Budget Strategy and Outlook 2017

Estimates of Revenue and Expenditure and Appropriation Bill December 2016

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Acronyms and Abbreviations

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
FPCD	Financial Planning and Control Division
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
ICT	Information Communications Technology
LMG	Locally Manufactured Goods
LPG	Liquid Petroleum Gas
LPO	Local Purchase Order
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
NDEA	National Drug Enforcement Agency
MFAD	Macroeconomic Forecasting & Analysis Division
MFTEP	Ministry of Finance Trade and the Economic Planning
ODC	Other Depository Corporations
OT	Other Tax
SEAS	Seychelles East-Africa Submarine cable
SIDS	Small Island Development States
TT	Trade Tax
TMT	Tourism Marketing Tax
VAT	Value Added Tax
WEO	World Economic Outlook

About the Document

This document sets out the economic and fiscal context for the 2017 Budget. It presents an overview of Seychelles economy, provides revenue and expenditure estimates for 2017 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 Government.

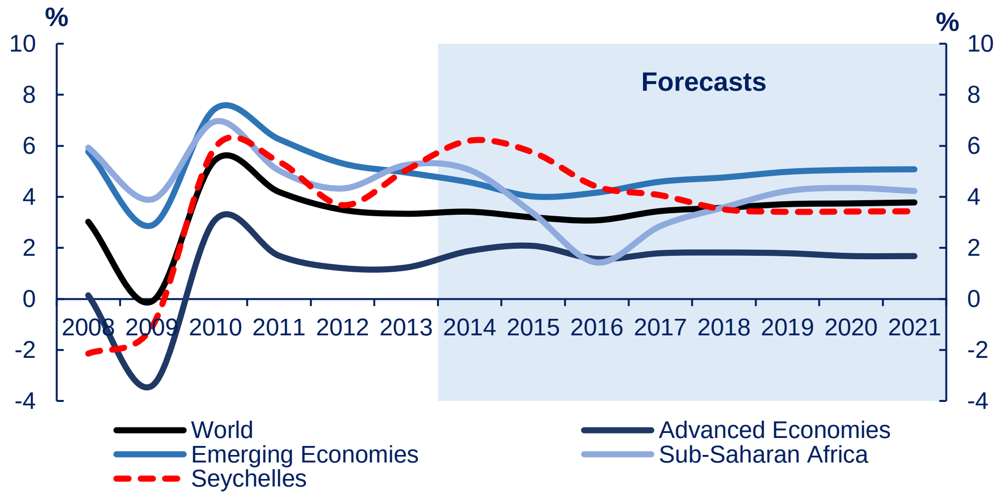
The budgeted revenue and expenditure numbers have been prepared in consideration of the outlook for the real, monetary and external sector using the best information available at the time of publication. The estimates are based on a range of economic and other parameters.

Economic Outlook

Overview

In IMF's latest World Economic Outlook (WEO October 2016), the Fund estimated global growth at 3.1 per cent in 2016 and expected to recover to 3.4 per cent in 2017. The 2016 forecast has been revised downwards by 0.1 percentage point from the April edition of WEO due to subdued economic outlook for advanced economies following the UK's vote to leave the European Union (Brexit) in June and weaker than expected growth in the USA. Monetary policy is expected to remain accommodative for longer due to the uncertainty from the Brexit shock. Growth, however, is uneven across different types of economies as shown below in Figure 1, with emerging and developing economics showing robust growth in 2016 and the medium term. There was initial concern on China's slowing economic activity but these concerns have been abated by policies to support domestic growth and investment. Sub-Saharan African economies have experienced a slowdown in growth the past two years but are expected to pick up in the medium term.

Figure 1: Real GDP Growth Projections 2014-2020 for Different Types of Economies

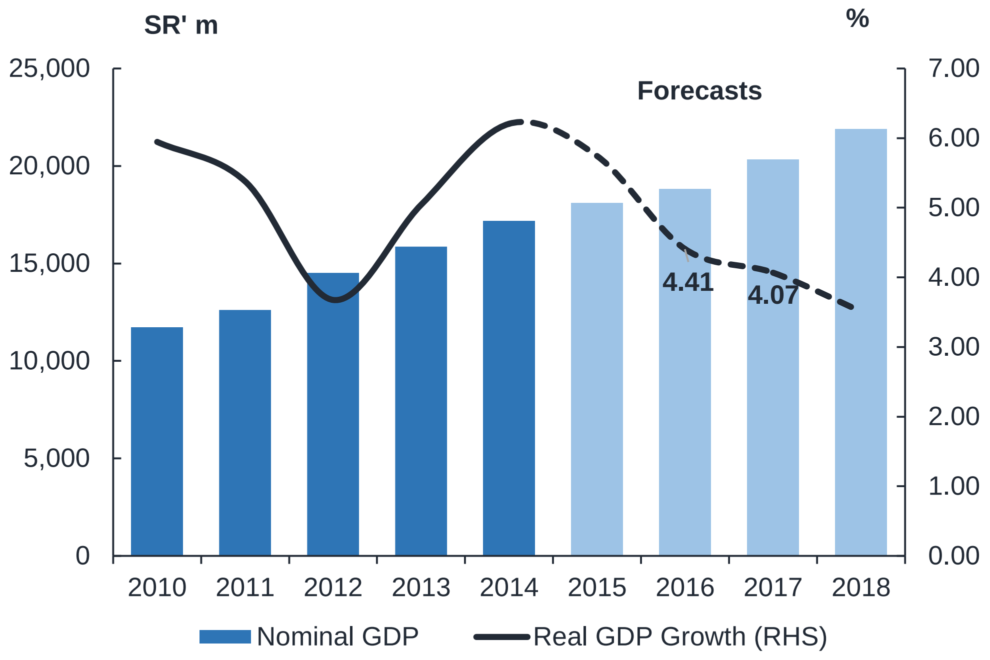


Source: MFTEP, Macroeconomic Forecasting and Analysis Division estimates

Seychelles has done relatively well the past two years compared to the global outlook and emerging economies. 2015 growth was supported by 19 per cent tourism arrivals and low oil prices. For 2016, the initial estimate for real GDP growth was 3.3 per cent and later revised upwards to 4.3 per cent as part of the mid-year revisions and further increased to 4.4 per cent for the end of year revisions on the back of continued strong double digit tourism arrivals. Economic growth is also supported by robust performance in data usage and sustained growth in the canned tuna sector. Growth has been subdued by weaker than expected performance in the Manufacturing sector especially relating to beer production.

It should be noted that the rebasing exercise by NBS to be carried out in 2018 may have a potential upside to nominal GDP levels and the medium term. This will be discussed further in the Risks to Budget section on Page 11.

Figure 2: Nominal and Real GDP Growth Projections 2014-2018



Source: MFTEP, Macroeconomic Forecasting and Analysis Division estimates

Real Sector

Tourism

Tourism activities continue to grow this year, though at a slightly slower pace compared to 2015. Up to the 27th November 2016, a total of 272,143 visitors had disembarked into Seychelles this year. This represents a 10 per cent increase in arrivals when compared to the same period last year. The growth will be further reinforced with the return of Qatar Airways, launching of Turkish Airlines, Austrian Airlines as well as other code sharing agreements between Air Seychelles and other airlines. These will also help sustain growth in 2017.

Table 1 provides a comparison of tourism related statistics up to the third quarter of 2016 compared to the same period last year. They are all generally positive with an 8.2 per cent growth of number of visitors disembarking on our shores, a 7.9 per cent increase in Euro earnings and an associated marginal appreciation of the Seychelles Rupee compared to the Euro. However, the average length of stay has fallen slightly to 9.9 days from 10.1 days and this may be because of greater flight connectivity.

Table 1: Comparison of tourism summary statistics

	Up to Q3 2015	Up to Q3 2016	% Diff
Tourism Arrivals (No.)	200,259	216,648	8.20
Tourism Earnings (EUR' m)	268	290	7.90
Avg SR/EUR rate	15	15	-0.60
Tourism Earnings (SR' m)	3,994	4,282	7.20
Avg length of stay (Days)	10	10	-2.10

Source: MFTEP, Macroeconomic Forecasting and Analysis Division estimates

Figure 3 provides a summary of the tourism sector over the past four years whereby we observe a slight positive trend in visitor arrivals amid the seasonal peaks and troughs. There has been great effort to increase Seychelles' accessibility. It is a harder to determine the trend for spending per tourist but it fluctuates around a mean of EUR 1325 and is highly affected by the economic situation in the home country of the visitor. Maximising the yield by increasing spending per visitor is an area of focus of further tourism growth.

Figure 3: Arrivals and Earnings per Visitor

Source: MFTEP, Macroeconomic Forecasting and Analysis Division estimates

Manufacturing

In the **Manufacturing** sector, the manufacture of beverages has fallen remarkably for the first half of the year compared to the same period in 2015. This is attributed to a cut back in production by the major brewing company which experienced some technical difficulties. However, activities have picked up in the third quarter albeit not enough to compensate for the contraction in the first half of the year. Quarter 3 production indicators show that the production of beer, spirits and soft drinks were down by 5.7 per cent, 29.8 per cent and -2.6 per cent respectively. However, the Q3 production of stout was up by a significant 75.6 per cent. This leads to a year to date performance (up to September 2016) of -5.4 per cent, -26.2 per cent, -10.5 per cent of beer, spirits and soft drinks respectively still lagging behind the same period in 2015. Only stouts have shown growth 12.3 per cent year to date after a rebound in activity following two quarters of negative growth.

Canned tuna production has been steady at an average of 9.5 tonnes per quarter in 2016 compared to a volatile year in 2015 when the canning factory suffered an industrial accident, thus the 2016 quarter 3 growth compared to the same period last year is 9.3 per cent higher and an overall year to date growth of 14.4 per cent as at September.

Construction

Activities in the construction sector have been tepid in 2016 with all major projects having completed at the start of the year and no new large construction starting in 2016. The observed growth in the production of blocks, aggregates, crusher dust and other construction related materials (as reported in the production statistics) is associated mainly with small ongoing residential dwellings projects. New financing schemes introduced in 2016, for instance loans for senior citizen is expected to support growth of residential construction, however these remain small projects. Construction is expected to recover slightly next year with the start of some large projects (that were already approved before the moratorium of large tourism projects) anticipated to kick off by mid-year.

Information and Communication

The Information and Communication sector remains strong in 2016 with the level of data usage continuously increasing. By the end of the third quarter, data usage was up by 37 per cent when compared to the same period last year. The introduction of IPTV, mobile banking and e-payments are all contributing towards growth in this sector.

Monetary Sector

Under the current monetary targeting policy framework, price stability is the prime objective of the Central Bank of Seychelles (CBS), and is achieved by indirectly controlling the money supply, with reserve money being the operating target.

Throughout 2016, the CBS maintained a relatively tight monetary policy given projected increases in domestic inflationary pressures. Going forward, the stance is expected to remain unchanged, subject to both domestic and external developments.

The year witnessed an overall decline in key market rates, with the average lending rate and savings rate declining by 4 basis points and 36 basis points, respectively. In terms of credit to the private sector, as at October 2016, it grew by 11 per cent year to date and was primarily driven by loans disbursed to private households.

Inflation

Following the rise in inflation in 2015 whereby as at December the end-of-period inflation rate stood at 3.2 per cent, in 2016, a deflationary trend was observed. Year-on-year inflation, as indicated by the CPI, showed negative growth for the entire year and as at end-October 2016, it stood at -0.5 per cent. This trend of declining prices was supported by low oil prices which domestically translated into lower transport and energy costs. Prices were also subdued as a result of the stable rupee vis-à-vis other currencies, which led to favourable import prices during the year.

However, an uptick in inflationary pressure is forecasted in the upcoming year primarily due to the anticipated rise in global commodity prices and domestic demand pressure. Tax measures on income, as well as fiscal consolidation policies, are expected to have an impact on both household earnings and expenditure. In this regard, the Bank remains committed to its mandate of price stability and will continue to adopt a tight monetary policy stance in 2017. It will also actively keep abreast of local and international developments, standing ready to adjust policies should the need arise.

Credit

For the month of October 2016, total stock of outstanding credit dispensed by other depository corporations (ODCs) expanded by 16 per cent with respect to the same period in 2015. This was primarily driven by a 30 per cent increase in credit disbursed to the parastatal sector followed by a 20 per cent increase in claims on government. Similarly, credit extended to the private sector grew by 12 per cent.

Credit apportioned to the private sector increased by 10 per cent driven by a 20 per cent growth in loans extended to the trade sector. In addition, credit disbursed to individuals and households grew by 16 per cent while total mortgage loans and advances rose by 14 per cent. Credit to the economy is forecasted to expand by 9.0 per cent in 2017.

External Sector

Balance of Payments

An improvement in the country's external position is expected for the year compared to 2015. It is projected that the current account deficit narrowed to 17.2 per cent of GDP in 2016 from 18.6 per cent of GDP the year before. This trend is expected to continue in 2017 on account of higher exports of goods and services.

Current Account

In 2016, the enhanced trade balance coupled with higher services exports are the primary contributors to the improved current account deficit.

Higher exports of goods namely tuna has led to an improved trade balance to stand at minus USD 471m. Total exports for the year is estimated at 508m or 13 per cent above the 2015 level. A rise in tuna prices globally has increased the overall value of exports supported by higher production level. The lower oil prices internationally in 2016 has helped to dampen imports also contributing to the improved trade balance.

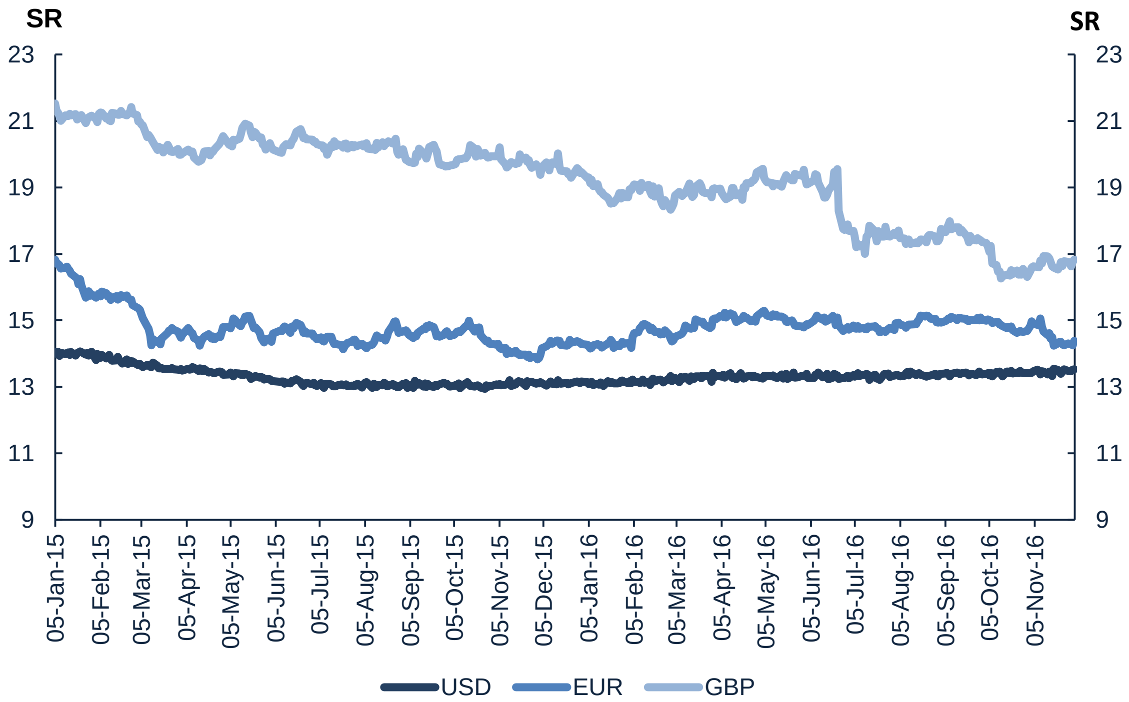
The tourism industry maintained its positive performance in 2016 with visitor arrivals projected to end the year at around 9.0 per cent above the 2015 level. Europe, the country's traditional source market continued to supply the majority of visitors. Moreover, it is estimated that the yield has also improved with tourism earning projected at USD 423m compared to USD 392m the previous year, an 8.0 per cent increase.

Gross international reserves are projected to stand at USD 526m by the end of the year compared to USD536m at the end of 2015. Although the country's foreign obligations have increased, higher demand for foreign exchange domestically meant that CBS had limited opportunity to purchase foreign exchange for reserves accumulation purposes. Consequently, gross foreign reserves in months of imports of goods and services have declined from 4.9 to 4.

