Budget Strategy and Outlook 2018

Estimates of Revenue and Expenditure and Appropriation Bill October 2017

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Acronyms and Abbreviations

ASP	Agency for Social Protection
BT	Business tax
CBS	Central Bank of Seychelles
CIF	Cost, Insurance and Freight
CSR	Corporate Social Responsibility tax
CWS	Cable and Wireless Seychelles
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
PMC	Property Management Corporation
PPBB	Performance Program Based Budgeting
PSIP	Public Sector Investment Program
PUC	Public Utilities Corporation
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
SPTC	Seychelles Public Transport Corporation
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 2018 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

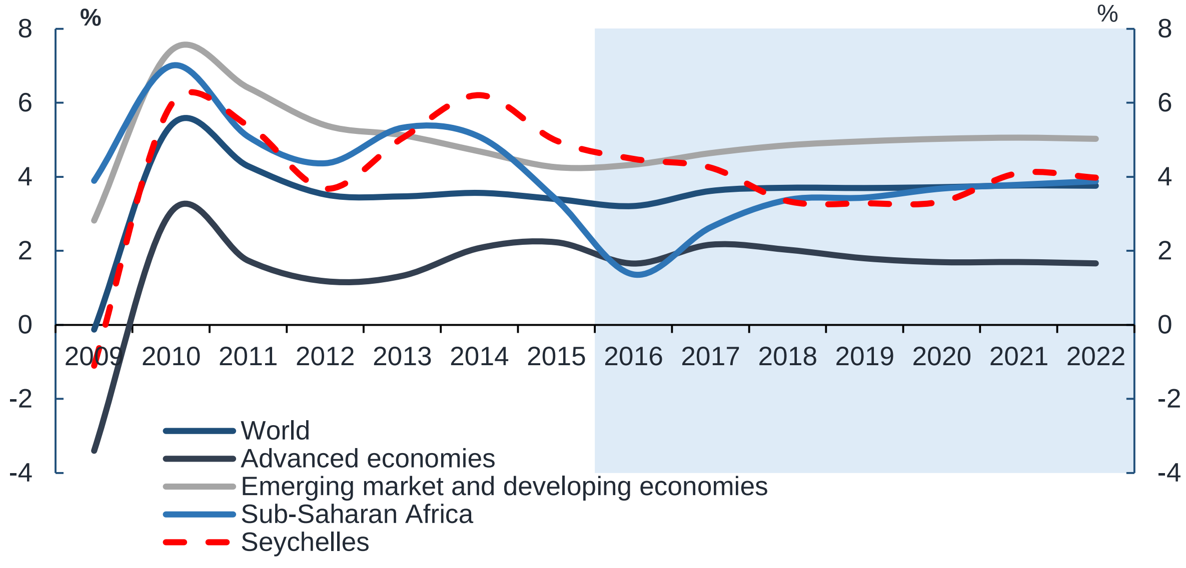
Overview

Global Economic growth is anticipated to pick up slightly in 2017 compared to 2016. Based on IMF's July 2017 WEO forecasts, overall global output for 2017 is projected to grow by 3.6 per cent. This is being mainly supported by strong positive growth expected in Japan, China, Euro areas and Russia which offsets the downward revisions made for the United States and the United Kingdom. Despite the baseline outlook strengthening, growth remains weak in many countries with inflation below targets in many advanced economies. With short-term risks generally balanced, medium term risks points towards the downside.

Figure 1 shows emerging and developing economies showing robust growth in 2017 and the medium term. China's concerns regarding economic slowdown 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. In India, growth momentum slowed, reflective of the authorities impact the authority's currency exchange initiative as well as uncertainty surrounding the introduction of the country-wide Goods and Services Tax. Higher external demand boosted growth in other emerging market economies in East Asia.

Oil prices fell by 8.1 per cent between February and August 2017. The main drivers of lower prices were higher-than-expected US shale production and stronger-than-expected production recoveries in Libya and Nigeria. In addition, exports from OPEC countries remained at relatively high levels, even with lower production. Following some strengthening in recent weeks, oil prices stood at about USD 50.20 a barrel by the end of the third quarter (rose by 1.6 per cent quarter-on-quarter). The key causes for this third quarter rise rests amid falling inventories due to strong global demand, as well as improved compliance by OPEC and non-OPEC producers to their output-reduction agreement.

Figure 1: Real GDP Growth Projections 2016-2022 for Different Types of Economies

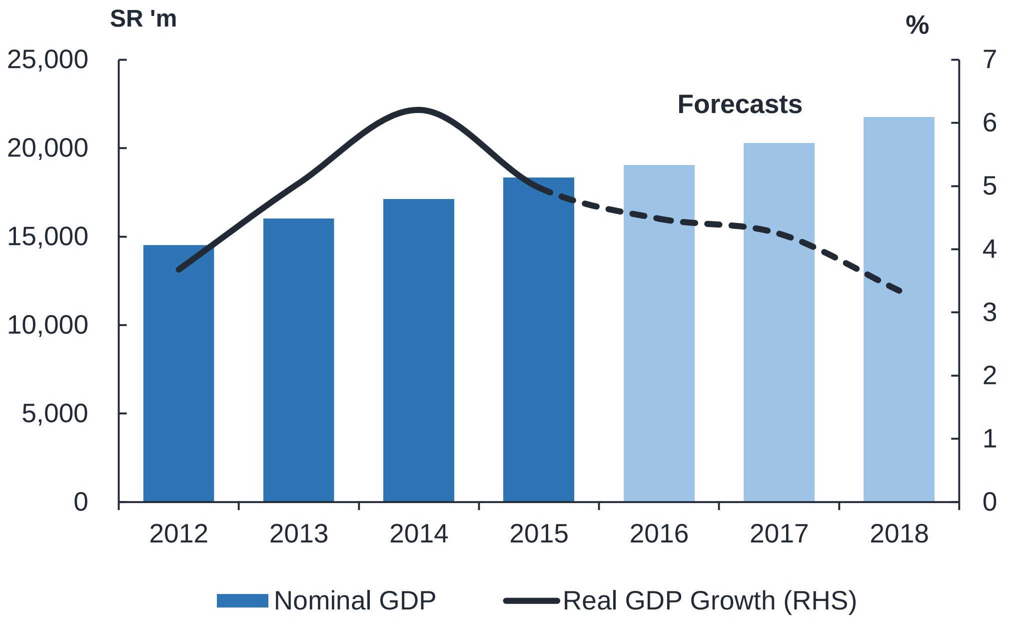


Source: MFTEP, Macroeconomic Forecasting and Analysis Division estimates

Following the first half of 2017 performance, the Seychelles economy is projected to grow by about 4.2 per cent as at Budget forecast. On the upside, Tourism sector is showing strong growth with visitor arrivals continuously showing double digit growth. With increase flight frequencies, extensive marketing strategies, and stable economic activities in the main markets, the strong performance is anticipated to continue for the rest of the year. Activities in the manufacturing sector remains buoyant in 2017. Growth is forecasted around 3 per cent in the Manufacturing of Beverages and Tobacco whilst low growth of 1 per cent is being projected in the canned tuna production. Concerns are focused on the manufacturing of concrete and rock products. Unless a new quarry site is allocated to one of the key players, the sector may experience a recession over the medium term. With all large projects completed, not much activity is being foreseen in the construction sector, except for increased residential construction. Activity remains resilient in the 'Information and Communication' sector and continuous growth is anticipated in the 'Financial and Insurance' activities.

There has been a slight downward revision of 1.4 per cent in the Nominal GDP level compared to the Budget forecasts. This is related to lower inflation rate forecasts as well as a less favourable SR/EUR rate. The year-on-year inflation rate stood at 3.2 per cent as at the end of September, while the 12 monthly average inflation rate stood at -0.26 per cent.

Figure 2: Nominal GDP and Real GDP Growth for Actuals and Forecasts



Source: MFTEP, Macroeconomic Forecasting and Analysis Division estimates

Real Sector

Tourism

Significant growth have been observed so far in 2017 in terms of visitor arrivals. By the end of September a total of 259,280 visitors had disembarked in Seychelles compared to 216,648 for the same period in 2016. This represents a 19.7 per cent growth. Europe remains the main market for Seychelles tourists. However there has been a slight change in the dynamics. Compared to previous years whereby France was the biggest market, this year Germany has been the dominant market for arrivals. While the former contracted by 1.9 per cent, the latter grew by 32.2 per cent by the end of September. This may be partly related to the temporary direct flights that Air Seychelles operated to Dusseldorf. The Russian market has rebound following last year's slowdown which was attributed to the political and economic turmoil the country was facing.

Apart from France, China is the only other market that is showing a slow down this year. The market contracted by 16.6 per cent. It is worth noting that this year, apart from chattered flights, there is no longer any direct flights to China. This may thus explains the downturn in arrivals. Strong positive growth is also being observed from America which may be a direct result of STB's strong marketing campaign in the area. The table below shows a breakdown of visitor arrivals and composition up to September 2017 compared to the same period last year.

