external debt.

**Table 30: External Debt Stock Composition, SR'm**

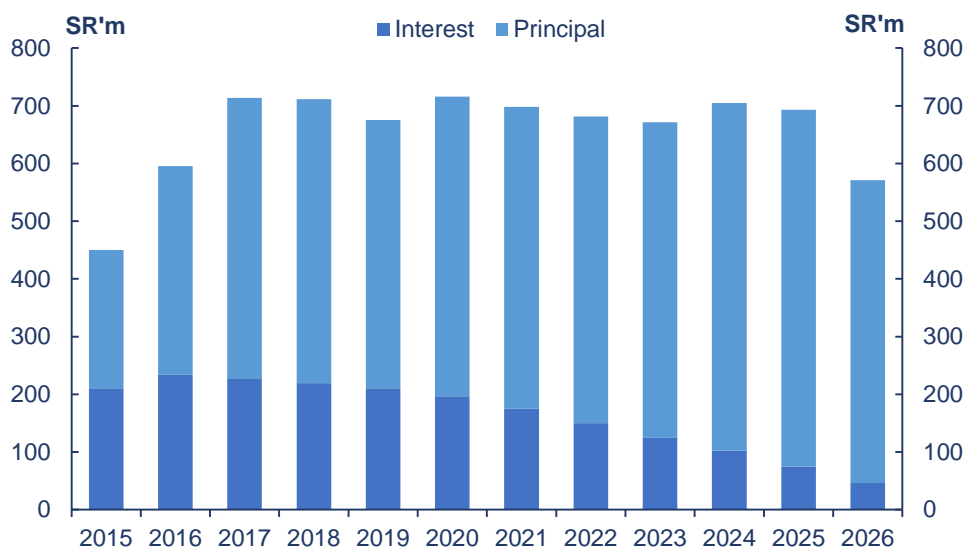
Creditor Category	External Debt Stock
Multilateral	1,536
Bilateral, (of which);	1,507
Paris Club	891
Others	616
Commercial	633
Private	2,214
<b>Total:</b>	<b>5,891</b>

Source: MFTBE, Debt Division estimates

## External Debt Repayments

As a result of the restructuring of the external debt, the repayment profile indicates a steep rise in the next two to three years, then levelling out in the following years. Government is constantly engaging in liability management exercises to explore the possibility of smoothing the profile of its debt servicing.

**Figure 28: Annual Debt Service Forecast, 2015-2026, SR'm**



Source: MFTBE, Debt Division estimates

## 2016 Domestic Debt Stock

While net domestic debt, which is domestic debt for fiscal purposes only, has fluctuated over recent years, debt for monetary purposes has constantly increased since 2012, and this has resulted in an increase in the total gross domestic debt. Debt for monetary purposes includes Treasury Bills and Treasury Bonds used by the Central Bank to sterilize their foreign exchange interventions thereby mopping up extra liquidity in the system.

**Table 31: Domestic Debt 2012-2015, SR'm**

Year	Net Govt Debt	T-Bills for Monetary Policy	Gross Govt Debt
2012	4,381	850	5,231
2013	3,398	1,428	4,826
2014	2,901	2,858	5,759
2015	3,678	2,675	6,353

Source: MFTBE, Debt Division estimates

## Blue Economy

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### Introduction to the Blue Economy Concept

Claiming a vast Exclusive Economic Zone (EEZ) of 1.37 million km<sup>2</sup>, the second largest in Africa, Seychelles is eager to maximize the full potential of its oceanic territory through the development of a blue economy. Amongst, the several industries that contribute towards the Gross Domestic Product of the islands, fisheries and tourism are by far its two main contributors, and thus pillars of the Seychelles economy. Both of these industries are wholly dependent on the ocean that surrounds them, thereby intrinsically linking the livelihoods of Seychellois people and our future with the waters.

The creation of the Blue Economy department under the newly created Ministry of Finance, Trade and the Blue Economy in February 2015 has been aimed at better leveraging our vast EEZ as means of accelerating our development on sustainable terms. The department has primarily a coordination role to oversee the development of various sectors, institutions and industries relevant to a Blue Economy and increasing investment opportunities for the future.