Exchange Rates

The foreign exchange market was in part influenced by strong demand relative to supply, coupled with the prevailed external developments such as the direct effects of developments in Europe, where on June 23, 2016 the United Kingdom (UK) voted to exit the European Union (EU) which triggered a significant depreciation of the GBP. The uncertainty surrounding it endured throughout the remaining months, resulting in further weakening of the GBP. Throughout 2016, demand remained stronger than supply which expectedly contributed to a weakening of the domestic currency against the US dollar. As such, as at December 2 2016, SCR/USD depreciated by 34 cents from 13.15 from its position at the start of the year to stand at 13.52. Also, the rupee depreciated by 11 cents against the euro, with the year-to-date SCR/EUR annual average standing at 14.80. As for the remainder of the year and into 2017, assuming that macroeconomic fundamentals holds true, the rupee is expected to weaken further against the major trading currencies.

Figure 4: Exchange rates 2015-2016



Source: Central Banks of Seychelles

Risks to Budget and Economic Outlook

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 2017 and the medium term poses a risk to the macro-economic indicators which will in turn affect 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 activities. These external 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 and the budgetary implication. For the purpose of this exercise we will consider two shocks scenarios; shocks on the nominal GDP and also shocks on Real GDP. In the latter part of this section, the risks associated with State Owned Enterprises will also be addressed.

Shocks on Nominal GDP Growth

Several shocks on nominal GDP is analysed below. Nominal GDP refers to the monetary value of all the finished goods and services produced within a country's borders in a specific time period evaluated at current market prices. Nominal differs from real GDP in that it includes changes in prices due to inflation or a rise in the overall price level. It is thus very sensitive to the rate of inflation.

The risks from low inflation rate were felt in last year's budget. When compared to the original macro forecast at budget time, the average rate of inflation was revised downwards by 3.2 percentage point. This alone (excluding the exchange rate effect and changes in previous NBS GDP estimates) resulted in a SR 555m, or 2.8 per cent, fall in the nominal GDP. The impact was however cushioned with a more favourable and relatively stable SR/USD rate and SR/EUR. 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 also poses a risk to the Nominal GDP.

GDP Rebasing by the National Bureau of Statistics

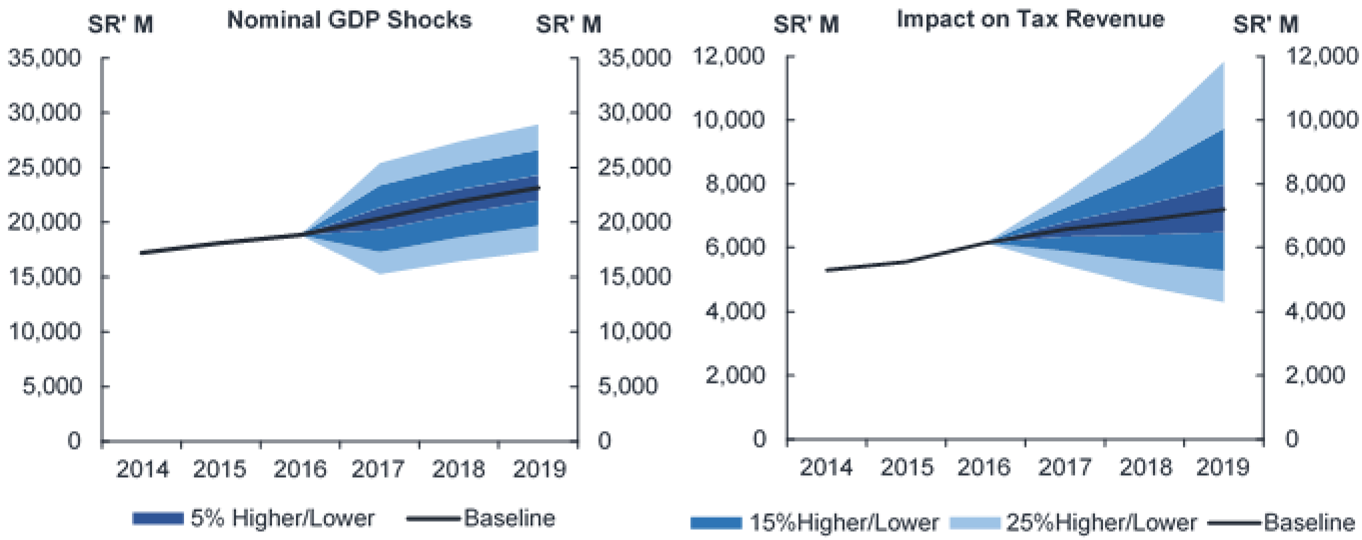
In relation to the Nominal GDP, the planned exercise to rebase the GDP and make changes in methodology by the NBS in 2018, will have an immediate impact on the nominal GDP. It is difficult for now to have a preliminary indication of the effect of such change, however other countries experience has shown that the effect could result in an increase in nominal GDP as high as 25 per cent as was the case in Kenya in 2014.

Budgetary Impact

Nominal GDP affects directly ad-valorem taxes primarily the VAT which accounts for almost 30 per cent of the tax revenue. Sensitivity analysis shows that a 1 per cent increase in the nominal GDP growth will increase tax revenue by around SR 45.5m, or 0.7 per cent. For example an unforeseen 25 per cent increase in nominal GDP growth, will increase the 2016 forecasted tax revenue by SR 1,138m, or 17.5 per cent. Using the same rationality, an unanticipated 15 per cent fall in nominal GDP growth will result in a SR 683m, or 10.5 per cent, fall in tax revenue.

Bearing in mind all the above stated factors that can affect Nominal GDP, the fan chart below shows a 5 per cent, 15 per cent, 25 per cent (positive and negative) fluctuations in nominal GDP level from the baseline (left hand side graph). Additionally the impact these will have on the tax revenue is presented in the right hand side graph.

Figure 5: Nominal GDP and Tax Revenue; 5%, 15% and 25% Positive/Negative shocks from Baseline



Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Shocks on Real GDP Growth

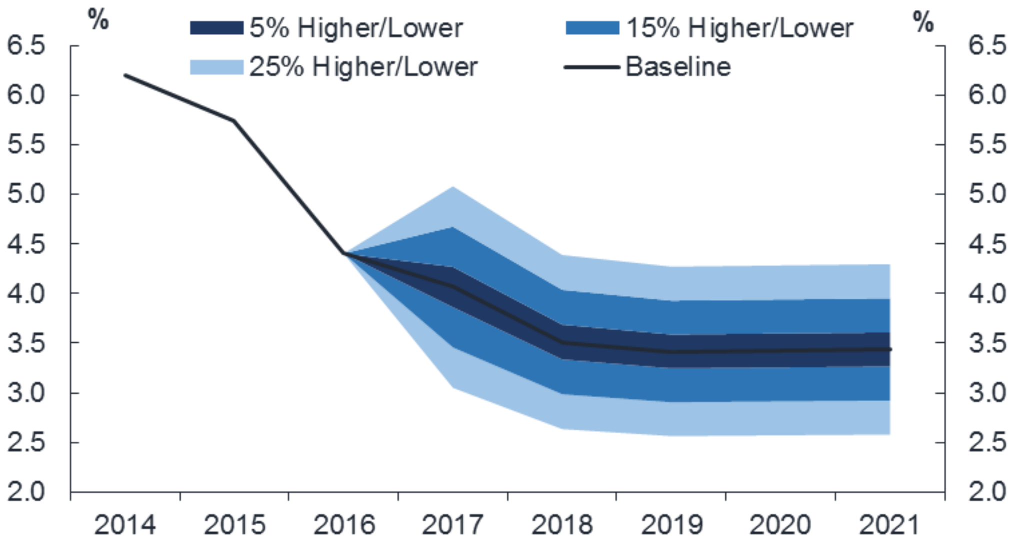
In this section different shocks to the Real GDP is presented. Real GDP growth is affected directly by activities in the economy. One such activity is Tourism. The Seychelles economy remains highly dependent on tourism which is estimated to contribute to about 29 per cent to the GDP. Any unforeseen changes in the sector will have an immediate impact on the Real GDP growth and subsequently affect other economic indicators. Tourism is mainly affected by changes in arrivals and changes in average length of stay. It is estimated that a 1 percentage point increase in Tourism growth will translate into a 0.2 per cent increase in Real GDP growth.

Budgetary Impact

Real GDP affects directly specific taxes, that is, taxes which are based on volume rather than value. Sensitivity analysis shows that a 1 per cent increase in the real GDP growth will increase tax revenue by around SR 11.5m, or 0.2 per cent. So in the extreme case scenario being considered below, if there is a 25 per cent fall in real GDP (other things remaining constant), tax revenue will fall by about SR 288m.

The fan chart below presents scenarios of various fluctuations, both on the upside and downside, to the Real GDP growth compared to the baseline forecast.

Figure 6: Real GDP Growth; 5%, 15% and 25% Positive/Negative shocks from Baseline



Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

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.

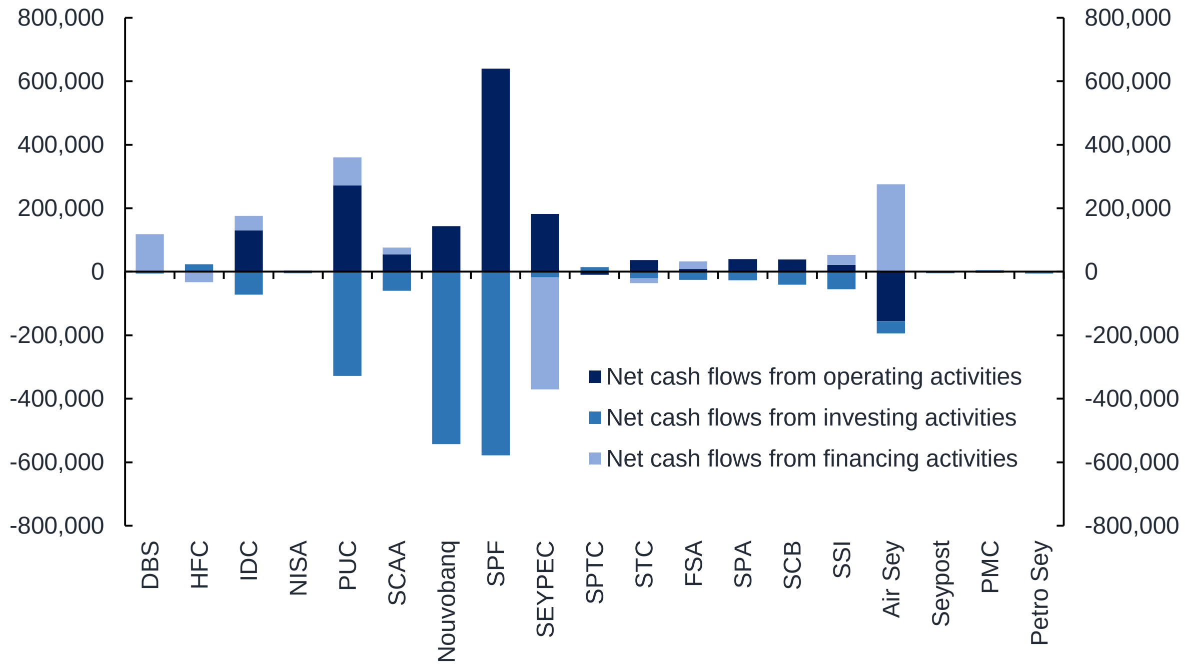
The level of risks posed by the public enterprises is closely monitored through regular submission of performance data to the Public Enterprise Monitoring Commission (PEMC). When entities fail to provide such data in a timely manner, effective monitoring is hindered and consequently a risk of timely 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. Further, beginning 2017, PEMC will start preparing a Fiscal Risk Statement (FRS) which will identify the source of fiscal risks from SOEs.

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 7 have slowly grown over the past years and at year end 2015 showed a positive consolidated figure of SR 1.3bn.

Figure 7: Net Cash Flow from Operations of SOEs

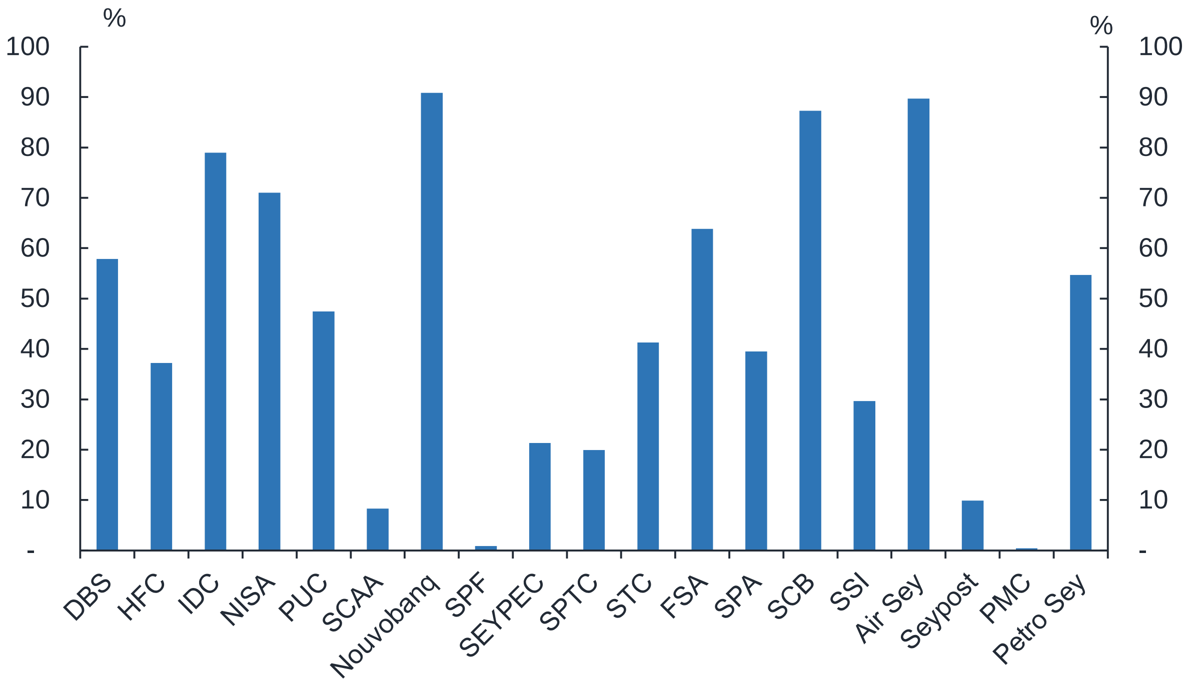


Source: PEMC

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. The aggregate SOEs non-guarantees debt was estimated at 37 per cent of the GDP which constitutes a sizeable implicit contingent liability as at September 2016. PEMC will be developing targets for debt/equity ratios and interest charges as proportion of revenue of SOEs.

Figure 8 overleaf shows the ratio for total debt as a percentage of total assets for public enterprises at year end 2015. The figures are seen to vary across the different enterprises whilst the average figure nonetheless remains fairly low at 32 per cent.

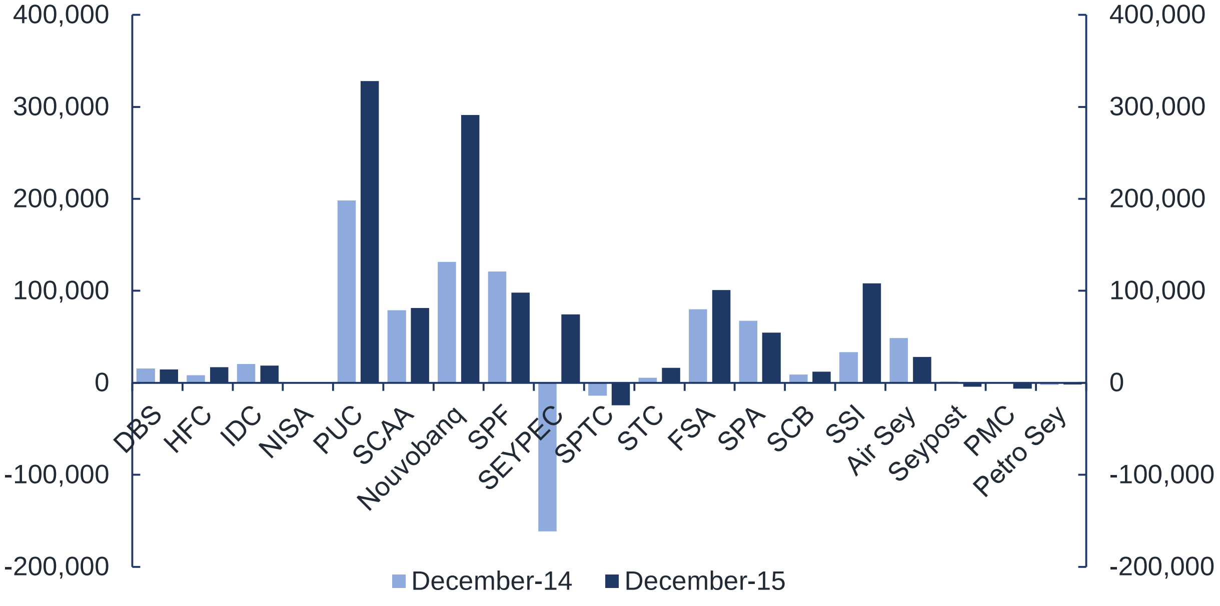
Figure 8: Debt to Asset Ratio of SOEs



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 2015 was compared against the outcome as at December 2014. This is shown in Figure 9 overleaf. Apart from Seychelles Public Transport Corporation which is reporting losses for the two consecutive periods, four SOEs namely National Information Services Authority (NISA), Seychelles Postal Services, Property Management Corporation(PMC) and Petro Seychelles have reported losses as at December 2015. On the same note, there are cause for concerns regarding the performance of few other SOEs which has reported a decrease in their financial performance, namely DBS (-8 per cent), IDC (-9 per cent), NISA (-88 per cent), SPF (-23 per cent), SPA (-24 per cent), Air Seychelles (-72 per cent) and Petro Seychelles (-28 per cent). This situation is not only denying the Government dividends, but is also raising concern of potential future burden on the state. However, there are improvements in performances for certain public enterprises, which will thus reduce the prospect of going on Government Budget.