Table 1: 2016-2017 Visitor Arrivals comparison by Country of Origin

Country of Origin	January to September		% Difference
	2016	2017	
Europe	**133,968**	**159,011**	**18.7**
France	30,878	30,278	-1.9
Germany	27,376	36,225	32.3
Italy	17,954	18,967	5.6
Russia	8,020	10,035	25.1
Other Europe	49,740	63,506	27.7
Asia	**51,598**	**62,424**	**21.0**
UAE	18,824	22,588	20.0
China	12,085	10,082	-16.6
Other Asia	20,689	29,754	43.8
Africa	**23,249**	**25,677**	**10.4**
America	**6,490**	**10,487**	**61.6**
Oceania	**1,343**	**1,681**	**25.2**
Total:	**216,648**	**259,280**	**19.7**

Source: National Bureau of Statistics (NBS)

The outlook for 2018 remains favourable. This is especially so, given the announcement of British Airways and Air France to start operating direct flights to Seychelles as of next year. This will boost arrivals form the European Markets. A detailed analysis of the Tourism sector performance is presented in the Box below.

Box 1: Tourism

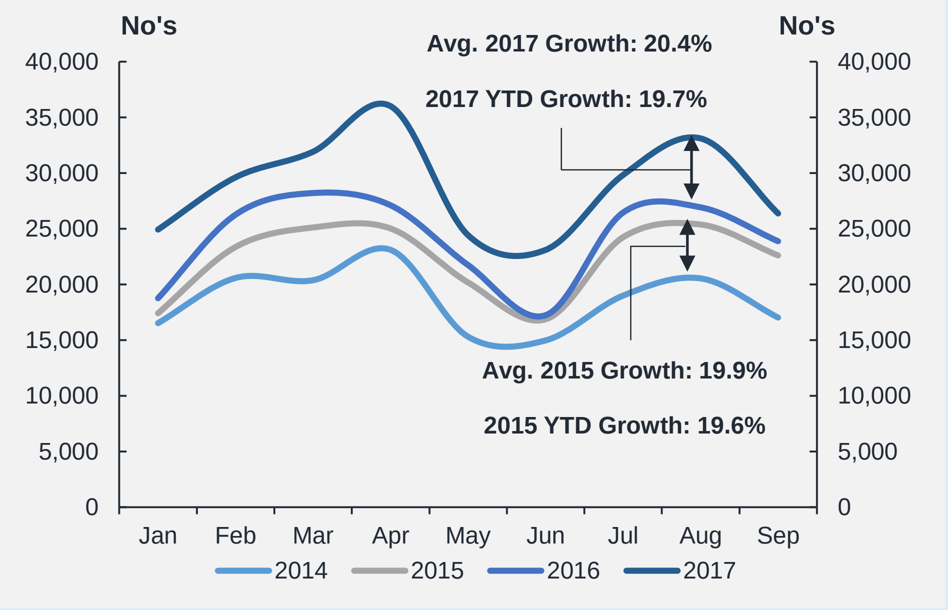
Seychelles Tourism Performance

Strong activity in the Tourism sector has been the driving force behind the Seychelles robust economic performance over the past years. Tourism remains the largest contributor to GDP at about 30 per cent. The immediate measure of real tourism activity is through visitor arrivals and over the past seven years, this has increased by about 10 per cent on average. This has been attributable to several key factors:

- increase in air connectivity
- increase in flight frequencies
- opening of new routes/ markets by both local and international carrier
- better marketing strategy
- increase in room capacity
- favourable global economic environment following the global financial crisis

As aforementioned, visitor arrivals have been strong so far in 2017 showing monthly double digit growth up to September. A similar trend was also observed in 2015 whereby growth in arrivals stood at 19.9 per cent by the end of September compared to 2014. The graph below shows the monthly arrivals over the last four years. Growth in arrivals have been strongly supported with the coming back of Qatar Airways, Turkish airways as well as a few chartered flights.

Figure 3: Monthly Visitor Arrivals comparison 2014-2017



Source: National Bureau of Statistics

The increase in arrivals certainly implies increase in revenue for the country. This has been reflected in both Tourism earnings and VAT receipts. By the end of August 2017, tourism earnings as reported by the CBS, was estimated at EUR 299m, reflecting a 13.9 per cent growth compared to the same period last year. The majority of the recorded earning comes from Hotels and Guest houses.

In terms of tax revenue collections from the tourism industry, it is estimated that by the end of July 2017, a total of SR 398m had been collected from Domestic VAT. This represents a growth of 10.9 per cent compared to the same period last year.

Table 2: Summary of Tourism Earnings and VAT Receipts

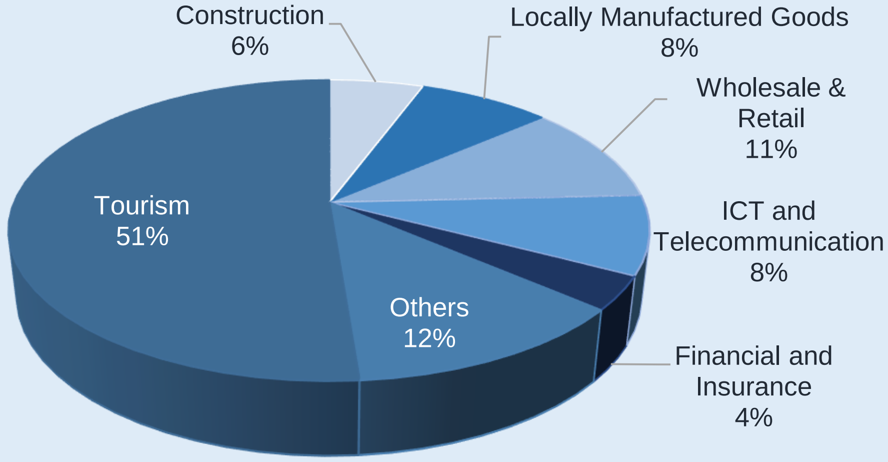
DESCRIPTION	January to August		% Diff
	2016	2017	
Tourism Earnings (EUR'm)	262	299	13.9
Avg SR/EUR rate	14.81	15.05	1.6
Tourism Earnings (SR'm)	3,874	4,525	16.8
VAT Tourism Receipt (SR'm)*	359	398	10.9

* VAT Receipt as of July 2017

Source: Central Bank of Seychelles and Seychelles Revenue Commission

VAT is the largest contributor towards Government tax revenue. The pie chart below shows the breakdown of Domestic VAT receipts. As can be seen, Tourism is the largest contributor for Domestic VAT collections, accounting for more than half of total receipts.

Figure 4: Sectoral contribution to VAT Receipts



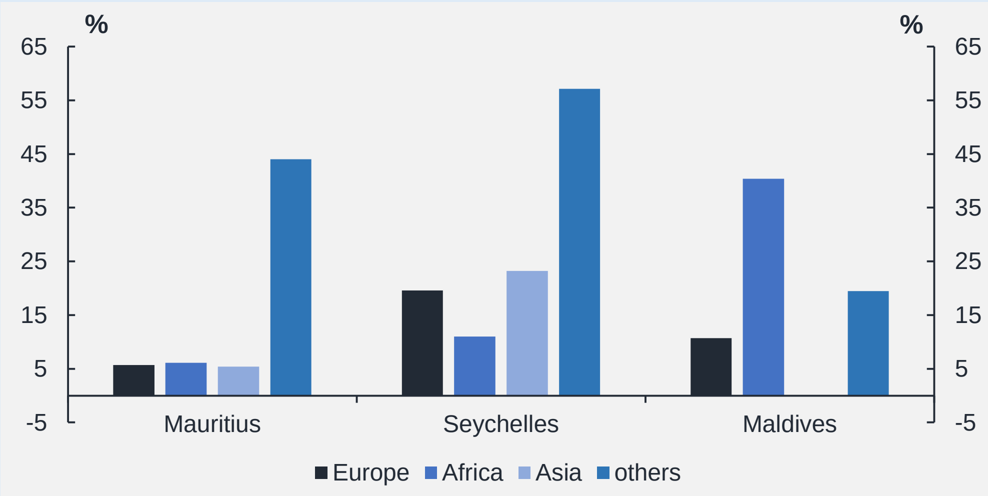
Source: Seychelles Revenue Commission

Despite this positive growth in Tourism earnings and VAT revenue, concerns remain that this is disproportionate and is not fully reflective of the arrivals. That is to say, the growth in arrivals is greater than the earnings or yield. More effort needs to be done to retain earnings and encourage visitors to spend more domestically.

Regional Tourism Performance

It is also of paramount importance to contrast the tourism performance of regional counterparts to that of the Seychelles. In the illustrations below, the performance of the Seychelles, and its main regional competitors, Maldives and Mauritius are compared and analysed. This provides a better perspective of Seychelles' performance to that of its neighbouring opponents. As can be observed from Figure 5 below, Seychelles and Mauritius' strongest growth by the end of August 2017, was from 'Others'. This comprises of arrivals from the Americas and Oceania. This growth represents a 44 per cent for Mauritius and 57 per cent for Seychelles compared to same period last year. On the other hand, Maldives largest growth was in the African market, which grew by 40 per cent, whereas as Seychelles and Mauritius' growth remains under 15 per cent.