### What is the Blue Economy

Over the last three years or so, the emerging concept of the 'Blue Economy' has been embraced by many Small Island Developing States (SIDS) as a mechanism to realise sustainable growth around an ocean-based economy. The concept of an ocean-based, or 'blue' economy has its origins in the 'green economy' concept endorsed at the United Nations Conference on Sustainable Development. The term was first coined by SIDS and other coastal countries during the 2012 Rio +20 United Nations Conference on Sustainable Development in recognition of the need to maximize the enormous economic potential of oceans and seas, while at the same time seeking to preserve them for future generations.

While there is no universally accepted definition for the Blue Economy, for Seychelles the notion of the Blue Economy refers to;

*those economic activities that directly or indirectly take place in the ocean and coastal areas, use outputs from the ocean, and places 'goods and services' into ocean's activities and the contribution of those activities to economic growth, social, cultural and environmental wellbeing.*

The scope of the Blue Economy therefore includes:

- activities which explore and develop ocean resources;
- activities which use ocean and coastal space;
- initiatives which protect the ocean environment;
- activities which rely on ocean resources as a main input;
- the provision of goods and services to support ocean activities; and
- mechanisms to ensure the equitable sharing of benefits derived from the blue economy.

Seychelles Government has engaged itself towards implementing a ‘Blue Economy’ as a means of both building economic resilience and ensuring long term viability and sustainability. Our strategy with regards to developing the Blue Economy in Seychelles, is to firstly address the immediate needs and priorities around existing industries and their associated challenges and opportunities, and as a second phase to develop the potential of as yet untapped sectors which require more research and analysis.

It is increasingly recognised that Seychelles’ future depends on the sustainable development and protection of the ocean and ocean resources. This is reflected in the current ‘National Development Strategy’, as well as the ‘Seychelles Sustainable Development Strategy’ (SSDS) 2012- 2020, which has identified fisheries and marine resources as a key cross cutting issue and which must underpin all future development in Seychelles.

The vision for the Blue Economy therefore must fit within the overarching context of the SSDS. As such the Government’s Vision for the Blue Economy is:

*To develop an ocean-based (blue) economy as a means of realising the nation’s economic, social and cultural potential through an innovation, knowledge-led approach, being mindful of the need to conserve the integrity of the Seychelles marine environment and heritage for present and future generations.*

## Blue Economy Road Map

In order to implement the Blue Economy concept, the Government of Seychelles is developing the **National Blue Economy Roadmap**, through which it is hoped that a range of future development opportunities can be realised. The purpose of the Blue Economy Roadmap is to set the broad direction for future investment in and development of a sustainable ocean-based economy in Seychelles.

To achieve this, Seychelles has identified seven key thematic areas (“enabling conditions”) that are vital for creating the conditions for growth and investment in Seychelles:

- (i) a healthy, resilient and productive marine environment;
- (ii) ocean governance;
- (iii) technology, research and innovation development;
- (iv) business development, investment and finance;
- (v) maritime surveillance and enforcement;
- (vi) education and capacity building (in particular with the youth); and
- (vii) infrastructure.

If successfully implemented, a number of features would be prominent in Seychelles’ Blue Economy:

- Protection and recovery of ocean ecosystems and biodiversity would be prioritised;
- Existing ocean industries (e.g. shipping and offshore petroleum) would have ‘greened’ their activities and be ensuring that their operations cause minimal environmental impact and meet the highest levels of sustainable practice;
- Integrated cross-sectoral spatial planning, including coastal zone management, would be in place for all sea uses at the national level;
- Maximise and sustain revenues derived from fisheries and fisheries related products;
- Established and increasing sustainable use of bioresources, including biotechnology and marine ecosystem services, to find innovative solutions to many of the regions problems would be occurring;
- Greater utilisation of renewable energy from the ocean would occur;
- Disaster risk management practices and adaptation planning would be in place for rising sea levels and foreseeable climate change impacts; and
- Surveillance of offshore waters would be strengthened through enhanced maritime domain awareness and existing laws would be robustly enforced;
- Branding Seychelles as a “blue” tourism destination would be used to promote the nations comparative advantage in this sector;
- Knowledge generation and collaboration will be facilitated to assist with capacity development and enhanced/informed/joint decision making.