Figure 9: Profitability of SOEs



All figures in graphs are only from Audited Financial Statements for year end 2015 received by the Commission from Public Enterprises at date.

Public Finance Management Reforms

Seychelles continues its progress on structural reforms to strengthen macroeconomic and financial stability, build policy buffers, and foster sustained and inclusive growth. Progress on the reform agenda is reviewed by the International Monetary Fund (IMF) under the Extended Fund Facility (EFF) Arrangement. Seychelles authorities conducted discussion with IMF staff mission during October 2016 to conduct and reached agreement on a framework that would facilitate the completion of the fourth and fifth review under the program. The agenda of reforms are proposed in its Seychelles Memorandum of Economic and Financial Policies (MEFP) with IMF.

Programme Performance Based Budgeting (PPBB)

2016 is an important year for the implementation of the Programme Performance Based Budgeting (PPBB). A total of 5 portfolio Ministries are operating their 2016 budgets through PPBB. The rest of Government is to embark on this process for the 2017 budget. However, given the limitations in terms of capacity within the Ministry of Finance, Trade and Economic Planning and the portfolio ministries as well to spearhead this reform across the full government, the complete roll out will be staggered over a three-year period. However, the PPBB will be introduced on a presentational basis for the remaining portfolio ministries in 2017. The move to full PPBB, through the introduction of medium term strategies and performance indicators, would then be unfolded to all Portfolio Ministries in a phased manner, with the aim to cover all the ministries by the 2019 budget. The authorities continue to be supported by the World Bank to ensure the transition is carried out smoothly.

Continuing to assess the country’s performance in line with Public Financial Management initiatives, a Public Expenditure and Accountability Framework (PEFA) was launched in the third quarter of 2016, following some technical delays. Following this, the PFM action plan will be revised and submitted to Cabinet for approval.

Public Private Partnership (PPP)

The Government with technical assistance from the African Development Bank is currently in the process of developing the PPP regulatory and operational framework. The draft regulations were prepared by the consultants and were presented to the relevant stakeholders for validation in a workshop held in November 2016. The final PPP regulations are expected to be presented to the cabinet for approval in December 2016.

A PPP Development Report comprising of a PPP implementation manual and other documents to guide the operational aspects of PPP identification, appraisal, management and monitoring and evaluation is also currently being developed and should be finalized in December 2016. The output from this report will also inform the Government on capacity building required across all levels of Government. Capacity building activities are expected to start in January 2017.

The consultancy firm is also in the process of reviewing prospective projects under consideration by the Seychelles Government to propose a bankable PPP pipeline for the country. The pipeline is expected to be in place in December 2016.

State Owned Enterprises (SOE)

On SOEs we continue to intensify our efforts to strengthen the overall corporate governance. The Public Enterprise Monitoring Commission (PEMC) has adopted the approved OECD Code of Governance. The Commission is using this code as a basis for developing a Code of Governance to be adopted by Public Enterprises upon approval of the Cabinet. To facilitate Board nomination process on PE boards, the Commission shall initiate the creation of an Institute of Directors as well as providing training for Board appointees. In 2017, the Commission envisages to undertake governance and operational/business assessments on another six Public Enterprises.

For effective government oversight and to enhance accountability a State Ownership Policy separating the state's ownership function from its policy and regulatory functions will be developed which would further enhance the Commission's monitoring role.

The SOE Annual Financial Statements (AFS) have been consolidated under the IPSAS regime by the Public Enterprise Monitoring Commission and audited by the Office of the Auditor General with the exception of one SOE's which at the time of producing the accounts had not yet submitted its audited financial statements. This consolidated SOE account has been integrated with the central government Annual Financial Statement for 2015, which is currently being finalized with the Office of the Auditor General. PEMC will continue to work with the remaining entities to ensure a full consolidation of government accounts in 2017.

Budget Outlook

This has been a challenging year where the Government had to balance priorities to address pressing social concerns resulting in fiscal policy being more expansionary. However, the Government of Seychelles is on target to achieve a primary surplus of 3.3 per cent of GDP by the end of 2016, equivalent to SR 613m (Table 2 below). When compared to the initial primary surplus target of SR 768m, this represents a fall by about 0.5 percentage points from 3.8 per cent of GDP. Although the envelop is now larger having increased by about SR 200m in light of good Tax and Non-tax performance, total primary expenditure has seen a larger increase, by about SR 356m given increased pressure on wages, goods and social welfare based on the social announcements that were done in the President state of the nation address in February 2016 to address the issues of poverty based on the household budget survey..

The primary fiscal target for Government remains the reduction of public debt to 50 per cent by 2020 (previously 2018). In 2017 and in the medium term, the Government is committed to maintain a primary surplus of 3 per cent of GDP as this corresponds to the discipline needed to ensure the targeted pace of debt reduction to more sustainable levels. As such, primary expenditure will be kept in check to remain lower than total revenue.

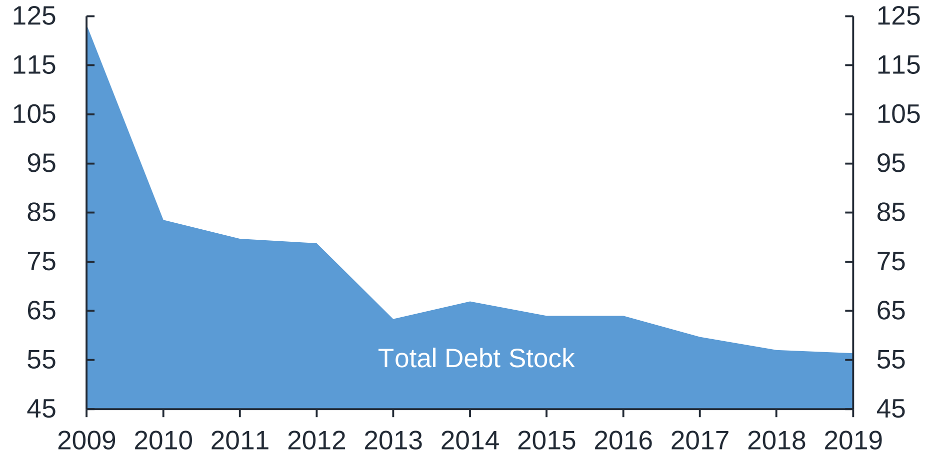
Table 2: Government Revenue and Expenditure Projections, SR'000s

Description	2015 Actual	2016 EOY	2017 Budget	2018	2019
Revenue & Grants	6,361,777	7,481,441	8,362,660	8,449,607	8,624,228
Primary Expenditure	5,595,774	6,868,665	7,752,584	7,787,637	7,940,818
Primary Balance:	**766,003**	**612,776**	**610,075**	**661,970**	**683,410**
% of GDP:	**4.2**	**3.3**	**3.0**	**3.0**	**3.0**

Source: MFTEP, MFAD, FPCD

By the end of 2016, a total of SR 322m in external debt service payments will have been made and the stock will stand at 64 per cent of GDP. Figure 10 below shows the sharp reduction in Debt since 2009.

Figure 10: Total Debt Stock as a ratio to GDP, 2009-2019



Source: MFTBE, Debt Division

Revenue & Grants

As can be seen from Table 3 below, total Government revenue (including Grants) for 2016 is estimated to reach about SR 7.5bn, equivalent to 39.8 per cent of GDP. This represents an upward revision of 3 per cent or by about SR 200m from the initial Budget estimate of SR 7.3bn and about 12 per cent over 2015 receipts. The 2016 year end estimate is being driven primarily by over-performances in Non-tax revenue, more specifically Dividend income, which, coupled with a much better outlook in Tax revenue (despite the introduction of certain revenue losing policies), will more than offset a significant shortfall in Grants.

2017 will be another buoyant year for total Government revenue which is estimated at SR 8.4bn, returning to 2012 levels with a high ratio to GDP of 41.2 per cent. This represents an estimated growth of about 12 per cent over 2016 and is being driven mainly by exceptional Grant receipts (an increase of over 200 per cent). Despite the costly introduction of a Progressive Income tax (PIT) system in 2017, Tax revenue is expected to grow steadily in line with GDP, aided by a large Stamp Duty windfall payment (See Other tax section page 40) as well as other policies. On the other hand, Non-tax will remain flat in 2017. A gradual slowdown of total revenue is projected over the medium term which will fall to about 37 per cent of GDP on average. This shift mainly reflects lower expected grant income, returning to more normal levels in 2019.

Table 3: Breakdown of Medium Term Revenue Projections, SR'000s

REVENUE & GRANTS	2015 Actual	2016 EOY	2017 Budget	2018	2019
Tax Revenue	5,557,794	6,146,958	6,572,842	6,851,626	7,193,621
Non-Tax Revenue	659,611	1,117,038	1,112,929	1,144,073	1,155,948
Grants	144,372	217,445	676,889	453,908	274,658
Total Revenue & Grants:	**6,361,777**	**7,481,441**	**8,362,660**	**8,449,607**	**8,624,228**
% of GDP:	**35.1**	**39.8**	**41.2**	**38.6**	**37.3**

Source: MFTEP, MFAD, FPCD

Tax Revenue

Tax revenue performance in 2016 has been buoyant – collections up to October 2016 are 11 per cent higher than that over the same period in 2015, with VAT remaining the largest contributor to total tax (Table 4 overleaf).

Total tax collections for 2016 is estimated to amount to SR 6.15bn, equivalent to 32.7 per cent of GDP. When compared to the initial Budget, this represents a 3 per cent increase and only a slight increase of SR 18m (or 0.3 per cent) on top of the mid-year estimate – primarily the result of large upward revisions in Business and Excise taxes being countered by a significant lowering of the Other tax.

Business tax has been revised by about SR 86m to account for exceptional assessment income from companies which had performed better than expected in 2015. The Excise tax estimate, on the other hand, has been increased by about SR 61m, the majority of which has been due to over-performances in Excise on imports (more on this below). Offsetting these increases (as well as lesser increases in Income and Trade taxes), is a large reduction by almost SR 150m in the Other tax estimate. This is due to the timing of a large SR 220m stamp duty payment – now to be processed in two tranches, the bulk of which to be received in 2017.

Table 4: Tax revenue ratios to GDP

Description	2015 Actual	2016 EOY	2017 Budget	2018	2019
Total Tax Revenue (SR' bn):	**5.56**	**6.15**	**6.57**	**6.85**	**7.19**
Top tax revenue earners ranked			***Ratios to GDP (%)***		
Value Added Tax	9.9	10.3	10.5	10.5	10.5
Excise Tax	5.3	6.0	6.4	6.1	6.0
Business tax	4.2	5.2	5.0	5.0	5.0
Income Tax	5.2	4.9	4.2	4.2	4.2
Other Tax	3.5	3.6	3.9	3.1	3.0
Trade tax	1.8	1.9	1.6	1.6	1.6
Corporate Social Responsibility Tax	0.4	0.4	0.5	0.4	0.4
Tourism Marketing Tax	0.3	0.2	0.3	0.3	0.3
Total :	**30.7**	**32.7**	**32.3**	**31.3**	**31.1**

Source: MFTBE, Macroeconomic Forecasting & Analysis Division estimates

Import taxes – Excise and VAT on imports as well as customs duty – have performed strongly so far in 2016, resulting in an 18 per cent over-performance as at October over the initial Budget. On a year on year basis, import tax collections as at October 2016 are 24 per cent higher than in 2015. Driving this outturn are Alcohol imports, which account for a little over a tenth of total imports. Box 1 on page 26 provides further analysis on this issue.

In 2017, tax revenue is estimated to reach SR 6.57bn (Table 4 on the previous page), equivalent to 32.3 per cent of GDP, with VAT estimated to scale the SR 2bn mark for the first time and with collections in both Excise and Business taxes to also be greater than SR 1bn. Income tax was also on track to reaching such levels had it not been for the PIT introduction. Table 5 provides a list of all revenue policies intended for 2017.

Table 5: Cost of Tax revenue policies in 2017 (SR'000s)

Description of Policies	2017 Cost
Revenue losing	
Income Tax	
Phase 2 2016 extended to July 2017 & PIT effective July 2017	(160,261)
Revenue Gaining	
Excise tax	
10% increase in ET rate alcohol for all products with <16% content	16,130
Increase of SR 0.5/l on Petroleum tax rate	33,400
Increase in Hybrid Motor Vehicle rates	10,800
10% increase in tax for Tobacco products	12,700
Tourism Marketing tax	
Inclusion of Construction Class 1 and Casinos	14,199
Other tax	
General review of licence fees	14,200
Property Tax	10,000
TOTAL:	**(48,832)**

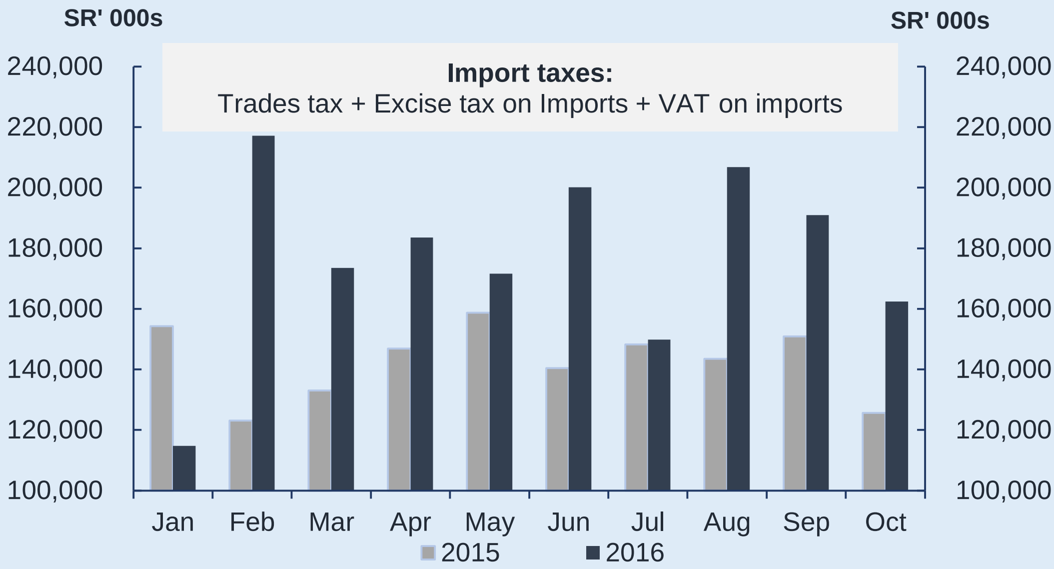
Source: MFTBE

Over the medium term continued growth in tax revenue is projected, albeit at a lesser pace, given the downward effect of the PIT, as well as the removal of windfall payments from the base. This can be seen by the fall in the average ratio to GDP to about 31 per cent of GDP for 2018 and 2019, as compared to 32 per cent in 2016 and 2017.

Box 1: Performance of Alcohol Import taxes in 2016

Import taxes have performed well in 2016. The figure below depicts the monthly trend of collections of total import taxes in 2016 compared to 2015. At face value, the performance of import taxes looks to be a structural issue (whereby the overall import demand in the country has increased) given the consistent over-performances.