Figure 5: August YTD Regional Growth in Arrivals



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

Overall, Seychelles has experienced a larger growth in visitor arrivals with a 19.7 per cent growth year-to-date, followed by Mauritius with a 6.1 per cent growth over the same period. In absolute terms however, Maldives remains the leading country followed by Mauritius with 876 and 838 thousand visitors respectively. Seychelles numbers stands at only 232 thousand tourists by the end of August 2017. A breakdown of arrivals by market is shown in the table overleaf.

When comparing the ratio of the visitor arrivals to population, Seychelles has the highest ratio. The ratio shows that for each person there are about 2.5 visitors. Maldives and Mauritius ratio stands at 2.3 and 0.7 respectively. Hence despite the lower numbers in absolute value, Seychelles Tourism sector remains competitive in relation to its main opponents in the region.

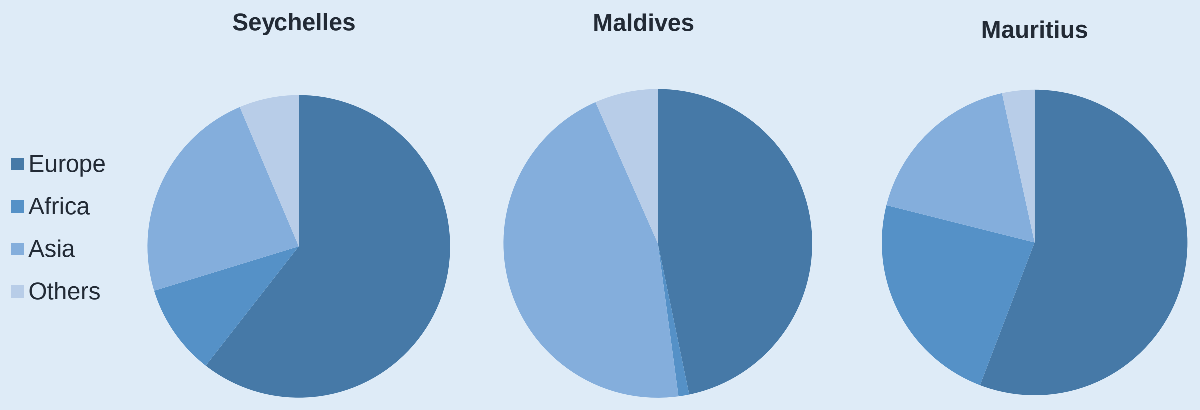
Table 3: Leading Tourist Markets in 2017

Markets	Mauritius	Seychelles	Maldives
Europe	**467,706**	**143,670**	**409,819**
France	168,744	27,791	28,844
Germany	66,776	31,715	67,438
UK	88,458	14,752	68,007
Italy	20,927	17,190	58,619
Russia	6,985	9,539	38,936
Africa	**193,573**	**23,064**	**9,368**
Asia	**147,976**	**55,440**	**398,738**
China	53,793	9,097	209,514
India	59,826	8,657	48,939
UAE	9,057	20,448	7,334
Americas	**15,530**	**9,251**	**38,922**
Oceana	**13,165**	**1,488**	**18,947**
Not stated	**447**	**0**	**153**
Total:	**838,397**	**232,913**	**875,947**

Source: From respective country tourism statistic departments

In terms of market share, Europe remains the leading market for the three countries, with Seychelles having the highest share as a percentage of its total arrivals. The Asian market is the second largest followed by Africa and the 'Other' category. Although Seychelles' second largest market is Asia, Maldives' still holds the largest market share for the Asian market, with 46 per cent of its market coming from Asia compared to a 23 per cent for Seychelles. Asia is also the second largest market for Mauritius. Mauritius takes the lead in terms of the African market while Maldives leads the 'others' market.

Figure 6: 2017 Tourist Market Shares

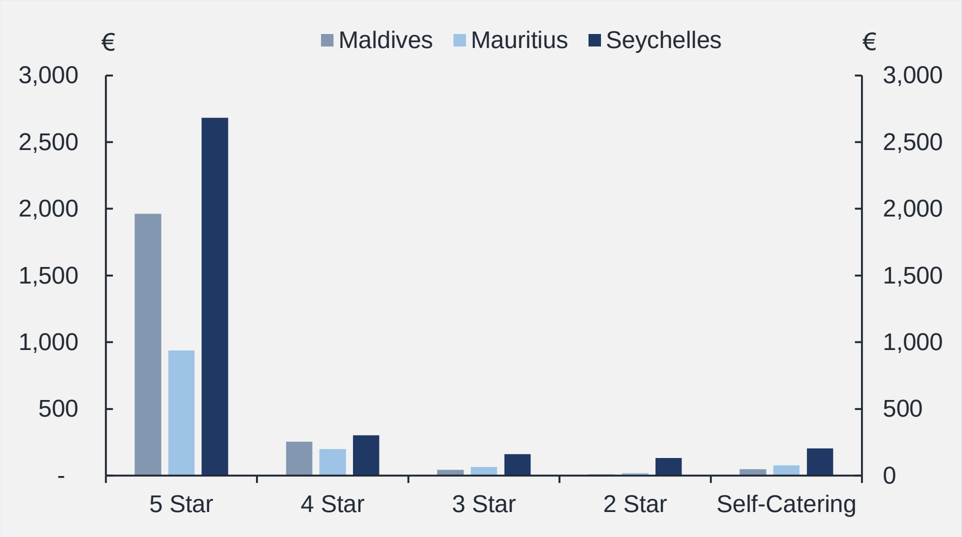


Source: From respective country tourism statistic departments
*Others refers to Americas and Oceania

Hotel price and Air accessibility comparison

A hotel price comparison was conducted to identify possible effect accommodation prices have had on Tourism sector performance in 2017. Figure 7 below shows the average price per night of a room for two adults. The data was collected from 'booking.com' website as at mid-October, and the results provide an indication of the type of prices tourists face when booking their accommodation.

Figure 7: Average Room Prices per Night by Category



Source: From respective country tourism statistic departments

What is clearly seen from this graph is that the Seychelles charges the most for a room in all categories of accommodation. This may be a possible explanation to the lower number of arrivals in level terms for Seychelles when compared to Maldives and Mauritius. It was observed from the data that Maldives has around 615 properties listed on Booking.com and that it is also the most price competitive with price discounts being offered by almost all tourist accommodations. Mauritius has the highest number (1,275) of accommodation while Seychelles has the smallest base (493). Furthermore, it was observed that hotels in Maldives competed on the number of services offered with almost all offering a breakfast or half board option whilst majority of the establishments in Seychelles offers only the room with those rates. The end conclusion from this surface level analysis is that the Seychelles is less competitive on prices and services offered.

There are several caveats to this observation; firstly, this is only a preliminary analysis at one of the ways a holidaymaker can plan a vacation. Tour operators may be able to achieve economies of scale and offer their clients better prices and packages. Furthermore, extending the time period of this study to see how prices move during peak and non-peak periods would prove more informative.

Direct flights were also examined to identify the rationale behind why tourism has performed relatively better in Seychelles relative to Mauritius and Maldives. Table 4 shows that Maldives has the highest aggregate number of arrivals and this is supported by the number of direct flights available to its capital, Malé. It is striking to notice the greater connectivity of Maldives to its main European market. The number of direct flights to any region far exceeds those of Seychelles and Mauritius. Another striking feature is the lack of direct flights from source markets to the Seychelles as compared to Mauritius and Maldives. It must be noted that charted flights have been excluded for all countries.

Table 4: Direct Flights Details

Seychelles		Mauritius		Maldives	
		Europe			
Paris-CDG	Frankfurt	Paris-CDG	London Heathrow	Paris-CDG	Zurich
Istanbul	Dusseldorf [2]	Paris-Orly	London-Gatwick	London-Gatwick	Vienna
Vienna[1]	LondonHeathrow[3]	Rome	Zurich	Rome	Istanbul
		Milan	Istanbul	Milan	Frankfurt
		Munich[4]	Frankfurt		
		Amsterdam[4]			
		Asia			
Mumbai		Mumbai	Beijing	Delhi	Beijing
Colombo		Delhi	Shanghai	Thiruvananthapuram	Guangzhou
		Bangalore	Singapore	Kochi	Changshua
		Chennai	Moscow	Bangalore	Chengdu
		Kuala Lumpur	Guangzhou	Colombo	Ghongqing
		Hong Kong	Jeddah	Chennai	Nanjing Lukon
		Chengdu	Riyadh	Dhaka	Shanghai
				Kuala Lumpur	Wuhan
				Hong Kong	Xianyang
				Moscow	Singapore
				Bangkok	Seoul
				Incheon	Kunming
				Riyadh	Mumbai [5]
		Middle East			
Dubai	Doha	Dubai		Dubai	Doha
Abu Dhabi		Abu Dhabi [4]		Abu Dhabi	
		STOP			
		Africa			
Antananarivo	Nairobi	Nairobi	Antananarivo		
Johannesburg	Reunion	Johannesburg	Reunion		
Addis Ababa	Mauritius	Durban	Seychelles		
Durban		Cape Town	Rodrigues		
		Oceania			
		Perth			

1. Commencing Oct 2017
2. Discontinued 2017
3. Commencing Mar 2018
4. Commencing 2018
5. Commencing Dec 2017

Source: Respective Country's Airport websites

Based on the facts presented, Mauritius and Maldives are far easier to access and their accommodation is far cheaper. This explains the lower number of arrivals in absolute terms in Seychelles compared to the aforementioned. However, these are not the only features on which a tourist bases his decision of holiday destination on. Other factors include ticket cost, flight distance, cost of living, if the person is travelling alone, as a couple or as a family. In some instances the decisive factors are preferences between adventure and relaxation, beaches and mountains, shopping and food experiences, festivals and cultural experiences. These are possible underlying reasons for the higher percentage growth in Seychelles in relative to the Maldives and Mauritius.