The requirement for sustainability necessitates a paradigm shift in both the mind-set of those currently exploiting the oceans resources and the diversity of ways in which the marine environment is used for the benefit of mankind. It is, therefore, inappropriate to continue with 'business as normal' and to purely re-badge the current uses of marine resources as 'Blue'. By conceptualizing the ocean as a development space where spatial planning integrates conservation, sustainable use, resource extraction, sustainable energy production and transport, the Blue Economy offers an alternative economic approach that is guided by environmental principles. It challenges the status quo where oceans have been viewed as a means of free resource and an unlimited sink for the disposal of waste and shifts the focus to where ocean values services are included in decision-making and where the benefits are shared more equitably.

In developing the National Blue Economy Roadmap, the Government's overarching goals are:

1. Economic diversification - to reduce vulnerability from reliance on a small number of existing sectors and to increase the contribution to GDP derived from marine sectors;
2. Creation of high value jobs – while unemployment levels in Seychelles are not high, the creation of higher value jobs is seen as a priority;
3. Ensure food security - through effective and sustainable utilization of marine resources; and
4. To achieve these goals while sustaining the ecological integrity of the marine environment of Seychelles and its ability to support the livelihoods of present and future generations of Seychellois.

The Blue Economy is also fundamentally about social inclusion. It is founded on the belief, that real tangible, effective results may only be achieved if an entire community is involved and works together. The ocean remains a space of equal opportunity for all. Through the inception of the Seychelles Blue Economy Roadmap, the Seychellois will be presented with a myriad of opportunities, through employment, investment opportunities, academic and skilled training programs, all of which will undeniably result in a much improved standard of living for our people.

2014 was particularly monumental for the adoption of a Blue Economy given the revision of several policies and strategies as well as the enactment of the revised Fisheries Act which espouses the principles of a Blue Economy - sustainability, equitability and efficiency. We are also in the process of implementing the first "Marine Spatial Planning" tool in the country to support the development of an innovative financing mechanism – the Debt-for Adaptation

Swap. If this mechanism is successful in raising funds to manage the protected area network and the marine resources, Seychelles will fulfil its obligation announced in 2012 to place 30 per cent of our Exclusive Economic Zone as Marine Protected Areas (MPA) by the end of this year, with 15 per cent as 'no-take' zones. Furthermore, Seychelles with the Prince Charles Trust is working on the first "Blue Bond" which is based on the principles of Green Bonds that are already established as a viable mechanism for financing of sustainable development projects.

The Seychelles Blue Bond (first of its kind) is a capital raising transaction of USD 10m to fund the full costs of implementing the national plan over the next ten years. As such, this initiative should create a model for funding fishery recovery efforts that can be replicated by other small island developing states and coastal countries. It is also anticipated that the Blue Bond will be a catalyst for further public-private sector partnerships within the Blue Economy of the Seychelles.



### Box 3: Snapshot of the Fishing sector

**Area:** More than 99.97 per cent of Seychelles' resource area is marine.

**Exports:** 40,407 MT of fish and fish products were exported in 2014 to the value of SR 4.25bn or approximately USD 327m.

Fisheries account for more than 90 per cent of national exports revenue (average of 92.6 per cent of visible revenues 1987-2010) and is the largest single source of foreign exchange income.

**Per capita consumption:** Seychelles has one of the highest per capita consumption rates of fish of any country in the world at 70 kg per person per year.

**Employment:** Fishing and related sectors employ between 5,000-6,000 people – approximately 12 per cent of the total formal work force.

**Canned Tuna production:** Seychelles also houses one of the largest tuna canning factories in the world that is also the largest single exporter in Seychelles with over 90 per cent of total national exports. There is significant scope to increase the value created from fish processing and the production of fish based products.

The Seychelles-based purse seiner fleet contributes one third of the Indian Ocean tuna catch and two thirds of the tuna caught by purse-seiners in the Western Indian Ocean (WIO).