Figure 11: Monthly Import tax collections, 2016 over 2015



Source: MFTBE, Macroeconomic Forecasting & Analysis Division estimates

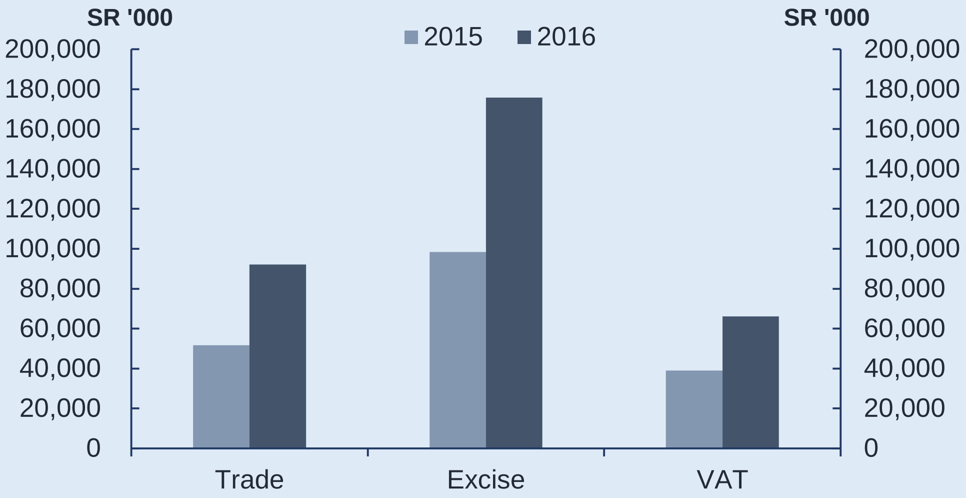
Looking deeper at the import tax revenue lines, this outturn is being specifically driven by Alcohol imports, which account for a little over a tenth of total imports. The total tax revenue collected from imported alcohol by the end of October was about SR 334m. This represents a 77 per cent increase in revenue collected compared to the same period last year. The detail breakdown of the tax collection is shown in the table and graph below.

Table 6: 2015 and 2016 taxes paid on Imported Alcohol (SR' m)

Year	*Comparison Up to October*			Total
	Trade	Excise	VAT	
2015	51.6	98.5	39	**189.1**
2016	92.1	175.7	66.1	**333.9**
Difference	**40.5**	**77.3**	**27.1**	**144.8**
Growth (%)	**78**	**78**	**69**	**77**

Source: Macroeconomic Forecasting & Analysis Division and DICT, ASYCUDA data

Figure 12: 2015 and 2016 taxes paid on Imported Alcohol (SR' m)



Source: Macroeconomic Forecasting & Analysis Division and DICT; ASYCUDA data

We have considered several factors that may be driving the increase in taxes on imported alcohol. This over-performances in import taxes occurred within the context of a decline in locally manufactured alcohol in 2016. The NBS reports that as at the third quarter, beer production has fallen by 5 per cent and spirits production by 26 per cent. Stout also fell by 17 per cent in the first half of the year but has since rebounded in quarter 3 to a positive growth. This decline in local production, coupled with now more disposable income for a large majority given the generous 2016 income tax reforms, seems to have effectively increased demand on import substitutes of alcohol. Local manufactured products are now facing fierce competition from imported alcohol.

Increased demand can also be explained by the frequent political rallies and other related activities in preparation for the parliamentary election in September 2016.

On the tax collection side, a factor to explain this increase is related to customs tightening efforts by the SRC during 2016. According to the SRC, Bonded warehouse keepers had been removing goods without declaration and payment. This has resulted in under collection of taxes on these goods, particularly alcohol. Actions have been taken this year to collect outstanding debt and ensure stricter control and monitoring. Therefore, better compliance also explains the increased revenues on alcohol imports this year. This implies that the over-performances in 2016 is not only due to increased imports but also due to more efficiency in collections.

The Ministry of Finance will continue investigating this performance closely to ensure minimal budgetary impact in 2017.

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.

As of the 1st of July 2017, the current Income tax regime will be replaced by a progressive system with different rates applicable at different income brackets. This will enable more vertical equity and will ensure that the tax burden is lessened on the low income earners.

2016 Context

In 2016, Income tax has faced several policy changes in preparation for the introduction of the Progressive income tax system in 2017, and as such has led to uneven monthly collections as tax payers have adjusted to the spate and pace of the new policy changes.

To recap, in 2016 Income tax reforms were in two phases, an initial phase in April exempted from tax all earners up to the newly revised minimum wage of SR 5,050 per month, whilst the second phase as of July increased the exemptions to monthly wages up to SR 8,555.50. Both policies also ensure that those earning monthly wages slightly above these amounts do not take home less.

By the end of October 2016, Income tax collections had reached SR 784m, about SR 23m (or 3 per cent) higher than the mid-year revised estimate[1] for this tax, and only SR 5m higher than over the same period in 2015. This would have been higher, had it not been for the policies mentioned above. Better performance has been from the Private and Government sectors whilst he 'Other Public sector' has been on target.

Given this, the end of year estimate for Income tax has been revised upwards from SR 884m to reach SR 922m, an increase of about 4 per cent. In terms of ratio to GDP, this represents 4.9 per cent in 2016 (Table 7 below – a decrease of 0.3 percentage points when compared to 2015.

[1] It must be noted that the initial Budget 2016 estimate was lowered to factor in the Income tax policies announced at the State of the Nation Address in February 2016, and that compared to the initial Budget, the year to date performance would have been a shortfall of about SR 75m.

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

Income Tax	2015 Actual	2016 EOY	2017 Budget	2018	2019
Central Government	253,962	245,711	225,626	243,130	257,039
Other Public Sector	118,671	114,991	105,530	113,717	120,222
Private Sector	575,116	561,701	515,985	556,015	587,823
Total Income Tax:	**947,749**	**922,402**	**847,140**	**912,862**	**965,084**
% of GDP:	**5.2**	**4.9**	**4.2**	**4.2**	**4.2**

Source: MFTBE, Macroeconomic Forecasting & Analysis Division estimates

2017 Policy Changes

As of the 1st of July 2017, the Government will introduce sweeping reforms in this tax line to convert the current regime of a flat 15 per cent tax rate on employment income to a Progressive Income tax (PIT) system on broader income with various rates applicable at different thresholds, in line with its mandate to promote income equality and uphold social justice. Box 2 on the following page provides a summary of the main features of this new tax for 2017.

Given the mid-year implementation for the PIT, the current policy of exempting from tax monthly wages up to SR 8,555.50 (whilst also mitigating the impact on those earning slightly above this level) introduced in July 2016, will continue to be applicable until June 2017. Table 8 below summarises the cost of these aforementioned Income tax policies in 2017.

Table 8: Cost of Income tax policies 2016-17 (SR'000s)

POLICIES	2016 EOY	2017 Budget
Minimum wage exemption: April to June 2016	14,131	
SR 8,555.50 exemption: June to Dec 2016	127,321	
SR 8,555.50 exemption: Jan - June 2017		119,355
2017 PIT system: Effective July 2017		182,358
Total Policy cost:	**141,452**	**301,713**
Additional cost to 2017 Budget*		**160,261**

Source: MFTBE, Macroeconomic Forecasting & Analysis Division estimates
*Taking into account effect of 2016 policies on the base

2017 Projection and the Medium Term

Despite the high cost of the Income tax policy measures in 2017, this tax will still remain a key revenue earner for Government with an estimated outturn of about SR 847m, equivalent to 4.2 per cent of GDP. As a proportion to total tax revenue, Income tax now accounts for 13 per cent, having previously attributed about 17 per cent on average to total receipts. Collections from the 'Private sector' is estimated to again form the bulk (about two thirds) of collections, followed by 'Central Government'.

Over the medium term, Income tax collections are expected to grow steadily and in line with Nominal GDP (as is evident by the constant ratios).

Box 2: Progressive Income tax in 2017

As announced in the State of the Nation Address in February 2016 by former President Michel, a progressive Income tax (PIT) system will be implemented in 2017 to replace the existing flat 15 per cent Income tax regime that has been existence since 2010. An IMF technical assistance mission with tax experts undertook a review of the current system in January 2016 and assessed the scope for the introduction of a PIT.

Progressive taxation

In broad terms, a progressive tax is a tax system in which the tax rate increases in line with the taxable base amount, where *progressive* refers to the manner in which the rates rise from low to high. The result is that, although a taxpayer's marginal tax rate (the tax on an additional Rupee) increases as you go up the brackets, the person's effective or average tax rate (tax amount over total income) will be less. For such a system to be effective, a broad tax base is needed comprising of all income and not just employment income.

Why introduce a PIT?

A PIT system is based on the concept of vertical equity and ability to pay, and so takes a larger percentage of tax from high-income earners than from low-income groups. Such a system is regarded as 'fairer' and will help alleviate the incidence of poverty, as well as being an essential feature in the strategy to reduce income inequality.

On the issue of poverty reduction, more specifically on income poverty, a key feature of the 2017 PIT system of 2017 will be a tax free threshold of SR 8,555.50 per month below which no income tax is applicable (further details provided below). This will cover incomes up to and above the poverty lines (SR 3,656 for food and SR 3,945 for per month, NBS Poverty estimates 2015) and will provide relief to the more vulnerable people within the society.

The PIT system in 2017

It had been the intention of the Government to introduce the PIT in January 2017 for all Seychellois and July 2017 for expatriate workers. In light of delays, the decision has been taken to push the implementation date for Seychellois workers to July 2017.

- **Therefore the full PIT system is expected to be effective as from the 1st of July 2017 for all workers.**
- **This is estimated to cost about SR 182m in 2017**

The PIT system will have the following features:

- A broader taxable base given the taxing of previously non-taxable income;
- A tax free threshold of SR 8,555.55 per month applicable only to Seychellois;
- A top rate of 30 per cent aligned to that of businesses under the Business tax. This will be applicable for incomes above SR 1m per annum, or a monthly equivalent of about SR 83,333.33 per month;
- Revenue neutrality at a monthly income of about SR 35,700, equivalent to SR 428.4k per annum (incomes at this level will not be impacted by the PIT as the effective tax rate is at 15 per cent similar to the current regime).
- The same progressive system for expatriate workers but with **no tax free threshold**.

It must be noted that the PIT system will be based on **total annual income**, but is being presented using monthly examples as the policy was announced looking at monthly wages of individuals.

Table 9: PIT tax rates 2017 for Seychellois and Expatriate workers

Annual Income (SR)	Monthly Incomes (SR)		Rates (%)	
Thresholds	From	To	Seychellois	Expatriates
102,666	0	8,555.50	0	15
120,000	8,555.51	10,000	15	15
1,000,000	10,001	83,333	20	20
> 1,000,000	> 83,333		30	30

Policy cost 2017	
Full year cost	SR 365m
Half year cost	SR 182m

Cut-off monthly incomes	
Seychellois	SR 35,700
Expatriate workers	SR 10,000

Source: MFTBE, Macroeconomic Forecasting & Analysis Division estimates

From Table 1,

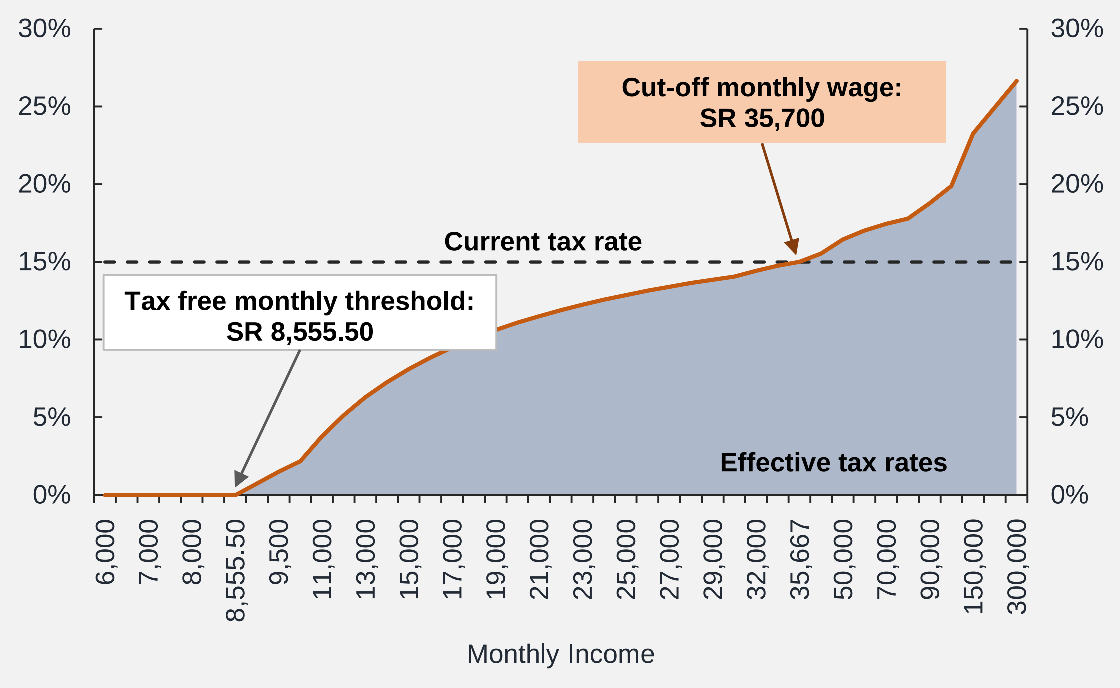
- Seychellois workers earning below SR 35,700 per month level (about **98% of Seychellois workers**) will see a reduction in their tax burden
- Expatriate workers earning above the SR 10,000 per month level (about **25% of expatriate workers**) will see an increase in their tax burden

Table 10: Who benefits from the PIT in 2017?

Threshold	Effective Tax applicable	No. Seychellois	% of Total labour force	% of Sey labour force	Benefit
Up to SR 8,555.50	No tax	20,222	47	55	No tax Burden
From SR 8,555.51 to SR 35,700	10% on average	16,159	38	43	Reduction in tax burden
At SR 35,700	15%	2	<0.001	<0.001	No change
Greater than SR 35,700	>15%	619	1	2	Increase in tax burden

Source: MFTBE, Macroeconomic Forecasting & Analysis Division estimates

Figure 13: Seychellois workers effective tax rates under the PIT



Source: MFTBE, Macroeconomic Forecasting & Analysis Division estimates

The chart above depicts the progressivity of effective tax rates as monthly incomes increase under the PIT system in 2017. As can be seen,

- Up to monthly incomes of SR 8,555.50, the effective tax rate is 0 per cent as this is the tax-free threshold.
- Effective tax rates increase and cross the current flat rate of 15 per cent at a monthly income of about SR 35,700.
- Monthly incomes below SR 35,700 will enjoy a lower tax burden, while those above this level will face a higher burden

Trades Tax

Background

Trades tax is levied on specified goods that are imported to Seychelles based on their CIF (Cost, Insurance and Freight) value. 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 motor vehicles have been transferred out of Trades tax to Excise tax.

2016 Context

The EOY projection for 2016 is SR 369m which is SR 71m higher than the initial budget projection (Table 11 overleaf). This is largely a classification issue whereby the 'Levy' forecast of SR 63m was added back to Trades tax after being initially place under Other tax for 2015. This has resulted from a lengthy delay in its transfer and it will continue to be forecasted under Trades tax until the transfer is confirmed. Alcohol collections over-performed strongly throughout the first three quarters of 2016 and had to be revised upwards by SR 56m. Collections up to the end of September were 72 per cent, or SR 49m, higher than the same period last year. This is believed to be largely due to frequent political rallies starting unexpectedly early in the year, in the build-up to September parliamentary elections.

'Motor Vehicles' were revised downwards by SR 25m as a result of it being transferred out of Trades tax and into Excise tax in August 2016. Trades tax 'Others' and 'Textiles' under-performed throughout 2016 and the forecast was reduced by SR 20m and SR 5m respectively.

Policy Changes

The main policy change in 2016 was the transfer of 'Motor Vehicles' from Trades tax to Excise tax as mentioned above. This was effected by S.I 19 of 2016. Furthermore, as a result of Trade agreements, there were minor reductions in the tariffs on a variety of goods imported from the EU, SADC and COMESA regions. For example, rates on juices were reduced from 20 to 17.5 per cent.

2017 Projection and the Medium Term

The projected 2017 revenue for Trades tax is SR 335m, which is SR 34m lower than the 2016 projection. This is mainly due to the transfer of 'Motor Vehicles' Trades tax to Excise tax which amounts to a SR 41m reduction. Alcohol collections are expected to be SR 19m lower in 2017 as, unlike 2016, it is not an election year. On the other hand, SRC's strategy to better enforce import tax collections in 2017 is expected to yield more revenue and hence Trades tax 'Others' collections is forecasted to be SR 20m higher.

Table 11: Trades Tax Projections 2016-2019, SR'000

TRADES TAX	2015 Actual	2016 EOY	2017 Budget	2018	2019
Trades Tax Direct Imports	**330,799**	**370,294**	**338,490**	**355,918**	**371,320**
Alcohol	97,078	157,111	137,862	142,705	147,582
Petroleum	-				
Textiles and textile articles	25,727	23,366	25,233	27,191	28,746
Motor Vehicles	57,453	41,146	-	-	-
Tobacco	1,885	1,968	2,048	2,119	2,192
Prepared Food	18,592	19,110	20,637	22,238	23,510
Others	77,227	62,245	82,218	88,596	93,665
Levy	51,222				
Documentary Charges	1,615	2,195	2,371	2,555	2,701
Trade Tax Exemptions	**(4,527)**	**(5,000)**	**(5,000)**	**(5,000)**	**(5,000)**
Total Trade Tax:	**326,272**	**365,294**	**333,490**	**350,918**	**366,320**
% of GDP:	**1.8**	**1.9**	**1.6**	**1.6**	**1.6**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division 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 these goods, other than motor vehicles, is specific.