To conclude, this special topic box has highlighted cross-country comparisons in the tourism sector, with Seychelles not in a strong position regionally. Whether Seychelles should remain a high niche market, or divert its strategies to obtain more value addition, remains an important on-going discussion between the respective authorities and the trade. An increase in direct flights, additional flight connectivity, and more targeted marketing strategies are all contributing towards the positive performance of the country, and supporting sustainable growth. What is certain is that over the medium to longer term, Tourism will remain the main pillar of the economy, and sufficient attention should be devoted to this sector.

Manufacturing

In the Manufacturing sector, beer production grew by 22 per cent by the end of the second quarter of 2017. Despite a negative growth in production of stout, the brewing company's outlook for the remainder of 2017 remains positive for the majority of production lines. Moreover, the main producer spirits also has a positive volume growth outlook for 2017. The manufacture of tobacco shows a positive double digit growth reflective of the company’s optimistic stance on performance. Both the projections for 2017 and 2018 in manufacture of beverages and tobacco stands at 3 per cent.

In the second quarter production statistics, canned tuna production has been steady at an average of 9.5 tonnes per quarter in 2017 compared to a slightly higher average of 9.6 tonnes 2016. The end of year projection stands at 1 per cent for manufacture of food and as for 2018, the outlook remains flat.

Production of blocks remains negative, reflective of issues being faced in the construction sector, related to scarcity of raw materials and loss of majority projects to foreign companies have caused particular financial constraints. As a result, the end of year projections remains flat for this sector. The 2018 outlook stands at 1 per cent assuming new quarry sites can be obtained.

Construction

The Construction sector is pessimistic for growth in 2017 given the numerous issues it is facing. These include the 2020 moratorium on large hotels and contractors facing hefty competition with foreign companies bargaining tenders offering lower prices. Scarcity of raw materials is also a challenge for this sector. This can further more be supported by the fall in the production of blocks since the beginning of the year.

Information and Communication

The Information and Communication sector remains extremely strong in 2017 with the level of data usage exhibiting a double digit growth. The introduction of more attractive internet packages, a new radio station, IPTV, mobile banking and e-payments are all contributing towards growth in this sector.

The spill-over effects from this sector has also contributed in stimulating further growth in other sectors such as ‘Financial and Insurance services’. In line with these events and significant increases in data usage traffic for 2017, a double digit growth is further expected for the year 2018.

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. Since July 2017, monetary policy implemented incorporates the setting of a standing credit and deposit facilities that form the ceiling and floor of an interest rate corridor. The corridor aims to provide clearer guidance to the financial market for appropriate evolution of short term interest rates and is complemented by quarterly reserve money operating targets.

In the first half of 2017, the Bank kept monetary policy relatively tight in view of anticipated increases in domestic inflationary pressures. However, the stance shifted in the third quarter to support a boost in domestic economic activity given a revised expectation of modest inflationary pressures. This is forecasted to remain unchanged in the short term albeit subject to market developments.

With regards to key market rates, an overall decline was recorded since the start of 2017 with the average lending rate and savings rate declining by 32 basis points and 68 basis points respectively. In terms of credit to the private sector, as at August 2017, a growth of 11 per cent was recorded for the year to date and was largely driven by loans disbursed to private households.

Inflation

Subsequent to the deflationary trend observed in 2016 whereby the end-of-period year-on-year inflation rate stood at -0.2 per cent, an inflationary trend has been recorded for the year to date. As indicated by the Consumer Price Index (CPI), year-on-year inflation of 3.2 per cent as at end-September implied rising prices relative to the previous year. This development was partly attributed to revisions in the CPI series as of January 2017 which yielded higher inflation figures than previously published. Furthermore, overall CPI was primarily driven by the non-food component following excise tax measures on alcohol, tobacco and fuel. As such, the annualised inflation rate increased to stand at 1.9 per cent as at end-September.

In the upcoming year, modest inflationary pressures are expected in 2018 on account of tepid movements in global commodity prices and subdued domestic demand. The Seychelles rupee has been marginally depreciating, however it remains relatively stable due to its slower than anticipated depreciating trend. In this regard, CBS remains committed to its mandate of price stability and stands ready to adjust its monetary policy stance should the need arise.

Credit

For the month of August 2017, total stock of outstanding credit disbursed by other depository corporations (ODCs) grew by 10 per cent relative to the same period in 2016. This was primarily driven by an increase of 24 per cent in credit extended to parastatals followed by an increase of 14 per cent in credit extended to the private sector. Claims on Government increased by 2.8 per cent.

With regards to private sector credit, growth was primarily driven by loans extended to private households, which recorded an increase of 22 per cent. In addition, credit disbursed to tourism rose by 12 per cent while total mortgage loans and advances increased by 18 per cent. Going forward, a moderation in private sector growth is forecasted, and expected to be within single digits by the end of 2018.

External Sector

Balance of Payments

The country's external position is projected to have improved in 2017 relative to 2016. Initial estimates suggest a narrowing of the current account deficit, from 20 per cent of GDP in 2016 to 18 per cent of GDP. However, early forecasts suggest a widening in the upcoming year on account of higher projected imports of goods.

Current Account

The trade balance deficit increased from USD 532m in 2016 to USD 590m, primarily due to a rise in imports. Total imports (of goods and services) for the year are projected to reach USD 1,567m whilst total exports are estimated at USD 1,410m.

Export of goods is forecasted to be slightly above the level for 2016 by 0.4 per cent, equivalent to USD 461 million. This growth was mainly caused by a fall in the volume of tuna exports, which in turn was affected by the imposition of the Indian Ocean Tuna Commission (IOTC) quota on tuna catch levels that became effective in January 2017. On the imports side, an uptick in international oil prices translated into an increase of 19 per cent in the value of oil imports. In line with the global rise in oil prices, oil re-exports are also projected to increase by 8.3 per cent relative to 2016.

The improved level of air connectivity in 2017 has contributed to positive visitor arrivals growth which in turn led to the industry maintaining its positive performance relative to 2016. In this regard, yield from this industry is estimated to grow by 3.1 per cent, from USD 414m in the previous year to USD 427m.

Gross international reserves are projected to stand at USD 522m at the year end, compared to USD 525m at the end of 2016. In terms of reserves adequacy, it is estimated to remain unchanged at 4.0 months of imports of goods and services. Reserves accumulation remains a challenge, in view of the sustained demand for foreign exchange in the domestic market. Notwithstanding this fact, reserves are necessary to meet the country's debt obligations, as well as for precautionary purposes in the unlikely event of an adverse economic shock.

Exchange Rates

Movements in the rupee exchange rate was greatly influenced by developments in international currency markets in 2017. This is especially the case for the Euro which strengthened significantly against major currencies. Improvements in Eurozone economy and the prospect of an end to the European Central Bank's Quantitative Easing program have been key drivers in the improved performance of the currency. By contrast, political instability and uncertainty in the wake of Brexit negotiations in the United Kingdom have weighed on the Pound Sterling (GBP) while natural disasters (US Hurricanes), uncertainty surrounding the North Korean dispute as well as the shortfalls of the Trump administration were the main forces behind the weakening of the US dollar.

On the domestic front, sustained demand continued to exceed supply of foreign exchange in the market. As such, as at, October 10, the year-to-date annual SR/EUR average stood at 15.24, representing a rupee depreciation of 40 cents vis-à-vis the EUR in relation to the same period in 2016. As for the USD, a depreciating trend was maintained. Compared to the same period in the previous year, the rupee weakened by 33 cents against the USD to stand at 13.62 as at October 10, 2017. In contrast, the local currency observed an appreciation of SR1.08 against the GBP.

In terms of foreign exchange flows, a net outflow of USD 65m was observed as at October 10, 2017, which was 19 per cent lower than the previous year. For the remainder of the year and into 2018, a modest depreciation of the rupee against the USD is expected. As for the EUR and GBP, levels of volatility in light of developments on the international market.

Box 2: Revised Monetary Policy Framework: Short Term Interest Corridor

Introduction

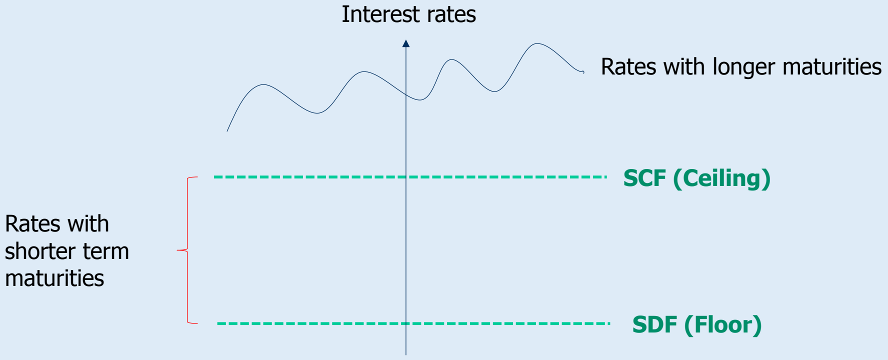
The Central Bank's objectives is to promote domestic price stability and at the onset of the reforms, this was achieved by influencing the intermediate target of money supply growth, with reserve money being the operating target. The framework has proved effective over the years in preserving domestic price stability supported by the strong positive relationship between growth in broad money and inflation.