#### Industrial Purse seiner:

- 44 – the number of industrial Purse seine licensed in Seychelles in 2014.
- 54,601 MT – the catch recorded taken with Seychelles EEZ in 2014.
- Port Victoria is the principal port for tuna landings and transshipment in the Western Indian Ocean. In 2014 244,353 MT of tuna was unloaded at Port Victoria 183,798 MT of which was transhipped whilst 60,555 MT was landed for local processing or sale.

#### Industrial long line:

- 141 – the number of industrial long liners licensed in Seychelles in 2014.
- 4,412 MT – the catch recorded taken within Seychelles EEZ.

#### Semi-industrial Long line:

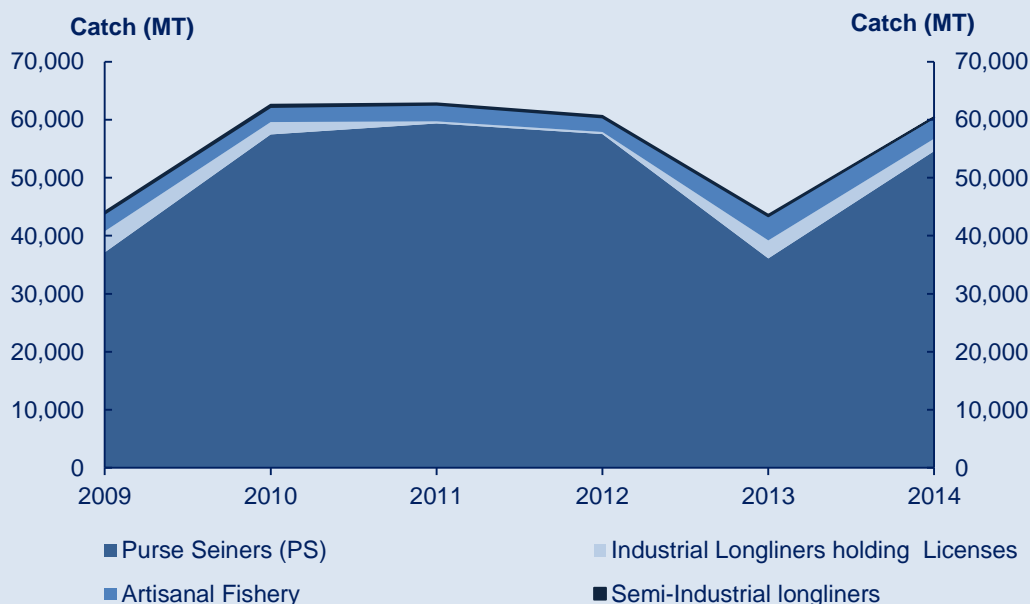
- This fishery is currently in a slump as of 2014 due to EU regulations on mercury content.

#### Artisanal:

- 424 – the number of vessels (of various models) licensed to operate in the fishery in 2014.
- 3,632.5 MT – the catch recorded in 2014.

The graph below shows the total fish catch in metric tons from our EEZ by purse seiners, industrial longliners with licenses, artisanal fishery and semi-industrial longliners for 2009-2014. It can be clearly seen that there was a substantial decrease in the catch in 2013. This is attributed directly to the increase in piracy during that year.

**Figure 29: Total Catch for 2009-14 in the EEZ by Different Fishing Categories**



Source: Seychelles Fishing Authority and Blue Economy Department

**Table 32: Semi-Industrial Longliner Details**

Year	No. of Vessels	Catch (MT)
2009	9	329
2010	9	395
2011	4	238
2012	7	271
2013	6	262
2014	9	82

Source: Seychelles Fishing Authority and Blue Economy Department

**Table 33: Artisanal Fishery Details**

Year	No. of Vessels	Catch (MT)
2009	511	3,030
2010	439	2,596
2011	424	2,871
2012	438	2,506
2013	425	4,150
2014	428	3,632

Source: Seychelles Fishing Authority and Blue Economy Department

**Table 34: Industrial Longliners Details**

Year	No. of Vessels	Seychelles Flagged	Total Catch (MT)	Catch in EEZ (MT)
2009	111	27	10,226	3,636
2010	65	27	8,603	2,137
2011	80	24	8,275	359
2012	167	32	23,218	359
2013	174	32	16,233	3,097
2014	141	36	12,095	2,141