Imported petroleum products account for the highest contribution to the Excise Tax, amounting to about 47 per cent of the total. 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.

2016 Context

Excise tax have performed strongly in 2016. This tax have been revised upward by SR 117m, or 11 per cent compared to the original Budget. The upward revision is mainly attributed to the significant over-performance in imported alcohol and also due to a reclassification issue. Tax collection on imported alcohol was revised upward by SR 51m during Mid-year Budget revision and a further SR 38m for the end of year forecast. The strong performance partly follows SRC's 'Enforcement Strategy' to recover debts and tighten revenue collection for bonded warehouse. Furthermore the frequent political rallies in preparation for the parliamentary election may have also contributed for the increase in alcohol importation.

Compared to Budget, an extra SR 42m has been added to Motor vehicles. This is mainly related to the transfer of Trades tax revenue for this line which had been converted into Excise tax.

Policy Changes

Several Polices have been tabled under Excise tax for 2017. The *raison d'être* behind these policies follows Government continuous effort to address the social ills of excessive alcohol and tobacco consumption and as part of its strategy in addressing the excessive traffic congestion. The following policies are to be implemented in January 2017:

- A **10 per cent** increase in the Excise rate on beer, wine and all alcoholic beverages with alcoholic content of less than 16 per cent. This will be on both imported and locally manufactured;
- A **10 per cent** increase in the Excise tax rate of both imported and locally manufactured Tobacco;
- **SR 0.5 per litre** increase in the Excise tax rate on Petroleum products, namely fuel oil, gas oil, Mogas (leaded and unleaded), LPG and Lubricants;
- Increase the Excise rate on Hybrid depending on the engine capacity of the vehicles;

A list of the proposed policies is listed in the table below along with its revenue implication.

Table 12: Proposed Excise Tax Policies for 2017 and Revenue Impact

Policy Proposal	Proposed Rate Increase	Estimated Revenue Impact (SR 'M)
1) Increase in Excise tax rate for beer, wines (and all < 16% alcohol)		
- Import	10% of applicable rate	7.1
- Local	10% of applicable rate	9.0
2) Increase in Excise tax rate on Tobacco		
- Import	10% of applicable rate	0.70
- Local	10% of applicable rate	12.0
3) Increase in Excise rate on Petroleum	SR 0.5/l on applicable rate	33.4
4) Increase Excise on hybrids		
<=1600cc	25% of applicable rate	10.8
>1600 <=2000cc	50% of applicable rate	
>2000cc <=2500cc	75% of applicable rate	
>2500cc	100% of applicable rate	
Total Revenue Gain:		**73.0**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

The **Appendix** shows the current applicable rate on the aforementioned items.

2017 Projection and the Medium Term

The table below shows Excise tax projections for 2017 and the medium term. Excise tax collection is expected to increase by SR 156.7m, or 13.8 per cent, compared to 2016 as a result of new policy measures and more favourable nominal GDP growth. In the medium term, excise is expected to be around 6.0 per cent of nominal GDP.

Table 13: Excise Tax Projections 2016-2019, SR'000

EXCISE TAX	2015 Actual	2016 EOY	2017 Budget	2018	2019
Excise Tax - Imports	**680,069**	**838,213**	**961,828**	**1,000,894**	**1,038,187**
Alcohol (Beverages Spirits and Vinegar)	133,814	219,915	234,552	242,791	251,089
Petroleum (Mineral Products)	493,401	529,357	593,036	613,867	634,847
Motor Vehicles (Vehicles, Aircrafts, vessels)	44,409	80,125	124,365	134,013	141,680
Tobacco Imported	8,444	8,816	9,875	10,222	10,571
Excise Tax - Locally Manufactured Goods	**281,853**	**296,359**	**329,405**	**340,976**	**352,629**
Alcohol	144,046	154,392	169,664	175,624	181,626
Tobacco	137,806	141,967	159,741	165,352	171,003
Total Excise Tax:	**961,921**	**1,134,572**	**1,291,234**	**1,341,870**	**1,390,816**
% of GDP:	**5.3**	**6.0**	**6.4**	**6.1**	**6.0**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division 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 **1st of January 2013.**

2016 Context

As was the case in 2014 and 2015, there are still some GST arrears payments being collected this year. GST arrears amounted to SR 6.5m in 2014, SR 4.3m in 2015 and by the end of October 2015, a total of SR 757k had been collected. It is forecasted that around SR 867k will be collected by the end of the year.

2017 Projection and the Medium Term

As informed by SRC, no major arrears is foreseen in the short and medium term. Thus no projection is being made for GST.

Table 14: GST Projections 2015, SR'000s

GST	2015 Actual	2016 EOY
Arrears	4,268	867
Total GST:	**4,268**	**867**
% of GDP:	**0.0**	**0.0**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division 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 since 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 rate is currently at 15 per cent and it is the biggest tax line, accounting for 33 per cent of Tax revenue.

2016 Context

Compared to the mid-year revision, the VAT forecast have been revised downwards by SR 22m, or minus 1.2 per cent. This is mainly attributed to VAT on domestic goods and services which was revised downward by SR 56.5m resulting from a large unexpected refund to a large hotel. However, continuous strong over-performance on the Import side cushioned part of this downward revision. VAT on imports have been revised upwards by SR 34m, or 3.8 per cent compared to the mid-year estimates. Similar to other import taxes, namely Excise and Trade tax, this is attributed to continuous strong over-performances in imported Alcohol (refer to Excise tax).

Policy Changes

No policy changes is being proposed to VAT for 2017. However, Government is undertaking analysis to consider exempting more items in its effort to reduce living cost. This may have implication over the medium term.

2017 Projection and the Medium Term

The table below summarises VAT collection for 2017 Budget and the outer years. It is expected that collections will amount to SR 2,139m. VAT on Domestic goods and services will account for SR 1,157m, or 54 per cent, while VAT on imports is expected to be about SR 1,006m. In the medium term, VAT grows in line with nominal GDP and estimated to be around 10.5 per cent of GDP.

Table 15: VAT Projections 2016-2019, SR'000s

VALUE ADDED TAX	2015 Actual	2016 EOY	2017 Budget	2018	2019
VAT- Domestic	990,387	1,023,066	1,157,290	1,247,072	1,318,414
VAT- Imported Goods	832,598	931,732	1,006,375	1,084,450	1,146,488
VAT- Exemptions	(24,118)	(25,000)	(25,000)	(25,000)	(25,000)
Total VAT:	**1,798,867**	**1,929,798**	**2,138,664**	**2,306,522**	**2,439,902**
% of GDP:	**9.9**	**10.3**	**10.5**	**10.5**	**10.5**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division 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.

2016 Context

Business tax in 2016 is in the opposite situation to last year, whereby a total of SR 189m in refunds in 2015 put enormous pressure on this tax line compared to only SR 60 refunds (up to November 2016). 2016 PAYG from Companies was estimated to be SR 641m but stronger than expected performance from Companies in 2015 from different sectors resulted in significant assessment income - around SR 123m. Thus, the EOY forecast for Companies has been increased to SR 803m. It should be noted that collections from the revenue identified from SRC's audits was relatively unsuccessful and the amount was covered by other collections.

There was optimism for Sole Traders in 2016 as the prior year was the highest level it has ever been. This coincided with many policies directed at small and medium businesses' so it was expected that 2016 would perform the same. However, with consistent under-performance throughout the year, the forecast has been reduced for end of year by SR 11m.

Withholding tax was also kept at 2015 levels as it was the highest since 2009 but based on 2016 collections, it is necessary to reduce this line by SR 5m.

Tax collected on Residential Dwelling this year has shown growth higher than nominal GDP and this may be due to more properties being rented and/or higher rent being charged. The forecast has been increased to SR 47m from SR 41m from the start of the year.

The other lines; Partnerships, Trusts and Others, remain on track and are forecasted to bring in SR 16m, SR 33k, SR 193k and SR 47m respectively.

Policy Changes

The following policy changes to Business tax effective in 2017 are:

- The alignment of Sole Trader tax rates to progressive Personal Income tax rates.
- Increasing the rate for Professional under the Presumptive tax (PT) system to 5 per cent from 1.5 per cent.
- Increasing the rate for Non-Professionals with turnover between SR 500k to SR 2m under the PT system to 3 per cent from 1.5 per cent.

The budgetary impact of these policies are expected to be felt in the 2018 Budget due to the lodgement of returns a year after the activity has taken place.

2017 Projection and the Medium Term

Table 166 highlights the projections from 2017 to 2019 with all the lines expected to grow with nominal GDP growth over the medium term with the policies affecting the latter two years.

Business tax is forecasted to reach SR 1bn in revenue for the 2017 Budget – the highest it has ever been in the history of this tax line, representing about 5 per cent of GDP and 18 per cent of total tax revenue. It is growing on the back of strong Company growth which is 81 per cent on the Business tax line.

Companies in 2017 are expected to be higher than 2016 EOY levels as provisional tax issued is expected to be higher than 2016 PAYG. This follows an exceptional year when businesses' in certain sectors like the banking sector were doing extremely well. These sectors are expected to continue the good performance.

Like Companies, the rest of the lines are grown in line with nominal GDP growth of 7 per cent. As mentioned overleaf, there are policies pertaining to Sole Traders in 2017 whereby it is expected that SR 17m will be collected. This is almost a third of the amount collected in 2015 and represents a substantial increase in this tax line.

It should also be noted that there may be upside potential for Business tax as there are significant arrears outstanding as at the end of 2015 and given SRC's enforcement collection strategy some of this debt may be cleared.

Table 16: Business Tax Projections 2015-2018, SR'000s

BUSINESS TAX	2015 Actual	2016 EOY	2017 Budget	2018	2019
Companies	565,218	803,914	812,981	876,052	926,168
Sole Traders	48,583	36,872	39,818	59,895	63,322
Partnerships	12,699	16,186	17,479	18,835	19,913
Trusts	13	33	35	38	40
Withholding Tax	87,286	82,385	85,676	85,676	90,578
Others	413	193	208	225	237
Residential Dwelling	42,753	47,491	51,285	51,285	54,219
Total Business Tax:	**756,966**	**987,074**	**1,007,483**	**1,092,006**	**1,154,477**
% of GDP:	**4.2**	**5.2**	**5.0**	**5.0**	**5.0**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Corporate Social Responsibility Tax

Background

Corporate Social Responsibility Tax (CSR) was introduced Tax in 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.

2017 Context

CSR tax has continued growing in 2016 – collections are estimated to reach SR 84m by the end of the year, equivalent to 0.4 per cent of GDP (Table 17 below). This equates to a growth in revenue of 6 percent from 2015, where collections amounted to SR 79m. Such growth is attributed to better compliance in what is now the fourth full year of implementation of this tax. This has translated to a broader base and as such the number of companies paying CSR in 2016 has more than doubled as compared to 2013.

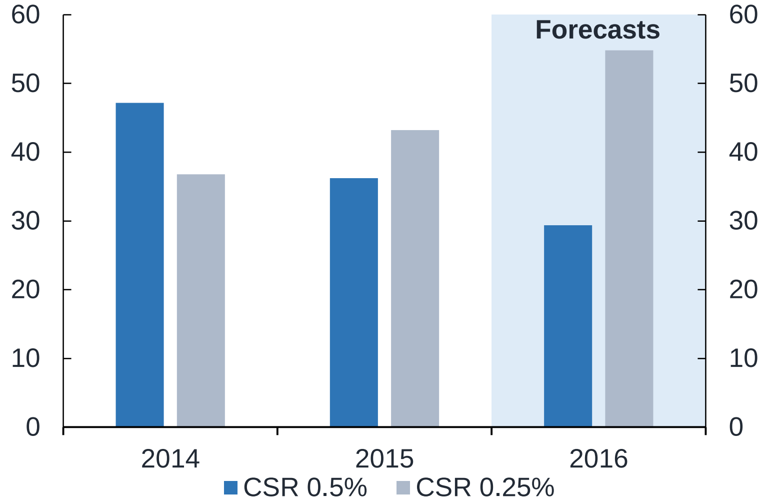
Table 17: Corporate Social Responsibility Tax 2015-2018, SR'000s

CORPORATE SOCIAL RESPONSIBILITY TAX	2015 Actual	2016 EOY	2017 Budget	2018	2019
Corporate Social Responsibility	79,437	84,193	90,920	97,973	103,578
Total CSR:	**79,437**	**84,193**	**90,920**	**97,973**	**103,578**
% of GDP:	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

The data suggests there is a reversing trend in the manner of the turnover payments, with more companies are now opting to enter into CSR projects directly and so only paying 0.25 per cent of their turnover to the SRC directly. In other words, the number of companies opting to pay the full CSR rate of 0.5 per cent is decreasing as is evidenced by the smaller value of payments collected on 0.5 per cent of turnover in Figure 14.

Figure 14: Amount of CSR paid on 0.5 and 0.25 per cent of Turnover 2014-16



Source: SRC statistics

2017 Policies

There will be no policy changes made to CSR Tax for the 2017 Budget.

2017 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.

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.

2016 Context

TMT was expected to be at SR 53m at the start of 2016 as the policy to include casinos and construction class 1 companies to pay TMT was expected to start at the beginning of the year as announced in the 2016 budget. This was expected to generate SR 14m in revenue and was budgeted for. However, the legislation governing this change has not been prepared yet and is expected to start next year. Consequently, the end of year revisions have removed this portion of income. Aside from the main deduction, TMT has been generally on track this year and a windfall amount of SR 2m has been reduced to take into account lower collections.

Policy Changes

Policy to include casinos and construction class 1 companies to pay TMT effective in 2017.

2017 Projection and the Medium Term

The aforementioned policy has been pushed for 2017 and this brings 2017 levels to SR 63m. The Budget forecast is expected to grow in line with nominal GDP growth. The forecasts for 2018 and 2019 are also shown overleaf in Table 18.

Table 18: Tourism Marketing Tax Projections 2015-2018, SR'000s

TOURISM MARKETING TAX	2015 Actual	2016 EOY	2017 Budget	2018	2019
Tourism Marketing Tax	45,428	45,193	63,002	67,890	71,774
Total TMT:	**40,194**	**45,193**	**63,002**	**67,890**	**71,774**
% of GDP:	**0.2**	**0.2**	**0.3**	**0.3**	**0.3**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Other Tax

Background

Other Tax comprises of a set of licence fees and smaller tax lines that covers a variety of sectors in the economy. The main constituents 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.

2016 Context

The end of year estimate for Other tax stands at SR 677m (Table 19 overleaf). This represents about SR 148m, or 18 per cent less of what was budgeted in the mid-year revisions. All major tax lines were revised downwards, but the main downward revision is in Stamp Duty by SR 136m. This is because the expected large payment from the Cable & Wireless will now be made in two tranche therefore part of the revenue has been allocated in 2017. Furthermore, for the mid-year budget revisions the revenue loss was also apportioned for the introduction of the new policy of 'stamp duty exception of first time buyers'.

Other downward revisions were also made in some of the other tax lines. The initial SR 49m projected for Levy was removed by mid-year. It was expected that for the current year Levy would have transferred from Trades Tax and been classified under Other Tax as had previously been communicated, however up to date Levy has not yet been shifted. FSA was revised downwards by SR 6m as FSA claims that additional regulation will lead to lower revenue collected. Delay in payments of Telecommunication Licences triggered a SR 4m downward revision. A collection of SR 3m less is expected from the Vessel Fees as a result of the depreciation of the American dollars against the local currency.

Policy Changes

Various policy changes are anticipated for 2017 under 'Other Tax' including the introduction of a property tax. The Property Tax will apply to all foreigner owned domestic property and would be an annual tax. An initial estimate of SR 10m has been included in the 2017 budget.

A general review is proposed in licence fees under 'Other Tax', which covers the Trade Licences, Other Licence Registrations, Drivers Licence, Casino Licence, Hotel Licences, Liquor and Toddy Licences. This is estimated to bring in about SR 14m in additional revenue.

2017 projections and medium term

The Other Tax revenue projection for 2017 is SR 801m which is SR 123m higher than the 2016 projected revenue. The increase is mainly due to the introduction of a new tax line and an increase in licences fees, a collection of SR 24m is anticipated from the new policies. Furthermore, a large payments of stamp Duty is expected for 2017 and most tax lines revenues are expected to grow.