Nonetheless, one of the main challenges under the framework remains the weak transmission mechanism of monetary policy through the economy. Moreover, similar to other small island states and other countries with underdeveloped financial systems, the evolving financial market in recent years has increased the need for short term interest rates as a signaling tool in the implementation of monetary policy.

Revised Monetary Policy Framework

The Bank modernized its monetary policy framework so as to enhance the effectiveness and transparency of monetary policy implementation. This was done by adopting a more transparent and forward-looking approach in its monetary policy formulation and implementation, guided by short term interest rates on two existing instruments, namely the Standing Credit Facility (SCF) and the Standing Deposit Facility (SDF). In principle, since July 2017, monetary policy is implemented through an interest rate corridor with the ceiling and the floor of the short term interest rate corridor formed by the applicable rates on the existing overnight facilities, that is, the SCF and SDF, respectively. As at Q4 2017, the ceiling and floor of the corridor is currently set at 6.0 per cent and 1.0 per cent, respectively.

Figure 8: Illustration of the interest rate corridor



The corridor aims to provide clearer guidance to the financial market for appropriate evolution of short term interest rates which is complemented by quarterly reserve money operating targets. Decisions on the interest rates are undertaken by the Board, with an improved communications structure in place to improve the Bank's transmission mechanism of monetary policy including via the expectations channel.

The rates and width of the corridor will be reviewed and published on a quarterly basis, following Board approval, reflecting the Bank's monetary policy stance. These parameters will be determined by the Bank's macroeconomic modelling and forecasting framework which applies the fundamental principles of economic theory to predict key macroeconomic variables.

Expected Outcome

Through the revised framework, the Bank aims to enhance the transparency of monetary policy and better guide the economy as a whole on the appropriate evolution of short term interest rates, in line with the reserve money target and economic developments. The corridor is expected to guide financial institutions in setting their interest rates as well as assist economic agents in making better informed financial decisions.

The changes brought about by the amended framework is also expected to encourage more effective liquidity management by banks, hence reducing the frequency of interventions by the Bank in the money market. This will also contribute towards the further development of the domestic financial market through improved interbank trading activities and reducing the banks' needs for high precautionary liquidity buffers.

In the long run, it is expected that short term interest rates will be more sensitive to monetary policy signals, and contribute more effectively towards ensuring sound economic growth.

Source: Central Bank Seychelles

Risks to Budget and Economic Outlook

Developments within and beyond the country may have a significant impact on the macroeconomic development of the country. Such developments represent fiscal risks, which will affect the fiscal position of the country. To the extent that unanticipated changes in economic conditions occur, their impact will flow through to Government expense and revenue forecasts. In addition, revenue forecasting relies on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift as conditions change and present a further risk to the estimates.

The present section is aimed at identifying macroeconomic risks, State Owned Enterprise (SOE's) risks and risks associated with uncertainty of aids. Furthermore, the section provides an assessment of the fiscal consequences so that both fiscal policy responses are pre-defined for negative and positive deviations.

Macroeconomic Risks

In this document, we will consider three main macroeconomic risks and have simulated possible impacts through shock scenarios; shocks on inflation and exchange rate, which has a direct effect on the nominal GDP, and also shocks on Tourism, which directly affect real GDP. The budgetary impact of each of the scenarios will also be presented. Based on the identified risks, three scenarios of macroeconomic developments are elaborated: baseline, optimistic and pessimistic. The Budget is prepared on the baseline scenario which is the expected outcome incorporating assumptions and judgments based on the best information available at the time of publication. In the latter part of this section, the risks associated with State Owned Enterprises will also be addressed.

Shocks on Inflation and Exchange Rate to the Nominal GDP

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, a rise in the overall price level. It is thus very sensitive to the rate of inflation. Inflation itself is affected by several factors mainly changes in oil prices and commodity prices. Since the country is highly dependent on imports and revenue inflows, fluctuations in the exchange rate also poses a risk to the Nominal GDP. The risks of exchange rate volatility is augmented given the current freely floating regime which allows for the currency to appreciate or depreciate dependent on market forces.

In what follows, a combined effect of unanticipated changes in the estimated inflation rate, and fluctuations in both the SR/EUR (affecting earnings) and SR/USD rate (affecting imports) on Nominal GDP is presented. For the purpose of this exercise, 200, 100 and 50 per cent shocks on inflation will be considered, while for exchange rates, 5, 15 and 25 per cent shocks are considered. In all scenarios, shocks will be considered as both positive and negative. The effect is depicted in Figure 9,
Figure **10**, Figure 11 on the following pages. The Budgetary effect of these deviations from baseline will also be portrayed.

On the downside, it is estimated that a,

- 25 per cent depreciation in both SR/USD and SR/EUR rate, combined with,
- a 200 per cent fall in the inflation rate,

will result into a SR 1,403m, or 6.9 per cent, fall in nominal GDP level in 2018. Given the sensitivity of revenue to nominal GDP (a buoyancy of about 'one' for the majority of taxes), it is estimated that the combined negative shocks will translate into a SR 223m, or 3.4 per cent, reduction in Government tax revenue collection. This would be equivalent to 1 per cent of GDP. The negative effect will also impact on Non-tax revenue especially in terms of dividend receipts, which can be hard to quantify and so not included in this simulation.

The inverse scenario is also considered for the positive shock. The simulation is estimated to lead to SR 1,403m increase in nominal GDP. Nominal GDP growth will increase from 7.2 per cent to 14.1 per cent. This will be translated into a SR 223m increase in Government revenue plus additional revenue from Non-tax revenue.

Figure 9: Exchange rate shocks

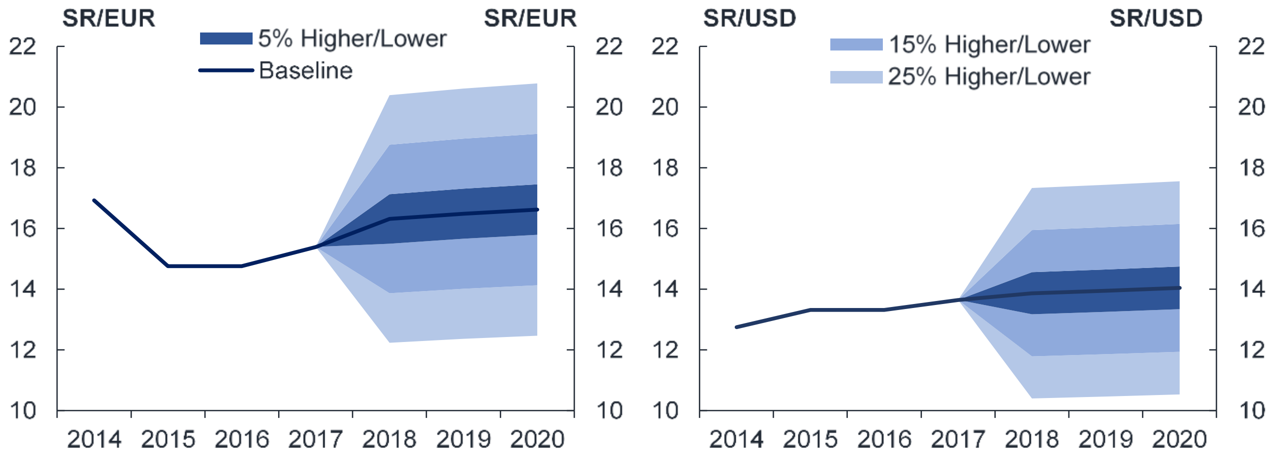
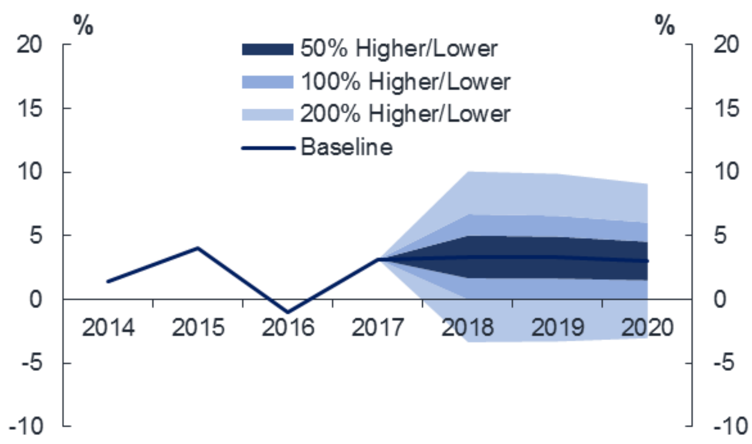
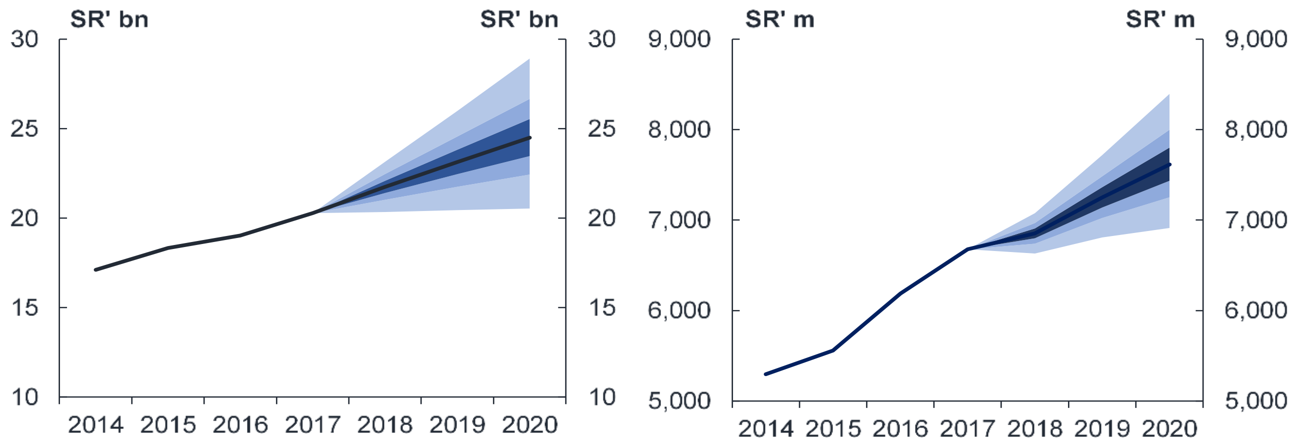