Source: Seychelles Fishing Authority and Blue Economy Department

**Table 35: Purse Seiners Details**

Year	No. of Vessels	Seychelles Flagged (PS)	Total Catch (MT)	Catch in EEZ (MT)	Landing and Transshipment (L & T)	% of L & T of Total Catch
2009	56	12	262,719	37,146	214,320	81
2010	49	9	279,244	57,465	228,069	83
2011	35	8	259,361	59,361	214,163	83
2012	38	8	231,477	57,531	186,740	79
2013	39	7	277,879	36,101	233,574	84
2014	44	11	277,927	54,601	244,353	90

Source: Seychelles Fishing Authority and Blue Economy Department

## Selected Economic Indicators

	2012	2013	2014	2015	2016	2017	2018
<b>National income and prices</b>							
Nominal GDP (SR'm)	15,544	17,015	18,133	19,348	20,453	21,726	23,281
Real GDP growth	6.6	6.0	3.3	4.3	3.3	3.6	3.5
GDP deflator growth	13.1	6.7	3.1	2.3	2.3	2.5	3.5
CPI (annual average)	7.1	4.3	1.4	4.3	2.5	2.4	2.8
CPI (end-of-period)	5.8	3.4	2.5	3.2	3.2	0.0	0.0
<b>Money and credit</b>							
Broad money growth (12-month percent change)	-2.2	23.7	12.0	5.3	0.0	0.0	0.0
Credit to the economy (12-month percent change)	4.2	1.7	0.0	0.0	0.0	0.0	0.0
Reserve money (12-month percent change)	6.9	16.2	16.5	5.6	0.0	0.0	0.0
Money multiplier (broad money/reserve money)	4.2	4.4	4.3	4.3	0.0	0.0	0.0
Velocity (GDP/broad money; end of period)	1.7	1.6	1.8	1.8	0.0	0.0	0.0
Foreign currency deposits (USD'm)	187.7	244.1	276.0	306.0	0.0	0.0	0.0
<b>Government budget (% GDP)</b>							
Total revenue, including grants	39.1	36.2	35.7	33.6	35.8	33.8	33.2
Total revenue, excluding grants	34.6	32.2	32.8	32.2	33.2	32.5	31.8
Grants	4.5	4.1	2.9	1.4	2.6	1.3	1.4
Expenditure and net lending	36.9	36.2	33.5	32.1	34.5	32.5	31.7
Current expenditure	26.0	27.0	27.0	26.0	27.1	26.0	24.5
<i>Of which: interest payments</i>	3.5	4.6	2.2	2.3	2.4	2.5	2.4
Capital expenditure	10.4	8.9	5.5	5.3	6.8	5.2	5.4
Net Lending	0.0	0.0	0.7	0.6	0.4	1.2	1.7
Primary balance	5.6	5.2	4.5	3.8	3.8	3.8	3.8
Overall balance (accrual basis), including grants	2.2	0.0	2.3	1.5	1.3	1.3	1.5
Overall balance (accrual basis), excluding grants	-2.3	-4.1	-0.7	0.1	-1.3	0.0	0.1
Overall balance (cash basis), including grants	2.2	0.0	2.3	1.5	1.3	1.3	1.5
Overall balance (cash basis), excluding grants	-2.3	-4.1	-0.7	0.1	-1.3	0.0	0.1
Domestic bank financing (net)	-3.8	-1.3	-5.6	-0.4	-3.0	-1.8	-2.3
<b>External sector (% GDP, unless otherwise indicated)</b>							
Current account balance including official transfers	-28.4	-17.7	-22.5	-20.5	-18.9	-17.3	0.0
<i>Imports</i>	93.7	80.7	79.2	71.9	69.1	67.4	0.0
<i>Exports</i>	48.2	47.2	40.8	38.7	38.1	37.5	0.0
Before official transfers	-33.7	-22.0	-26.2	-23.3	-21.6	-20.1	0.0
Foreign Direct Investment	1.1	1.3	0.2	0.2	0.2	0.2	0.0
Gross official reserves (end of year, USD'm)	307.5	425.1	464.3	530.0	530.9	532.9	0.0
In months of imports, c.i.f.	2.9	3.8	4.4	5.1	4.9	5.1	0.0
<b>Total external debt outstanding (% of GDP)</b>							
Scheduled external debt service	2.0	2.1	2.2	2.5	3.0	3.4	3.2