Table 19: Other Tax 2015-2018, SR'000

OTHER TAX	2015 Actual	2016 EOY	2017 Budget	2018	2019
Ministry Of Finance					
Trade/Ind Licences	8,337	8,431	17,473	18,087	18,705
Licences and Other Licence Registration	2,703	2,436	5,335	5,522	5,711
Road Tax and Other Licences	88,125	98,000	102,286	105,879	109,497
Telecommunications Licences	85,838	84,805	80,447	84,469	88,692
Casino Licences	3,295	1,607	3,672	3,801	3,931
Hotel Licences	113	190	297	308	318
Liquor and Toddy Licences	270	250	560	580	600
Radio Broadcasting Licences	1,701	2,050	2,050	2,050	2,050
SIBA Fees	158,255	156,000	156,000	156,000	156,000
Sub Total:	**348,638**	**353,768**	**368,121**	**376,696**	**385,505**
Ministry Of Environment, Natural Resources & Transport					
Annual EU Fishing License Fees	43,308	35,689	38,532	40,231	40,231
EU Fishing License: Vessel Fee	37,205	35,938	42,351	47,428	47,428
Non-EU Fishing License Fees	59,926	59,182	48,730	49,641	51,531
Local Fishing Licence Fees	656	685	713	738	763
Sub Total:	**141,094**	**131,495**	**130,326**	**138,038**	**139,954**
Department Of Legal Affairs					
Stamp Duty	140,472	184,877	294,633	158,851	167,938
Department Of Transport					
Vehicle Testing	6,526	7,426	7,728	7,999	8,273
Total: Other Tax	**636,730**	**677,565**	**800,808**	**681,585**	**701,670**
% of GDP:	**3.5**	**3.6**	**3.9**	**3.1**	**3.0**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Non-Tax Revenue & Grants

The table below depicts the breakdown of non-tax revenues over the medium term. For 2017 an amount of SR 1,112m is being projected for Non-tax revenues.

Table 20: Non-Tax revenue and grants, SR'000s

NON-TAX & GRANTS	2015 Actual	2016 EOY	2017 Budget	2018	2019
Non-Tax	**659,611**	**1,117,038**	**1,112,929**	**1,144,073**	**1,155,948**
Fees and Charges	321,680	469,989	468,722	519,482	546,904
Dividends Income	228,234	445,579	429,255	388,755	371,499
Other Non-Tax	109,697	201,470	214,951	235,836	237,546
Grants	**144,372**	**215,481**	**676,889**	**453,908**	**25,524**
Total Non-Tax & Grants:	**803,983**	**1,332,519**	**1,789,817**	**1,597,981**	**1,181,472**
% of GDP:	**4.4**	**7.1**	**8.8**	**7.3**	**5.1**

Source: MFTEP, Financial Planning and Control Division estimates

Dividend Income

For the fiscal year 2017, an amount of SR 429m is being projected for dividends. This represents a 3.6 per cent decrease over the 2016 end of year revised forecast. This is mainly due to a slight reduction in the projected dividend for Nouvobanq and SEYPEC that declared higher dividend in 2016 due to better operating profits.

However for 2017, the projected dividend being expected will be higher than the 2016 level for the following state owned enterprises; Ports Authority by SR 5m, SCAA SR 6.8m, IOT SR 12.4m and IDC SR 4m.

Table 21: Non-Tax revenue and grants, SR'000s

DESCRIPTION	2015 Actual	2016 EOY	2017 Budget	2018	2019
SIMBC	84,600	180,600	150,000	125,000	125,000
SNOC (SEYPEC)	57,253	160,000	145,000	120,000	100,000
Land Marine Ltd	4,704	8,000	10,000	11,000	11,000
Port Authority	25,000	25,000	30,000	30,000	30,000
SIBA		-	-	-	
SACOS		-	-	-	
IOT	10,296	24,480	36,880	36,880	38,724
Seychelles Civil Aviation Authority	44,400	43,200	50,000	50,500	50,500
Naval Services		-	-	-	
KreolOr		-	-	-	
Afrexim Bank		795	375	375	375
Shelter Afrique		-	-	-	-
STC		-	-	5,000	5,000
IDC	1,500	-	4,000	4,000	4,500
Air Seychelles		-	-	-	-
Seychelles Commercial Bank		3,504	3,000	3,000	3,200
Development Bank of Seychelles		-	-	3,000	3,200
Housing Finance Company		-	-	-	-
Seychelles Nation Agency		-	-	-	-
Seychelles Postal Services		-	-	-	-
African Insurance Corporation	481				
Total:	**228,234**	**445,579**	**429,255**	**388,755**	**371,499**
% of GDP:	**1.3**	**2.4**	**2.1**	**1.8**	**1.6**

Source: MFTEP, Financial Planning and Control Division estimates

Fees and Charges

Fees and charges for 2017 has been forecasted at SR 468m. This is a marginal decrease of SR 1.2m over the revised end of year 2016. Therefore it is expected that the amount collected for fees and charges will be at par with the revised 2016 figures.

The windfall collection in FIU fees and fines is not anticipated and therefore the 2017 forecast from this line have not been projected at the same trend. However, during the second half of 2017, government will increase the passenger service fee for visitors by USD 10. This is expected to increase collection by SR 20.2m.

Seychelles Fishing Authority on the other hand is expected to collect SR 4m in leases of land on Zone 14.

Other Non-Tax

Background

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

A sum of SR 214m is expected to be collected in 2017. This is an increase of 6.7 per cent over the revised 2016 end of year forecast. Collection for 2017 have been plugged at par to revised 2016 level in view there in no expectation of major movements in these non-tax revenue budget lines. However, the increase in this line is due to an increase of SR 12m that is expected from the Social Security Fund for retirement benefits that is expected to increase in 2017 due to increase in the number of retirement. However, this same amount is then paid out to the Seychelles Pension Fund, as a refund for the payments they are expected to make.

Table 22: Non-Tax revenue and grants, SR'000

OTHER NON TAX REVENUE	2015 Actual	2016 EOY	2017 Budget	2018	2019
Other Non-Tax Revenue	109,697	201,470	214,951	235,836	237,546
% of Total Revenue:	**1.7**	**2.7**	**2.6**	**2.8**	**2.8**
% of GDP:	**0.6**	**1.1**	**1.1**	**1.1**	**1.0**

Source: MFTEP, Financial Planning and Control Division estimates

Grants

An equivalent of SR 677m is forecasted to be received as external grants in the year 2017, out of which SR 346m is expected to be received in the form of cash and an equivalent of SR 330m in kind.

The above expected grants receipts for the year 2017 represents an increase of SR 461m over the 2016 revised receipts of SR 215m. The increase is attributed to new grants expected to be received in 2017 as well as non-receipts of some expected grants in 2016 to be brought forward in 2017.

New Grants expected to be received in the year 2017 are as following:

- An equivalent amount of SR 29m from the European Development Fund (EDF) under the Seychelles Economic Partnership Agreement with the European Union
- SR 112m from the Government of Japan for the construction of fisheries facilities at Providence Zone 6.

Expected grants receipts for the year 2017 for main ongoing projects and programmes in various sectors are as per below:

- Procurement of health medical equipment, solar home systems, maintenance of military aircraft and ships for an approximate amount of SR 142m from the Government of India.

- Three housing projects namely ex-Desaubin, ex-Ion and ex-Kashugy being financed by the Government of Abu Dhabi with a total expected disbursement of SR 8m.
- The Corgat Estate housing estate re-development being financed by the Government of China – SR 25m.
- The Ex-Oliver housing project being funded by the Government of Qatar – SR 16m.
- The environment sector for various environment protection and climate change programmes being funded by GEF/ UNDP SR 36m.
- The implementation of the education sector medium term strategy being funded by the European Union – SR 20m.
- The Seychelles Fishing Authority is expected to receive around SR 36m under the EU support programme for the implementation of the Seychelles fisheries and maritime policy.
- SR 14m is expected to be spent under the Regional Integration Programme funded by COMESA.

The Public Utilities Co-operation is expected to spend SR 55m towards the Mahe Sustainable Water Augmentation Programme and the consultancy service for the sanitation master plan, being funded by the African Development Bank.

Expenditure

This chapter provides details on the expenditure that is to be incurred in 2017 for all ministries, departments and budget dependent entities for the fiscal year 2017.

For the fiscal year 2016, the Government has increased spending to SR 7,623m compared to the budgeted amount of SR 7,297m. This represents an increase of 4.5 per cent compared to the initial budgeted amount. With the results of the household budget survey released in December 2015, Government decided to implement several expenditure policies at the start of the year with the objective of addressing several social priorities with the aim of tackling its domestic poverty challenges.

For the fiscal year 2017, a total expenditure and net lending amounting to SR 8,577m is being budgeted. This represents an increase of SR 954m over the revised end of year budget for 2016. The forecasted revenue and expenditure for 2017 will result in a fiscal surplus of SR 610m, or 3.0 per cent of GDP.

Table 23: Summary of Expenditure, SR'000

DESCRIPTION	2015 Actual	2016 EOY	2017 Budget	2018	2019
Expenditure and net lending	**6,132,904**	**7,595,673**	**8,577,878**	**8,656,256**	**8,568,988**
Current expenditure	**5,232,275**	**6,460,890**	**6,876,598**	**7,036,003**	**7,148,340**
Primary Current Expenditure	**4,668,506**	**5,733,882**	**6,051,304**	**6,167,384**	**6,271,035**
Wages and salaries	1,740,641	2,010,586	2,223,095	2,241,164	2,264,885
Goods and services	2,156,396	2,519,211	2,560,863	2,574,413	2,623,808
Capital expenditure	685,155	921,808	1,304,326	1,162,493	956,945
Social program of Government	78,513	129,951	132,374	132,650	134,466
Transfers to Public Enterprises	42,036	59,900	59,520	59,520	59,520
Benefits and approved programmes of SSF	622,161	980,877	1,040,743	1,124,926	1,153,028
Others	**28,760**	**33,357**	**34,709**	**34,712**	**35,328**
Interest due	**563,769**	**727,008**	**825,294**	**868,619**	**877,305**
External	180,773	193,218	216,431	214,836	216,985
Domestic	382,996	533,790	608,863	653,782	660,320
Development Grant	**89,889**	**123,000**	**162,408**	**180,705**	**157,480**
Net lending	**77,043**	**58,974**	**209,547**	**252,055**	**281,223**
Contingency	**48,541**	**31,000**	**25,000**	**25,000**	**25,000**
Primary Balance:	**792,641**	**612,776**	**610,075**	**661,970**	**683,410**
% of GDP:	**4.0**	**3.1**	**3.0**	**3.0**	**3.0**

Source: MFTEP, Financial Planning and Control Division estimates

Current Expenditure

New polices

1. *Full implementation of the 13th month*

As of January 2017, all government employees including those on Public Sector Commission contracts, will be entitled to a 13th month pay, this is expected to have a total cost of SR 97.2m but excludes all constitutional appointees. A further SR 0.96m will also be catered to non-governmental organisations (NGOs) that government subsidies to also enable them to cater for this provision.

2. *Increase in employers' Pension Contribution*

Increase in the life expectancy in Seychelles has resulted in additional financial pressure on the retirement pensions on the Agency for Social Protection (ASP) and the Seychelles Pension Fund (SPF). In order to rebalance the cost of funding retirement pension for the SPF, a 1 per cent increase from 2 per cent of gross salary to 3 per cent of pension contribution from employees would be implemented as from January 2017.

Since the progressive income tax is to be implemented from 1st of July 2016, Government will be introducing the following rates as per below:

(i) Increase employee contribution by 1 per cent on 1st July 2017
(ii) Increase employer contribution by 0.5 per cent on 1st January 2018
(iii) Increase employer contribution by 0.5 per cent on 1st January 2019

3. *Introduction of a Special Pension Scheme for public servants upon retirement*

Government will also implement a new scheme for teachers, nurses, police officers and soldiers with the objective of retaining workers in these professions. A special pension of SR 1,000 will be introduced as from July 2017 to government employees in these professions who have worked more than 25 years in these professions. This payment will be paid over and above the current pension schemes being paid by the SPF and retirement pensions paid by the ASP.

In addition, the capital budget for 2017 will comprise only of infrastructure spending for the government financing part. All other non-capital spending, has been transferred into the goods and services budget of the ministries, departments and budget dependent entities.

For 2016, Government have restructured the budget templates and as such there are certain reclassification of expenses. The spending of budget dependent entities have been treated according to the economic classifications. That means the same treatment as for ministries and departments. As such, all budget dependent entities are no longer being classified in the Transfer to Public Sector category. They are grouped and budgeted for their respective amount for wages and salaries and good and services respectively.

Wages and Salaries

A total sum of SR 2,223m have been allocated towards wages and salaries of government. This represents an increase of SR 212m over the revised end of year revised budget for 2016. This is equivalent to a 10.5 per cent increase. This is mainly because of the full implementation of the 13th month to all government employees, returning graduates that were sent on studies by their respective organisations, the full cost of re-structuring that was announced in November 2016 as well as implementation of new, but mostly for several revision in the schemes of service.

This is mainly because of the full implementation of the 13th month to all government employees, returning graduates that were sent on studies by their respective organisations and the full cost of re-structuring that was announced in November 2016. The increase is also partly due to several revisions in the schemes of service.

Public sector recruitment continues to be catered in priority positions as government remains prudent that it does not becomes too heavy. A sum of SR 1.9m has been catered in the 2017 budget to cater for new posts. This will be allocated to:

- Seychelles Licensing Authority
- Industrial Estates Authority for Enforcement Officers
- Department of Tourism for the Tourism Development division

Goods and Services

The goods and services budget have been allocated with a total budget of SR 2,560 m. This is a SR 41m increase over the 2016 revised end of year budget.

Funding have been catered for all ministries, departments and budget dependent entities to fund all of their existing commitments. The Ministry of Finance, Trade and Economic Planning continues to promote the need to reduce wastage and identify areas of savings, which could be used to fund new spending proposals of entities as government re-priorities its spending. As such, the Ministry in the 2017 budget is ensuring that the government's overall operational cost is not increased significantly over the years, as cost cutting measures are re-enforced by providing all organisations with a relatively similar budget for their operations over the years.

The November 2016 government restructuring has also seen an increase of SR 7.6m in goods and services cost, mostly due to rent for office accommodation.

In addition, as government moves gradually towards full Programme Performance Based Budgeting (PPBB), more expenditure that was previously classified under Central Programme of Government are being incorporated in their respective Ministries, departments and budget dependent entities budget. As such, the following budget lines have been moved:

- ANHRD Training fund: SR 12.5m added to ANHRD recurrent budget
- Contribution to outsourcing: SR 250k added to MFTEP recurrent budget
- Early childhood trust fund: SR 1m added to IECD recurrent budget
- HIV trust fund: SR 1m added to NAC recurrent budget
- Laptop scheme: SR 2.25m added to DICT recurrent budget

Transfers

The 2017 Budget reflects a total allocation of SR 1,232.5m towards the Transfers budget. This represents an increase of SR 61.7m, or 5 per cent. This comprises of:

Table 24: Summary of Total Transfers by Different Categories, SR'm

Transfer type	2015 Actual	2016 EOY	2017 Budget	2018	2019
Social Programs of Government	78.5	130.0	132.3	132.7	134.5
Transfers to Public Enterprises	42.0	59.9	59.5	59.5	59.5
Benefits and approved programmes of SSF	622.2	980.9	1,040.7	1,124.9	1,153.0
Total:	**742.7**	**1,170.8**	**1,232.5**	**1,317.1**	**1,347.0**
% of GDP:	**4.1**	**6.2**	**6.1**	**6.3**	**5.8**

Source: MFTEP, Financial Planning and Control Division estimates

Transfers to Social Programs of Government

For 2017, a total of SR 132.3m has been allocated towards the Transfer of Social Programs of Government. This represents an increase of only SR 2.3m, or 1.8 per cent in comparison with the 2016 EOY. This is as a result of some of the schemes introduced during 2014, 2015 and 2016.

Housing Finance Scheme

An increase of SR 1m is recorded for this scheme, resulting in an allocation of SR 25m in 2017. This is largely to cater for the increased applications within this scheme.

During the period January to November 2016, a total of 198 requests amounting to SR 21.4m have been approved. Out of the 198 applications, 190 (96 per cent) of cases are from HFC followed by 8 (4 per cent) from the other commercial banks. Based on the 2016 budget, the loan amount of SR 21.4m approved represent approximately 89.5 per cent of the SR 24m.

Table 25: Summary of Loans disbursed by Financial Institutions, SR'm

Sectors	No of loans			Loan Amount (SR'm)		
	2014	2015	2016 to date	2014	2015	2016 to Date
HFC	157	214	190	18.6	24.5	20.6
Other Commercial Banks	10	4	8	0.9	0.5	0.9
Total:	**157**	**218**	**198**	**19.5**	**25**	**21.5**

Source: MFTEP, Policy and Strategy Division estimates

Home Improvement/Re-roofing Scheme for Pensioners

Government is allocating a total of SR 14.5m in the 2017 budget for this scheme. The scheme was introduced in early 2016 and is 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. This Scheme would cover loans up to SR 100, 000 for re-roofing and SR 50,000 for renovation or repair works on the applicant's home and would not be applicable for refinancing of existing loans or purposes other than what is mentioned under this Scheme. Government will subsidize 25 per cent of each loan acquired under the scheme.

This scheme is being administered by Housing Finance Company Limited and as at 30th of November 2016 a total of SR 43.9m has been disbursed under this scheme.