Figure 10: Inflation Rate Shocks



Source: MFTEP, Macroeconomic Forecasting and Analysis Division Estimates

Figure 11: Effect of shocks on Nominal and Tax Revenue



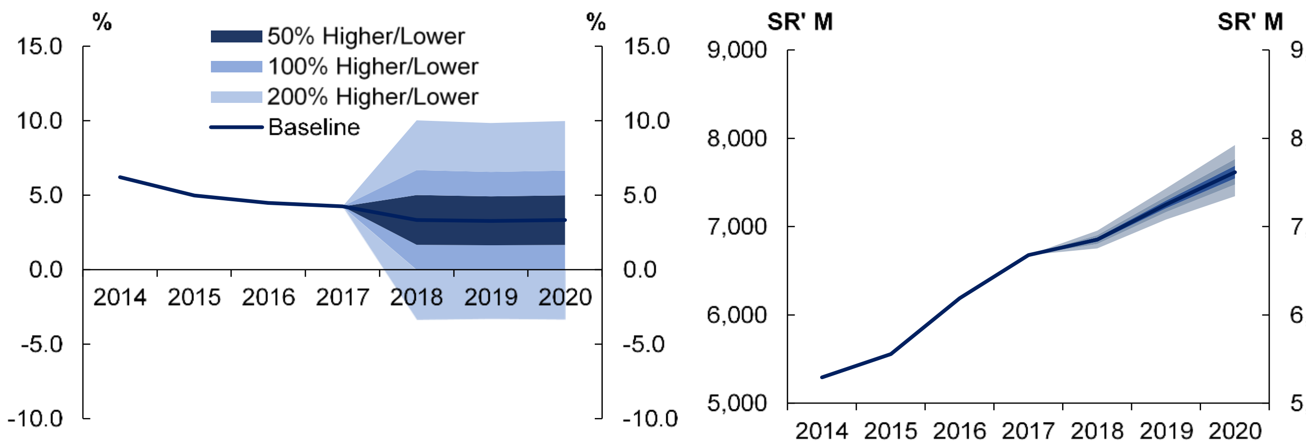
Source: MFTEP, Macroeconomic Forecasting and Analysis Division Estimates

Shocks on Tourism to Real GDP Growth

In this section we shall look at shocks to real GDP growth. Real GDP growth is affected directly by activities in the economy. Tourism remains the main activity in Seychelles economy, contributing to around 30 per cent of GDP. Any changes in visitor arrivals and average length of stay will impact real GDP growth. The effect on revenue will, however, be lower as compared to the nominal GDP since only a few tax lines grow in line with real GDP. These are related to some specific taxes on imports.

On the downside we consider a 200 per cent fall in Real GDP growth. This is to say, instead of the forecasted 3.3 per cent growth in real GDP, the country faces a 3.3 per cent contraction in 2018 (or a growth of -3.3 per cent). The negative growth is estimated to lead to SR 100m fall in Tax revenue, or 1.5 per cent fall. The reverse scenario is observed if real GDP growth was 6.7 per cent instead of the 3.3 per cent baseline. The 200 per cent, 100 per cent and 50 per cent deviations from baseline on real GDP, both positive and negative, and the revenue are depicted in the charts below.

Figure 12: Tourism effect on Real GDP growth and Revenue Impact



Source: MFTEP, Macroeconomic Forecasting and Analysis Division Estimates

Risks Related to State Owned Enterprises

There are currently twenty public enterprises (PEs) and their subsidiaries that are being monitored by the Public Enterprise Monitoring Commission (PEMC) as listed in Schedule one of the Public Enterprise Monitoring Commission Act 2013 Table 5.

Table 5: Overview of the public enterprises

PUBLIC ENTERPRISE	GOS SHAREHOLDING
FINANCIAL SECTOR	**%**
SIMBC/Nouvobanq	78
Seychelles Commercial Bank	60
Development Bank of Seychelles (DBS)	60.5
Housing Finance Company Limited (HFC)	100
Financial Services Authority (FSA)	100
Seychelles Pension Fund (SPF)	100
ENERGY SECTOR	
Seychelles Petroleum Company Limited (SEYPEC)	100
Public Utilities Corporation (PUC)	100
PetroSeychelles Limited	100
TRANSPORT SECTOR	
Seychelles Ports Authority	100
Air Seychelles Limited	60
Seychelles Civil Aviation Authority (SCAA)	100
Seychelles Public Transport Corporation (SPTC)	100
SERVICES AND DEVELOPMENT SECTOR	
Islands Development Company Limited (IDC)	100
Property Management Corporation (PMC)	100
L'Union Estate Company Limited	100
Societe Seychelloise d'Investissement Limited (SSI)	100
National Information Services Agency (NISA)	100
Seychelles Postal Services Limited	100
TRADING AND RETAIL SECTOR	
Seychelles Trading Company Limited (STC)	100

Source: PEMC

Public enterprises (PEs) can be a source of fiscal risk to the public finances if they do not perform well financially. Fiscal risks arise from a variety of sources which affect the financial and fiscal performance of the PEs.

It is PEMC's objective to monitor and effectively manage fiscal risks associated with PEs. PEMC requests performance data from the PEs on a regular basis in order to identify the nature and source of fiscal risks associated with the PEs, as well as assess their magnitude and the likelihood of them occurring.

Presently, PEs are requested to submit their Annual Financial Statements (AFS), their Budget, their Statement of Corporate Intent and their monthly financial statements to PEMC, which are used to monitor the sector and identify potential risks. When PEs fail to provide such data in a timely manner, effective monitoring and early detection of risks is hindered.

PEMC's analysis of the PE sector for the year 2016 and 2015 was based on the AFS of the PEs for those periods. The analysis is provisional as it does not include data pertaining to the following PEs which had not submitted their AFS for 2016 at the time of reporting:

- Seychelles Ports Authority
- PetroSeychelles Ltd
- L'Union Estate Company Limited

Financial Position

The total asset base of the PEs amounted to SR 26,518m for the year 2016, representing an increase of 12 per cent when compared to the year 2015 (Table 6). The total assets of the PEs represented approximately 139 per cent of the nominal Gross Domestic Product (GDP) for 2016. The Financial sector (2016: SR 11.4bn) and the Energy sector (2016: SR 9.9bn) had the largest asset base and consequently the highest value at risk for 2016 (Table 7).

Table 6: Aggregate financial position of the PEs

INDICATOR	2015		2016		Variance
	SR' m	% of GDP	SR' m	SR' m	% of GDP
Total assets	**23,671**	**129**	**26,518**	**139**	**12**
Current assets	9,190	50	10,468	55	14
Total liabilities	**11,413**	**62**	**13,145**	**69**	**15**
Short-term liabilities	3,942	22	4,763	25	21
Long-term liabilities	7,471	41	8,382	44	12
Total equity	**12,258**	**67**	**13,373**	**70**	**9**

Source: PEMC

Table 7: Total assets of the PEs, by sector

SECTOR	2016	2015	2016	2015
	SR' m		% of GDP	
Financial sector	11,394	10,093	60	55
Energy sector	9,948	8,917	52	49
Transport sector	3,126	2,492	16	14
Services and development sector	1,662	1,783	9	10
Trading and retail sector	387	387	2	2
Total	**26,518**	**23,671**	**139**	**129**

Source: PEMC

PE debt is a key area of risk on the overall Government Budget should an enterprise fail to manage the repayment of its debt. Total liabilities of the PEs amounted to SR 13,145m for 2016, representing 69 per cent of GDP. The sector with the highest total liabilities was the Financial sector (Table 8).