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<i>Of which: interest payments</i>	0.9	1.1	1.0	1.1	1.1	1.1	1.1
Total stock of arrears (USD'm)	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Total stock of arrears	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total debt outstanding (SR'm)	9,405	10,909	11,811	12,805	12,716	12,195	11,415
% of GDP	60.5	64.1	65.1	66.2	62.2	56.1	49.0
Domestic	32.1	27.2	29.9	29.9	27.4	23.4	17.9
External	45.1	36.9	35.3	36.3	34.7	32.8	31.2
External (USD'm)	512.0	520.6	501.9	528.4	532.8	528.6	536.5

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Source: Seychelles Macroeconomic Framework Working Group

## Appendix

**Table 36: Seychelles Structural Benchmarks Under the Extended Arrangement, 2015**

Actions	Timing	Objectives and Status
<b>Fiscal and Public Financial Management Policy</b>		
Enhance collection of business tax by conducting at least 60 tax audits of businesses from January 2015 to end-September 2015.	End September, 2015	Met. The SRC conducted 66 business tax audits by end-September, and identified over SR 120 million in potential assessments.
Update and publish on-line a government asset register, including state land.	End December, 2015	On track. Safeguard public finances and enhance economic governance through better management of state assets.
<b>State-Owned Enterprises (SOEs)</b>		
Approval by Cabinet of a policy to further strengthen supervision of SOEs that operate on commercial terms, including independent review of large investment plans.	End March, 2015	Met with a delay. Cabinet approved measures in May 2015.
<b>Real Sector and Private Sector Development</b>		
Prepared Food Cabinet approval of a strategy to reduce restrictive practices at the Port of Victoria.	End May, 2015	Met.
<b>Financial Sector Development</b>		
Approval by the Board of CBS of a framework for macro prudential surveillance.	End October, 2015	Not met. Work ongoing to finalise the institutional arrangements. Reprogrammed to March 2016.
<b>International Financial Services Sector</b>		
Submission to National Assembly of new legislation on International Business Companies consistent with international standards.	End June, 2015	Not met. Reprogrammed to December 2015.
Submission to National Assembly of new legislation on International Corporate Service Providers and Trusts consistent with international standards.	End December, 2015	On track. Safeguard the global business sector, following the OECD finding, and lay the foundation for sustained growth through best practice regulation.

Source: MFTBE and IMF

**Table 37: Seychelles Structural Benchmarks Under the Extended Arrangement, 2016**

Actions	Timing	Objectives and Status
<b>Fiscal and Public Financial Management Policy</b>		
Cabinet approval of Public Financial Management Action Plan	End-December 2016	Ensure timely implementation of recommendations of PEFA assessment (to be carried out in H1 2016).
Cabinet approval of new Public Private Partnership Regulation	End-October, 2016	Strengthen the legal framework of the Public Private Partnership framework.
<b>State-Owned Enterprises (SOEs)</b>		
Conduct governance reviews and operational/business assessments of initial three SOEs.	End June, 2016	Reinforce the monitoring and oversight of SOEs.
Conduct governance reviews and operational/business assessments of a further three SOEs	End December, 2016	Reinforce the monitoring and oversight of SOEs.
<b>Real Sector and Private Sector Development</b>		
Approval by cabinet of a revised Micro, Small and Medium Enterprise Policy	End-March, 2016	Support inclusive growth through a strengthened framework for SME support.
<b>Financial Sector Development</b>		
Development of a CBS strategy to improve financial literacy	End-September, 2016	Improve financial inclusion.
<b>International Financial Services Sector</b>		
Cabinet approval of a strategy to tackle AML/CFT risks, drawing on the National Risk Assessment.	End-September, 2016	Reduce AML/CFT risks in financial and off-shore sectors.

Source: MFTBE and IMF