Small and Medium Enterprises Loan scheme

An increase of SR 1m is recorded for this scheme, resulting in an allocation of SR 12m in 2017. This scheme started in 2014 and is applicable for new business loan applications for a business with an annual turnover below SR 6m. This scheme is geared towards encouraging business development and entrepreneurship. For this purpose of this scheme, business activity is defined as all activities excluding retail and wholesale businesses.

The scheme would cover loans up to SR 3m and is to have a two-tier interest rate structure with Government providing some elements of interest rate subsidy as per below:

i. On the first SR 1m the client will pay 5 per cent
ii. On the next SR 2m the client will pay 7 per cent

During the period January to October 2016, a total of 316 loans for the value of SR 299.5m have been approved. Out of the 316 loans approved during the period January to October 2016, 98 (31 per cent) are for the Transportation sector followed by 67 loans (21.2 per cent) for the Construction/Real Estate, 66 (20.8 per cent) for Services and 44 (14 per cent) for the Tourism sector. The other sectors namely Fisheries accounts for 26 (8.2 per cent), Arts and Craft/Entertainment represents 9 (2.8 per cent) and 4 loans representing 1.3 per cent for the Food Processing/Manufacturing sector. Only 1 loan has been approved under the catering sector for a value of SR 249,000 which represents 0.3 per cent.

In terms of the loans value as at end of October 2016, Construction/Real Estate has consumed the lion's share of approval with SR 126.6m (42.3 per cent) followed by Tourism and Transportation with SR 68.5m (22.87 per cent) and SR 43.6m or 14.5 per cent respectively.

Table 26: Summary of Loans disbursed by sector, SR'm

Sectors	No of loans			Loan Amount (SR'm)		
	2014	2015	Jan-Oct 2016	2014	2015	Jan-Oct 2016
Arts & Craft/Entertainment	10	4	9	3.5	0.5	4.4
Catering	10	2	1	4	3	0.2
Construction/Real Estate	71	72	67	96	138	126.6
Education			1			2.5
Fisheries	24	20	26	13	17	17.8
Agriculture	4	3		3	2	
Food Processing/Manufacturing	8	5	4	7	5	3.6
Services	40	44	66	23	24	32.2
Tourism	16	22	44	28	30	68.5
Transportation	60	109	98	43	68	43.6
Tailoring	14			1		
Total:	**257**	**281**	**316**	**221**	**287**	**299.5**

Source: MFTEP, Policy and Strategy Division estimates

Youth Employment Scheme:

A total allocation of SR 10m has been allocated towards this scheme for 2017. The scheme started in 2016 and Government originally allocated SR 25m in the 2016 budget. For the first year of operation, the scheme has not been used fully by employers. 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 2017. This represents the Government's contribution towards the scheme. The scheme is to help young entrepreneurs with their small businesses and is being administered the Seychelles National Youth Council (SNYC) and managed by Small Business Finance Agency (SBFA).

Contribution to Agricultural Development Fund

Government is allocating SR 3m under ADF for the year 2017. The scheme is being administered by DBS.

Table 27: Summary of Loan approval under ADF

Transfer type	No of Loans	Amount (SR)	Finance by (SR'm)	
			GOS	Livestock Trust Fund
2015	13	5,420,782	3	2
2016 (January to November)	9	3,596,500	3	
Total:	**22**	**9,017,282**		

Source: Development Bank Seychelles

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. SR 0.5m will be allocated in the 2017 budget.

Trust Funds

In 2017, Government will continue its support to various trust funds and will established one new trust fund. The allocation will be as follows:

- Arts: SR 400,000 allocation
- Disable: SR 400,000 allocation
- Sports: SR 400,000 allocation
- Culture: SR 400,000 allocation
- Innovation: SR 400,000 allocation (new in 2017 budget)

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.

Empowerment and Social Protection Programme

A total of SR 10.9m was allocated in EOY 2016 budget compare to only SR 6 million in 2017. This is almost SR 4.8m or 44 per cent decrease. This is a result of 302 ex-Royal Fleet Auxiliary members that was paid during 2016 as an ex-Gratia contribution from Government.

Subvention to Public Enterprises

A total amount of SR 59.5m has been allocated towards the Subvention to Public Enterprises in 2017. This figure is almost the same allocation as 2016.

Table 28: Details of Subventions to Public Enterprises SR'm

Transfer type	2015 Actual	2016 EOY	2017 Budget	2018	2019
Société Seychelloise D'Invéstissement	7.0	0	0	0	0
Air Seychelles	0	0	16.0	16.0	16.0
Other Entities	0	13.3	0	0	0
Seychelles Postal Services Company	0	1.1	3.5	3.5	3.5
SPTC	35.0	45.5	40.0	40.0	40.0
Total:	**42.0**	**59.9**	**59.5**	**59.5**	**59.5**
% of GDP:	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**

Source: MFTEP, Financial Planning and Control Division estimates

SPTC

Government will continue its effort to subsidize the public transport and ensure that the bus fare remains at SR 5. This will cost Government SR 40m per year.

Air Seychelles

From 2017, Government is budgeting SR 16m per year to pay the outstanding liabilities that relate back to 2014. This will be repaid over the next 7 years and will be SR 16m per year.

Seychelles Postal Services Company

SPS will receive SR 3.5m in 2017:

i. 13th monthly salary SR 805,000 for non-management staff.
ii. Universal Postal Obligation SR 2.695m (SR 524,000 office rent and SR 2.171m for home delivery services).

Benefits and Approved Programmes of SSF

A total budget of SR 1,040.7m has been allocated towards this budget line in 2017. This represents SR 59.9m or 6 per cent increase compared to EOY 2016.

Table 29: Summary of Benefits and Approved Programmes of SSF SR'm

Transfer type	2015 Actual	2016 EOY	2017 Budget	2018	2019
Retirement Benefits	337.4	538.7	630.4	678.5	695.4
Invalidity Benefits	39.9	70.9	71.6	81.7	83.7
Home Carers Scheme	109.8	174.6	176.4	201.9	207
SPTC Travel Concessions	20.7	23.8	24	24.3	24.9
Social Safety Net	79	135	100	100	102.5
Other Benefits as per details budget	35.4	37.8	38.2	38.5	39.5
Total:	**622.2**	**980.9**	**1,040.7**	**1,124.9**	**1,153**

Source: MFTEP, Financial Planning and Control Division estimates

Home Carers Scheme

The 2017 budget of SR 176.4m represents an increase of SR 66.6m over the actual 2015 figures. This is mainly because of the revised in rate in April 2016 and 13th month pay implication.

Home carer rate was increased from SR 3,950 and was calculated on the new minimum wage rate of SR 33.30 per hour from April 2016. Therefore:

i. Full day carer working a 40 hour week (note an extra 5 hours on Saturdays) is earning SR 5,772 per month, an increase of SR. 1,822 from previous rate of SR 3,950.
ii. Half day carer working a 25 hour week is now earning SR 3,607.50 per month an increase of SR 837.50 from previous rate of SR 2,302.

Retirement Benefits

The 2017 budget of SR 630.4m represents an increase of SR 91.8 m or 17 per cent in comparison with the EOY 2016 figures. This is mainly because of the revised in rate in April 2016 which was increase from SR 3,600 to SR 5,050.

In comparison with the revised budget 2016, the implication of the full implementation of the increase to SR 5,050 will be an additional SR 46.1m. However, because of the ageing population there will be additional retirees which will impact around SR 45.7m under the retirement benefits.

Social Safety Net

A total of SR 100m is being allocated under the 2017 budget. Government will be working on an unemployment relief scheme so that it will be link to the social assistance from the social safety net budget.

In addition based on the National Bureau of Statistics (NBS) poverty report, ASP increased the maximum assistance that the ASP can disbursed in April 2016 for;

i. Un-employed Households from SR 2,500 to SR 3,100, in line with the food poverty line.
ii. Employed Households from SR 3,280 to SR 3,945, in line with the full poverty line.

Public Sector Investment Programme

The Public Sector Investment Programme for the period of 2017-2019 period is estimated at a total of SR 3.4bn. A total of SR 1.3bn worth of projects is to be financed from the 2017 Budget, representing 38 per cent of the medium term investment plan 2017-2019. An amount of SR 1.16bn (34 per cent of PSIP) is expected to be financed in 2018 and SR 0.96m (28 per cent of PSIP) in 2019.

Table 30: Public Sector Investment 2017-2019 SR'000

Public Investment	2016 Revised Budget	2017 Budget	2018	2019
Total Allocation	921,808	1,304,326	1,162,493	956,945
% of GDP	4.5	6.4	5.3	4.1

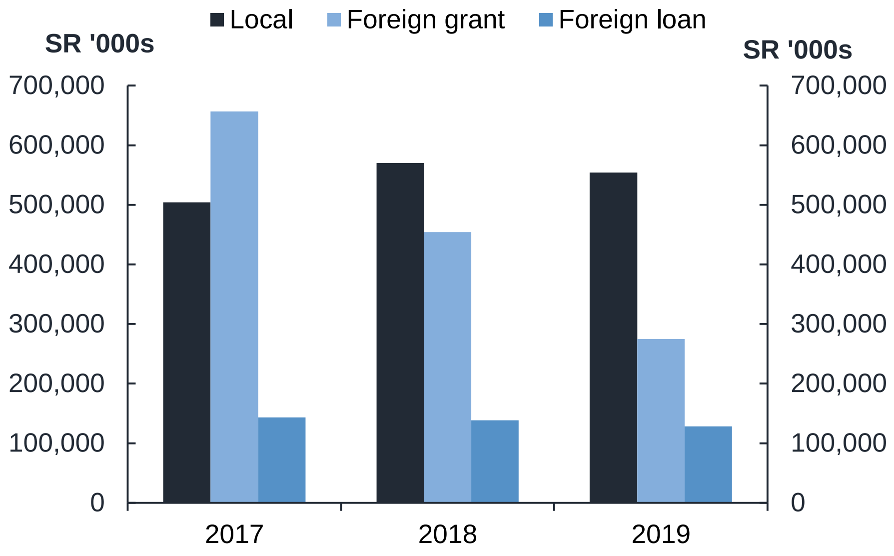
Source: MFTEP, Financial Planning and Control Division estimates

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 1.6bn out of the planned investment of SR 3.4bn (47 per cent) for the period 2017-2019.

A total amount of SR 0.41bn worth of projects of the 2017-2019 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 Development (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) and the Government of Qatar.

The Figure below shows the source of financing for the PSIP 2017-2019.

Figure 15: Financing Source for Financing PSIP 2017-2019



Source: MFTBE, Financial Planning and Control Division

The Government is also promoting Public Private Partnerships (PPP) for the development of infrastructure in the country in sectors where it's found to be economically and socially feasible. A legal and operational framework is currently being developed and a PPP Act should be in place early in the year 2017.

2016 Overview

The initial capital budget allocation for the year 2016 was SR 1.06bn but has been revised downwards to SR 0.92bn (13 per cent mainly attributed to delays in implementation of projects mostly to be financed by foreign loans and grants. Large projects experiencing delays includes certain renovation projects by the Ministry of Health, certain road infrastructure projects, road improvement work on Praslin and housing projects such as the 'Ex Desaubin' and 'Ex Oliver' housing estates.

Ongoing Loan financed projects includes the CLISSA project from the Ministry of Fisheries and Agriculture being funded by IFAD expected to be completed in 2018. The 'Agriculture Sector and Marine Aquaculture Development Study' project being funded by ADB also falling under the same Ministry was completed in June of this year. The Ile perseverance phase II infrastructure project financed by BADEA and OFID remains ongoing and is expected to be completed in December 2017.

2017 Outlook

A provision of SR 1.3bn has been made in the 2017 Budget to finance projects in the PSIP for the year. This represents an increase of SR 240m or 23 per cent over the 2016 revised capital budget. Out of the total 2017 provision SR 504m will come from the Government Budget, SR 143m will from foreign loans and SR 657m will be financed by external grants.

Domestic Financing

A total of SR 504m is being proposed for the year 2016 as Government budget allocation. The largest share of the domestic fund will go towards the Ministry of habitat, infrastructure and land transport with the infrastructure department receiving a total of 28 per cent of the total local funds allocation and the Seychelles Land Transport Agency receiving a total of 18 per cent of the allocation. The second largest share of the total domestic funds allocation will go towards the Education Department where a total of 13 per cent of the total funds would be allocated.

Loan Financing

A total of SR 143m worth of projects is being financed through loans representing 11 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 19.6m (BADEA and OFID)
- Ile Perseverance Health Centre: SR 6.4m (BADEA and OFID)
- La Rosiere Primary School: SR 762.9m (Kuwait Fund)
- Seychelles Agricultural and Horticultural Training Center: SR 6.67m (Kuwait Fund)
- Infrastructure Phase II Perseverance: SR 27.5m (BADEA and OFID)
- Health Information System: SR 27m (Indian Government)

Grants financing

A total of SR 657m of the total projects to be implemented in 2017 is expected to be financed by grants (in kind and cash). This represents 50 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 22.5m (EU)
- Various environment projects: SR 29.4m (GEF and UNDP)
- PUC Mahe Sustainable water augmentation: SR 42.1m (AFDB)
- PUC Sanitation Master Plan: SR 13.2m (AFDB)

Benefits in Kind:

Housing Projects:

- Ex Oliver housing project: SR 16m (Qatar Government)
- Corgat Estate: SR 25m (Chinese Government)
- Ex Desaubin, Ex-Ion and Ex-Kashugy: SR 8m (Abu Dhabi Government)

Planned Investment by Sector

The total projected investments are mainly in the housing sector, community, Fisheries & Agriculture, Health, and Education. 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. The table below shows overall financing allocations over the main sectors.

Table 31: Financing allocation for 2017-2019, SR'm

Sectors	2016 Revised Budget	2017 Budget	2018 Budget	2019 Budget
Department of Education	105.4	121.1	182.8	172.0
Health and Social Services	139.4	167.2	89.3	92.4
Youth, Sports and Culture	12.4	26.1	6.1	4.2
Infrastructure and Community	339.1	301.1	427.9	350.2
Fisheries and Agriculture	52.0	195.3	115.4	58.3
Environment, Energy and Climate Change	45.0	150.6	50.6	36.6
Transport Sector	44.0	92.0	112.0	122.0

Source: MFTBE, Financial Planning and Control Division

Department of Education

The total planned investments in the Department of Education in the year 2017 stands at SR 121m representing 9.3 per cent of the overall capital budget for the year. SR 65.2m of this total amount would come from local funds whilst the remainder from foreign loan. Most notable projects from the Department of Education include the construction of the Ile Perseverance secondary school, re-construction of La Rosiere School and the Seychelles Agricultural and Horticultural Training Centre (SAHTC).

Health and Social Services

The Government plans to spend a total amount of SR 167.2m for capital projects in 2017 for the Ministry of Health and Social Services. This represents a total of 13 per cent of the overall allocations to the total budget. The largest chunk of the allocations for this sector (95 per cent) will be allocated to the Health Care Agency. Key projects from this sector to which expenditure is to be made in the year 2017 includes; the upgrading of the English River clinic, the Children & Women hospital, the Ile Perseverance health center and the setting up of the health information system.

Infrastructure and Community

Total capital investment in this area for the year 2017 stands at SR 301.3m representing a total of 23 per cent of the total allocations for the year. The larger part of this allocation (83 per cent) shall be allocated to the Infrastructure department and the balance allocated to the Ministry of Local Government. Most notable projects from the Infrastructure department to be featured in the year 2017 include various land bank and housing projects; Ile Perseverance, Ex- Dominic Savio, Ex-Desaubin, ex Ion & Kashugy, Mt. Plaisir, Ex-teachers Port Launay, Ex-hunt etc…). The table below shows the projected expenditure related to the ongoing Ile Perseverance Housing project:

Table 32: Projected Expenditure related to ongoing Ile Perseverance Housing Project (SR'm)

Projects	2017 Budget	2018 Forecast	2019 Forecast
PSV: Civil (Infrastructure) 06 - Infrastructure facilities at Perseverance	1.8		
PSV: Infrastructure phase II Perseverance - Berthing basin	0.9		
PSV: Perseverance Industrial area phase II			4.8
PSV: Perseverance Industrial Bridge			2.0
Infrastructure Phase II Perseverance - Onsite works	42.3	34.4	28.0
Total:	**45.0**	**34.4**	**34.8**

Source: MFTBE, Financial Planning and Control Division

Fisheries and Agriculture

A total of SR 195.3m is set to be spent in the Fisheries and Agriculture sector for capital projects in the year 2017. This represents a total of 15 per cent of overall allocations for the year. The largest chunk of this allocation (94 per cent) will be directed to the Seychelles Fishing Authority whilst the balance allocated between the Ministry of Fisheries and Agriculture and the Seychelles Agricultural Agency. Important projects from this sector includes the construction and installation of Utilities & Roads - Zone 14 (Ile Du Port), the construction of fisheries facilities at the Providence Zone 6 and the Competitive Local Innovations for Small-Scale Agriculture Project (CLISSA) project. The construction and installation of utilities and roads on Zone 14 Ile Du Port is an ongoing project with total project cost of SR 32m. A total of SR 10.6m has been allocated to the project for the year 2017. The 'CLISSA' project is being jointly funded by the Government of Seychelles and IFAD.