Table 8: Total liabilities of the PEs, by sector

SECTOR	2016	2015	2016	2015
	SR' m		% of GDP	
Financial sector	7,317	6,456	38	35
Energy sector*	2,847	2,725	15	15
Transport sector	2,325	1,530	12	8
Services and development sector	517	545	3	3
Trading and retail sector	139	157	1	1
Total	**13,145**	**11,413**	**69**	**62**

Source: PEMC
[8]Including deferred Grants

Financial Performance

The PE sector was in aggregate profitable for the year 2016. The PEs recorded an aggregate net profit of SR 1,246bn, representing an increase of 14 per cent when compared to the year 2015 (Table 9).

Table 9: Aggregate profitability of the PEs

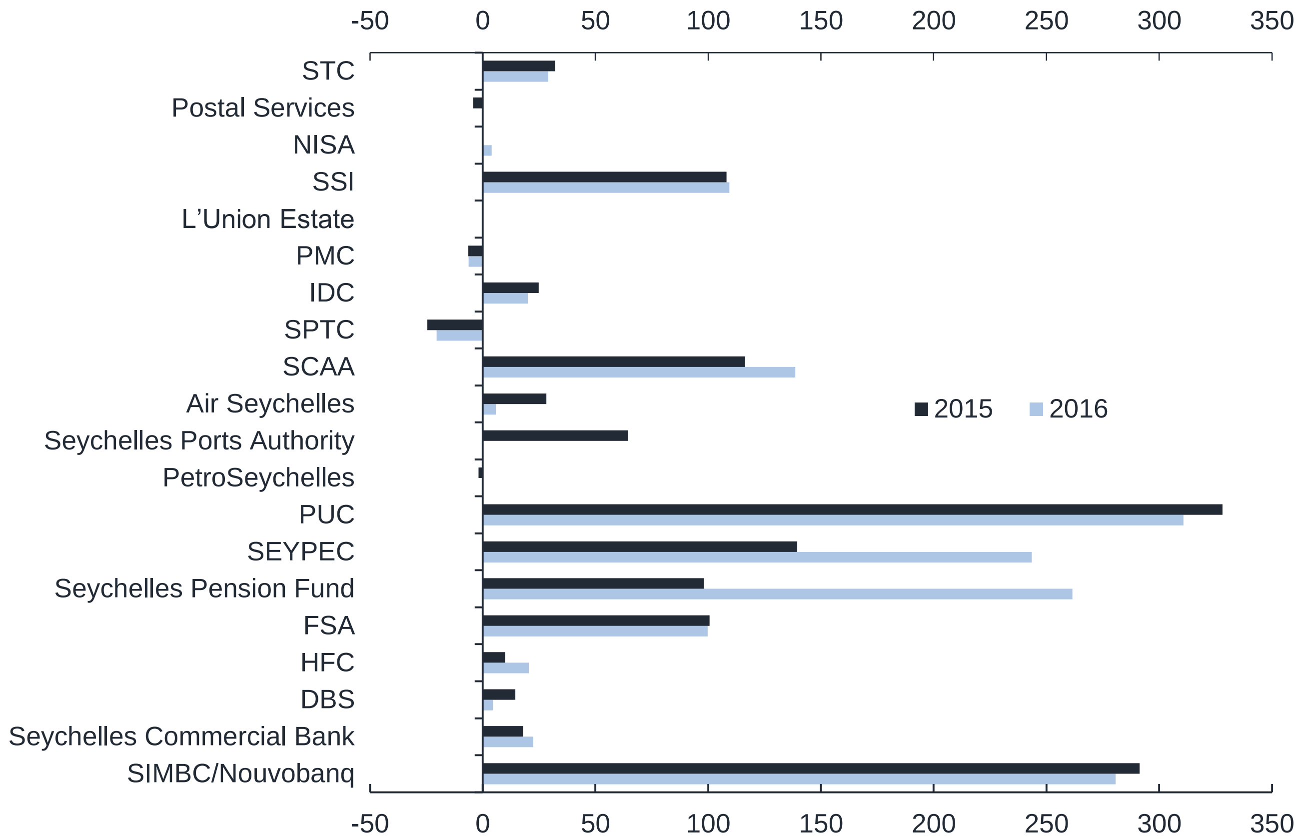
INDICATOR	2015		2016		Variance
	SR' m	% of GDP	SR' m	% of GDP	%
Total revenue	10,790	59.0	10,980	57.0	2.0
Total expenses	9,453	52.0	9,456	49.0	-
Interest paid on debt	305	2.0	321	2.0	5.0
Profit before tax	1,337	7.0	1,524	8.0	14.0
Net profit	**1,088**	**6.0**	**1,246**	**7.0**	**14.0**

Source: PEMC

The total net profit of the PEs was equivalent to 7 per cent of GDP for the year 2016. There are however considerable variations in profitability across the individual PEs (Figure 12). Amongst the PEs, SPTC and PMC recorded consecutive losses for 2015 and 2016, both of these PEs have public service obligations. PEMC will be working with all PEs during 2018 to identify and quantity their public service obligations as these can be a source of fiscal risk.

PEs which have had a reduction in profit before tax of greater than 50 per cent from 2015 to 2016 are DBS and Air Seychelles. This reduction in profitability in part linked to the industry in which those PEs operate and the nature of their activity. PEMC will be monitoring those PEs closely in 2017 and 2018 to identify risk factors to their operations, such as new entrants in the local market for the airline industry, and the effect that this may have on their performance as well as the potential implications on the national Budget, should their performance decline further.

Figure 13: Profit (before tax) of individual Public Enterprises for 2016 and 2015 (SR' m)



Source: PEMC

Performance objectives

PEMC also monitors certain ratios using performance data submitted by the PEs, such as the ratio of Return on assets (ROA), Return on Equity (ROE), the Current ratio and the Debt to Equity ratio (Table 10). These ratios are indicators of the PEs profitability, liquidity and solvency. The performance of PEs is benchmarked against standard international benchmarks, in the absence of a clear performance management framework with clear, measurable performance targets for PEs.

Table 10: Aggregate financial performance indicators for the PEs

INDICATOR	2015	2016
Return on Equity	8.9%	9.3%
Return on Assets	4.6%	4.7%
Current ratio	2.3	2.2
Debt to Equity	0.8	0.9

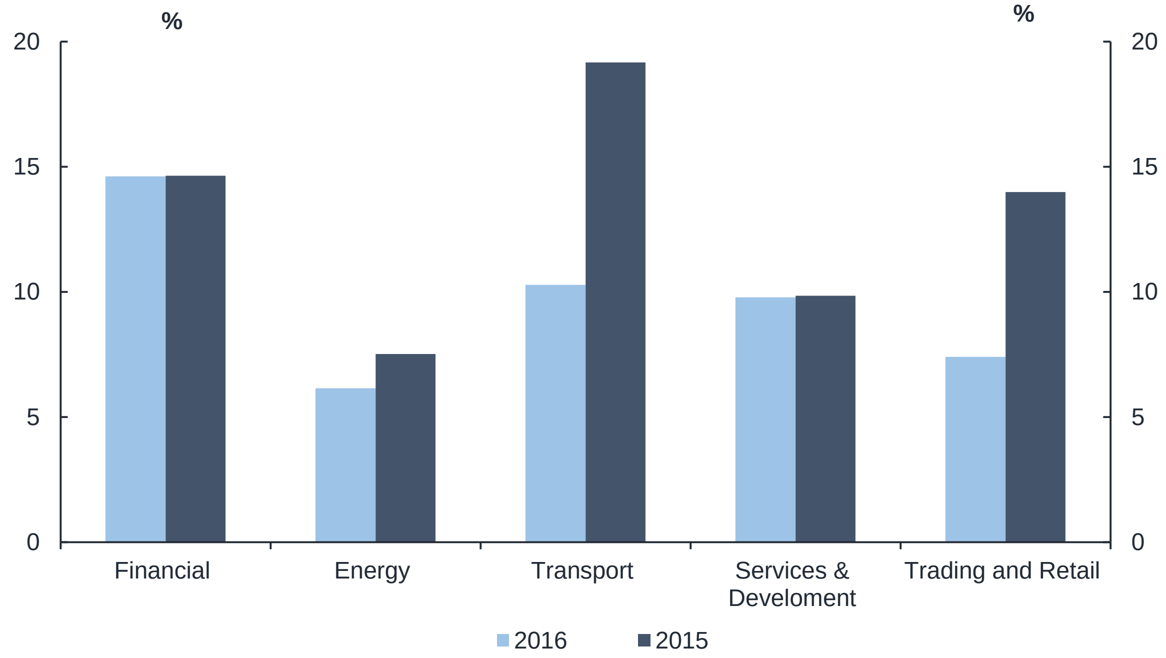
Source: PEMC

Return on Equity

Return on Equity (ROE) measures an entity's profitability by revealing how much profit is generated with the funds invested by the shareholders. A rough international benchmark for ROE is 15 per cent.[1]

The PE sector had an aggregate ROE ratio of 9 per cent for the year 2016. The sector with the highest ROE for the year 2016 was the Financial sector (15 per cent) followed by the Transport sector (10 per cent) and the Services and development sector (10 per cent) (Figure 14).