The project has a total project cost of SR 40.6m. A total of SR 8m has been allocated to the project in the year 2017.

Energy, Environment and Climate Change

Total Capital spending for this sector stands at SR 150.6m which represents a total of 12 per cent of the total allocations for the year 2017. Out of this allocation, a total of SR 103.9m will be allocated to the Environment Department whilst the balance is allocated to the Seychelles Energy Commission. Most notable projects from the sector includes Drainage Task Force (DTF) projects, PUC Sanitation master plan project, Energy Efficiency pilot project and the 'Solar Home System – Vulnerable Household' project. The PUC sanitation master plan project is being funded by the AFDB and a total of SR 13.2m has been allocated for the year 2017. The project is expected to end in year 2018. The 'Solar Home System – Vulnerable Household' project is being financed by the Indian Government and has a total project cost of SR 45.7m which has all been allocated for the year 2017.

Transport Sector

A total amount of SR 92m has been allocated to the transport sector in the year 2017 representing up to 7 per cent of the total allocation for the year. The complete allocation to this sector is being financed from local funds. Key projects from the Department includes projects forming part of the Victoria Traffic Management Project such as construction works for the STC/Foret Noire roundabout to which a total of SR 25m has been allocated in 2017. Presently, projects which are under construction are the Anse Etoile to Victoria Link road through Ile Aurore, Ile Perseverance and Ile Du Port onto Inter Island Quay and linking to Independence roundabout and marine charter.

On Lending

Total lending from central government to public enterprises for the year 2017 stands at SR 223m. This relates to loan disbursement for the Water and Sanitation project being undertaken by the Public Utilities Corporation.

Net Lending

A total of SR 209.5m has been budgeted as Net Lending for 2017. The allocations are as follows:

- Public Utilities Corporation USD 7.0m: This relates to the EIB/ AFD loan for the infrastructure water master plan project.
- Public Utilities Corporation USD 3.9m: This relates to the 33KV South Mahe project financed by Saudi Fund and Kuwait Fund
- Public Utilities Corporation USD 0.9m: This relates to the raising of La Gogue Dam financed by AFDB.
- Blue Bond Project: USD 4m.
- DBS repayment of SR 3.9m: This was an AFD loan taken by the Government and on lend to DBS. The loan is now being repaid to the Government from DBS.
- STC repayment of SR 10m: A loan of SR 45m was taken by STC from the Government. An additional of SR 10m and SR 5m will be repaid by STC for the year 2018 and 2019 respectively. Thus the loan will be fully repaid in 2019.

Contingency

A total provision of SR 25m has been made within the 2017 Budget for the Contingency. This represents 0.12 per cent of GDP.

Debt Outlook

Since 2008, the government has actively engaged in various strategies and initiatives to steer its total public debt on a sustainable path, including debt restructuring, currency conversion and debt swap for environmental activities. As such the total public debt stock has maintained a downward trend. The total debt stock has reduced from over 127 per cent of GDP in 2009 to 68 per cent of GDP at the end of October 2016. The debt to GDP target has been revised to reach 50 per cent by end 2020. This section contains a brief overview of public debt, with further details in the accompanying Debt Management Strategy document.

2017 External Debt Stock

The external debt stock levels has maintained a consistent decrease from its 2009 levels, although there has been some increases in 2014 and 2017 projections. These were mainly due to foreign exchange movements as well as disbursements on new and existing loans for developments. All new borrowings falls under a debt ceiling and the strategy is to continue borrowing at concessional or semi concessional rates with multilaterals and bilateral countries to maintain sustainable debt levels.

2017 Domestic Debt Stock

There has been a constant annual increase in the domestic debt stock, driven mostly by significant increases in Treasury Bills and Bonds for monetary policy which is used by the Central Bank to sterilize their foreign exchange interventions thereby mopping up extra liquidity in the system. While net domestic debt has increased by 36 per cent, debt for monetary policy has increased by 102 per cent since 2013.

External Debt by Creditor Category

The total external debt stock are owed to four groups of creditors. Private debts are the largest group of creditors accounting for 38.1 per cent of the external debt. These private creditors are the subscribers to the external notes USD 168.89m at face value, which will mature in 2026.

Multilateral organizations make up the second largest group of creditors accounting for 31.4 per cent of the external debt. The largest multilateral banks are the African Development Bank and the World Bank which together account for 68 of the total multilateral debt.

The third largest group of creditors is Bilateral made up of debts to sovereign countries. These account for 21 per cent of the total external debt. About 52 per cent of the total bilateral debts are owed to creditors which are members of the Paris Club and 48 per cent are non-members. The share of debts owed to commercial banks accounts for the smallest share of the total debt stock at 9.5 per cent.

External debt repayments

The annual debt service forecast indicates that the total debt repayments are expected to rise in the next 5 years to reach a peak in 2020. Repayments for the external bond accounts for most of these payments and are expected to end in 2026, hence the total external debt falling due each year will decrease until 2040.

Selected Economic Indicators

	2013	2014	2015	2016	2017	2018	2019
National income and prices							
Nominal GDP (millions of Seychelles rupees)	15,864	17,199	18,102	18,819	20,322	21,899	23,152
Real GDP growth	5	6.2	5.7	4.4	4.1	3.5	3.4
GDP deflator growth	4	2.1	-0.5	-0.4	3.8	4.1	2.2
CPI (annual average)	4.3	1.4	4.3	2.5	2.4	2.8	2.9
CPI (end-of-period)	3.4	2.5	3.2	3.2	3.9	3.4	4.2
Money and credit							
Broad money growth (12–month percent change)	23.7	26.6	2.9	10.8	…	…	…
Money multiplier (broad money/reserve money)	4.5	5	4.6	4.7	…	…	…
Velocity (GDP/broad money; end of period)	1.7	1.5	1.5	1.4	…	…	…
Foreign currency deposits (US$ millions)	244	353	360	409	…	…	…
Government budget (% GDP)							
Total revenue, including grants	36.7	37.7	35.1	39.7	41.2	38.6	36.2
Total revenue, excluding grants	34.5	34.6	34.3	38.6	37.8	36.5	36.1
Grants	2.2	3.1	0.8	1.1	3.3	2.1	0.1
Expenditure and net lending	35.7	35.2	33.9	40.5	42.2	39.5	37
Current expenditure	27.9	28.3	28.9	34.3	33.8	32.1	30.9
Of which: interest payments	4	2.4	3.1	3.9	4.1	4	3.8
Capital expenditure	7.3	5.8	3.8	5	6.4	5.3	4.1
Net Lending	0	0.7	0.4	0.3	1	1.2	1.2
Primary balance	5	4.9	4.3	3.1	3	3	3
Overall balance (accrual basis), including grants	1	2.5	1.2	-0.8	-1.1	-0.9	-0.8
Overall balance (accrual basis), excluding grants	-1.2	-0.6	0.4	-1.9	-4.4	-3	-0.9
Overall balance (cash basis), including grants	1	2.5	1.2	-0.8	-1.1	-0.9	-0.8
Overall balance (cash basis), excluding grants	-1.2	-0.6	0.4	-1.9	-4.4	-3	-0.9
Domestic bank financing (net)	-2.8	-2.4	0.7	-1.8	-0.3	-1.4	-1.1
Current account balance including official transfers	-12.1	-23	-17.7	-17.8	-17.1	-16.8	-17.8
Imports	77.8	80.1	67.9	68.5	69.9	70.3	71.6
Exports	47.8	39.9	33.1	33.4	35.2	35.5	35.8
Foreign Direct Investment	1.3	7.6	7.8	11.3	13.3	12.9	12.4
Gross official reserves (end of year, US$m)	425	463	537	514	533	557	572
In months of imports, c.i.f.	3.2	3.9	4.3	3.9	3.8	3.8	3.7
Total external debt outstanding (% of GDP)							
Total debt outstanding (US$m)	1,663	1,588	1,371	1,439	1,570	1,640	1,729
% of GDP	68.8	68.6	69	68.4	63.6	57.6	52.1
Domestic	29.2	31.5	33.3	35.3	31.4	27	23
External	39.6	37.1	35.7	33.1	32.3	30.6	29.1

Source: MFTEP, IMF tables

Appendix

Current Excise rate on proposed items for policy change

Column 1	Column 2	Column 3	Column 4	Column 5
Tariff Item HS Code	**Description of Excisable Goods**	**Taxable Base**	**Excise Tax Rate**	**Excise Levy**
	Beer made from malt.			
2203.0010	- - - In immediate bottles made of PET or plastics	l	SCR19.07/l	SCR0.7/Bottle
2203.0020	- - - In immediate containers made of other materials	l	SCR19.07/l	Nil
2203.0030	- - - In immediate containers made of metal	l	SCR19.07/l	SCR1/can
	- - - **Stout**			
2203.0041	- - - In immediate bottles made of PET or plastics	l	SCR13.77/l	SCR0.7/Bottle
2203.0042	- - - In immediate containers made of other materials	l	SCR13.77/l	Nil
2203.0043	- - - In immediate containers made of metal	l	SCR13.77/l	SCR1/can

Column 1	Column 2	Column 3	Column 4	Column 5
Tariff Item HS Code	**Description of Excisable Goods**	**Taxable Base**	**Excise Tax Rate**	**Excise Levy**
	Wine of fresh grapes, including fortified wines; grape must other that of heading 20.09			
	- Sparkling wine			
2204.1010	- - - In immediate bottles made of PET or plastics	l/bottle	SCR40/l	SCR0.7/Bottle
2204.1020	- - - In immediate containers made of other materials	l	SCR40/l	Nil
	- Other wine; grape must with fermentation prevented or arrested by the addition of alcohol:			
	- - In containers holding 2l or less			
	- - - Having an alcoholic strength exceeding 8% but not exceeding 16% vol.			
2204.2111	- - - - In immediate bottles made of PET or plastics	l/bottle	SCR40/l	SCR0.7/Bottle
2204.2119	- - - - In immediate containers made of other materials	l	SCR40/l	Nil
	- - Other			
	- - - Having an alcoholic strength exceeding 8% but not exceeding 16% vol.			
2204.2911	- - - - In immediate bottles made of PET or plastics	l/bottle	SCR40/l	SCR0.7/Bottle
2204.2919	- - - - In immediate containers made of other materials	l	SCR40/l	Nil
	- Other grape must			
	- - - Having an alcoholic strength exceeding 8% but not exceeding 16% vol.			

2204.3011	- - - - In immediate bottles made of PET or plastics	l/bottle	SCR40/l	SCR0.7/Bottle
2204.3019	- - - - In immediate containers made of other materials	l	SCR40/l	Nil

Column 1	Column 2	Column 3	Column 4	Column 5
Tariff Item HS Code	**Description of Excisable Goods**	**Taxable Base**	**Excise Tax Rate**	**Excise Levy**
	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances.			
	- In containers holding 2l or less			
	- - - Having an alcoholic strength exceeding 8% but not exceeding 16% vol.			
2205.1011	- - - - In immediate bottles made of PET or plastics	l/bottle	SCR40/l	SCR0.7/Bottle
2205.1019	- - - - In immediate containers made of other materials	l	SCR40/l	Nil
	- - Other			
	- - - Having an alcoholic strength exceeding 8% but not exceeding 16% vol.			
2205.9011	- - - - In immediate bottles made of PET or plastics	l/bottle	SCR40/l	SCR0.7/Bottle
2205.9019	- - - - In immediate containers made of other materials	l	SCR40/l	Nil
	Other fermented beverages (for example, cider, perry, mead); mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included.			
2206.0010	- - - In immediate bottles made of PET or plastics	l/bottle	SCR24.50/l	SCR0.7/Bottle
2206.0020	- - - In immediate containers made of metal	l/can	SCR24.50/l	SCR1/can
2206.0090	- - - In immediate containers made of other materials	l	SCR24.50/l	Nil
	- - - Alcopops having alcohol strength exceeding 0.5% but not exceeding 16% vol.			
2208.9011	- - - - In immediate bottles made of PET or plastics	l	SCR20.98/l	SCR0.7/Bottle
2208.9012	- - - - In immediate containers made of other materials	l	SCR20.98/l	Nil
2208.9019	- - - - In immediate containers made of metal	l	SCR20.98/l	SCR1/can

Column 1	Column 2	Column 3	Column 4	Column 5
Tariff Item HS Code	**Description of Excisable Goods**	**Taxable Base**	**Excise Tax Rate**	**Excise Levy**
2402.1000	- Cigars, cheroots and cigarillos, containing tobacco	kg	50%	Nil
2402.2000	- Cigarettes containing tobacco	kg	SCR606per 200 cigarettes	Nil
2402.9000	- Other	kg	50%	Nil
2403.1000	- Smoking tobacco, whether or not containing tobacco substitutes in any proportion	kg	50%	Nil

	-Other :			
2403.9100	- - “Homogenised” or “Reconstituted” tobacco	kg	50%	Nil
2403.9900	- - Other	kg	50%	Nil
	- Petroleum oils and oils obtained from bituminous minerals (Other than crude) and preparations not elsewhere specified or include, containing by weight 70% or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations, other than waste oils:			
	- - Light Oils and preparations			
2710.1120	- - - Motor spirit (gasoline, Mogas MSP)	kg/l	SCR8/l	Nil
	- - Other			
	- - - Medium Oils and preparations			
2710.1911	- - - - Kerosene, type jet fuel	kg/l	SCR8/l	Nil
2710.1912	- - - - Illuminating kerosene (IK)	kg/l	SCR8/l	Nil
	- - - Heavy oils and preparations			
2710.1921	- - - - Gas oil (Diesel Oil)	kg/l	SCR8/l	Nil
2710.1922	- - - - Fuel oils (furnace oil)	kg/l	SCR4/l	Nil
2710.1923	- - - - Lubricating oils	kg/l	5%	Nil
2710.1924	- - - - Greases	kg/l	5%	Nil
2710.1925	- - - - Transformer oils	kg/l	5%	Nil

Column 1	Column 2	Column 3	Column 4	Column 5
Tariff Item HS Code	**Description of Excisable Goods**	**Taxable Base**	**Excise Tax Rate**	**Excise Levy**
2710.1926	- - - - Lubricating oil specifically designed for marine and agricultural use	kg/l	5%	Nil
2710.1927	- - - - Lubricating greases other than greases of 2710.1924	kg/l	5%	Nil
2710.1929	- - - - Other	kg/l	5%	Nil
	Motor cars and motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars.			
	Of a cylinder capacity not exceeding 1000cc:			
	- Vehicles specially designed for travelling on snow; golf carts and similar vehicles			
8703.1010	- - - LPG Powered Motor Vehicles	kg/no	5%	Nil
8703.1020	- - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - Of a cylinder capacity not exceeding 1,000 cc			
8703.2120	- - - Hybrid Motor Vehicles	kg/no	5%	Nil
8703.2140	- - - LPG Powered Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity not exceeding 1,300cc			
8703.2213	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
8703.2214	- - - - LPG Powered Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder exceeding1,300 cc but not exceeding 1,500 cc:			
8703.2223	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
8703.2224	- - - - LPG Powered Motor vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 1,500cc but not exceeding 1,600 cc:			
8703.2313	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
8703.2314	- - - - LPG Powered Motor vehicles	kg/no	5%	Nil
	- - - Of cylinder capacity exceeding 1,600cc but not exceeding 2,000 cc:			
8703.2323	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
8703.2324	- - - - LPG Powered Motor vehicles	kg/no	5%	Nil

Column 1	Column 2	Column 3	Column 4	Column 5
Tariff Item HS Code	**Description of Excisable Goods**	**Taxable Base**	**Excise Tax Rate**	**Excise Levy**
	- - - Of cylinder capacity exceeding 2,000cc but not exceeding 3,000 cc:			
8703.2333	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
8703.2334	- - - - LPG Powered Motor vehicles	kg/no	5%	Nil
	- - Of a cylinder capacity exceeding 3,000cc			
8703.2430	- - - Hybrid Motor Vehicles	kg/no	5%	Nil
8703.2440	- - - LPG Powered Motor vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity not exceeding 1,000cc:			
8703.3112	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 1,000cc but not exceeding 1,300 cc:			
8703.3123	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 1,300cc but not exceeding 1,500 cc:			
8703.3133	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 1,500cc but not exceeding 1,600 cc:			
8703.3213	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 1,600cc but not exceeding 2,000 cc:			
8703.3223	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 2,000cc but not exceeding 2,500 cc:			
8703.3233	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 2,500 cc but not exceeding 3,000 cc			
8703.3313	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil
	- - - Of a cylinder capacity exceeding 3,000 cc:			
8703.3323	- - - - Hybrid Motor Vehicles	kg/no	5%	Nil