Figure 14: Return on Equity by Sector for 2016 and 2015



Source: PEMC

Return on Assets

Return on assets (ROA) is an indicator of how profitable an entity is relative to its total assets. ROA shows how efficiently an entity can use its assets to generate net income or profits.

A rough international benchmark for ROA is above 5 per cent.[2] The PEs had an aggregate ROA ratio of 4.7 per cent for 2016, the sectors with the highest ROA for 2016 were the Services and development sector (7 per cent) followed by the Financial sector (5 per cent) (Figure 15).

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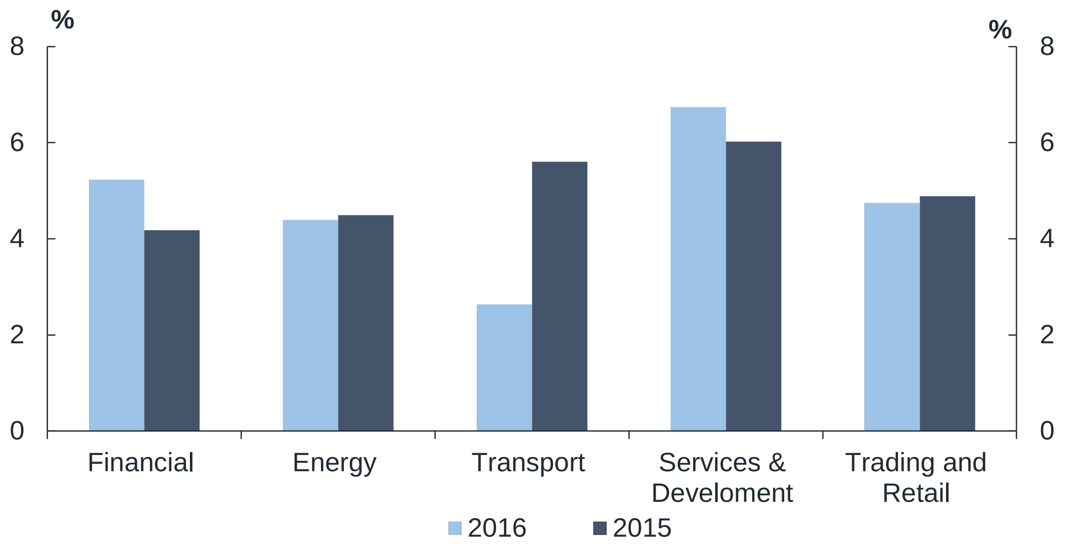
[1] Source: IMF, *Oversight of fiscal risks of the SOE sector,* October 2016

[2] Source: IMF, *Oversight of fiscal risks of the SOE sector,* October 2016

Figure 15: Return on Assets for 2016 and 2015



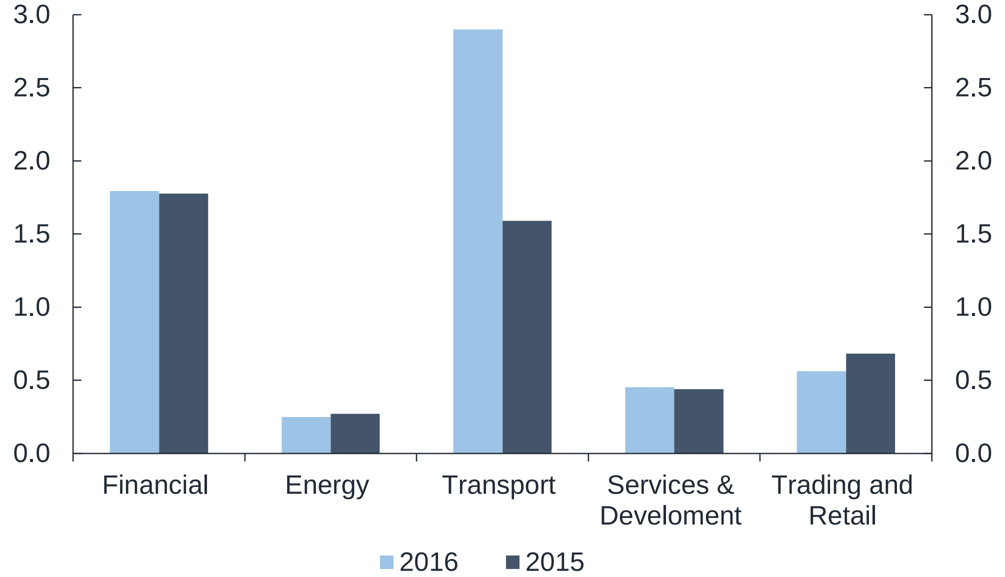
Source: PEMC

Debt to Equity

The Debt to Equity ratio compares an entity's total liabilities to its total equity. The ratio indicates how much debt an entity is using to finance its assets relative to the value of its investor financing (equity).

The Debt to Equity ratio has remained fairly stable for most sectors from 2015 to 2016 with the exception of the Transport sector (Figure 16). The analysis may be skewed as PEMC has not yet received the AFS of all PEs for the year 2016.

Figure 16: Debt to Equity ratio for 2016 and 2015



Source: PEMC

Taxes

PEs are required to pay taxes which include business tax, corporate social responsibility tax, customs duties and transferring VAT collected. Certain PEs, such as the Property Management Corporation (PMC), are exempted from paying tax by law due to the nature of their activity. This exemption can be considered as a form of indirect financial support from the Government.

The total tax expense of the PEs for the year 2016 amounted to SR 278,165m representing an increase of 12 per cent when compared to 2015. The tax expense of the PEs for 2016 represents 4 per cent of the approved Budget for the year, this remained stable when compared to 2015 (Table 7).

Table 11: Total tax expense of the PEs

DESCRIPTION	2015	2016	Variance	
	SR' m	SR' m	SR' m	%
Total tax expense[3]	248	278	30	12
Share of the national Budget	4%	4%		

Source: PEMC

Note: The total tax expense is derived from the Profit and Loss Statement of the PEs AFS. The actual amount of tax collected by SRC from PEs for 2016 may vary.

To effectively monitor risks, PEMC is putting in place the necessary framework to prepare a fiscal risk statement for the public enterprise sector to be included in the Budget document for the year 2019. This statement will include explicit and implicit liabilities to the public enterprise sector, quasi-fiscal activities, transactions between public enterprises and the Government, such as fiscal flows between public enterprises and the Budget, as well as their implication for public finances. PEMC also aims to quantify the indirect Budget cost associated with tax exemptions to certain PEs.

Risks Due to Uncertainty of Foreign Aid

Expectations about foreign aid poses another source of risk to the Budget. Foreign aid, which comes in the form of grants, is estimated to be around 1.8 per cent of GDP for the 2018 Budget and this is assumed to decline to around 1.4 per cent in the medium term. The decline in oil prices may affect revenues of our donor countries; for example, the UAE, and thus affect their ability to give foreign aid. Furthermore, as Seychelles was recently re-classified to a high-income country from upper-middle income, this could have a negative impact on the aid given. However, these may be countered by Seychelles presence on the international scene as a proponent for Small Island Developing States requiring funds for sustainable environmental projects.

[3] Predominantly business tax, does not include VAT and import duties which are also paid by PEs

Public Finance Management Reforms

The Government of the Republic of Seychelles have requests approval of a new macroeconomic and structural reform program supported by the Policy Coordination Instrument (PCI) for the period December 2017–December 2020 with the IMF. The new program represents an extension of the EFF supported program for the period 2014-17. It is intended to guide the Government of Seychelles in implementing its medium-term economic and development strategy which relies on sustainable and inclusive growth while safeguarding macroeconomic stability and debt sustainability. Reforms are aimed at improving the efficiency and quality of Government spending to enhance human and physical capital, increase the efficiency and equity of the tax system, enhance the governance of public enterprises, promote the diversification of the economy and the modernization of the financial system, and continue to improve the business environment for private-sector development. The Government believes that the policies and measures set forth below are appropriate for achieving the objectives of the PCI-supported program.

Better selection and preparation of investment projects and improved monitoring

The Public Investment Management Unit (PIM Unit) established in 2015 within MFTEP has been strengthened to ensure more effective spending in capital investment of the Government. The PIM Unit has elaborated with technical assistance from the World Bank a Public Investment Management Manual which was introduced in early 2017 with the purpose to facilitate the co-ordination of public investment management for all public ministries, departments and agencies (MDAs). It sets out the required steps to identify, screen, prepare, approve, select, Budget, implement, monitor and evaluate public investment projects in order for these investments to promote economic and social development and growth.

Program Performance Based Budgeting (PPBB)

The PPBB was launched for 5 ministries for the 2017 Budget, and will be widened to three more for the 2018 Budget and to all ministries for the Budget 2019 with technical assistance from the World Bank. In preparing 2018 Budget submissions (PPBB statements), MDA's will need to improve the quality of performance indicators (where applicable), and put in place appropriate processes and systems to record, collect, report and use the information.

Tax reforms

The progressive Income tax will enter in effect in July 2018; it provides for a zero-rate bracket, and three progressive rates of 15 per cent, 20 per cent and 30 per cent. In addition, some reforms of the Business tax are envisaged for the 2019 Budget, to reduce disparity in the treatment of productive sectors and arbitrage possibility with the personal income tax. A Property tax on foreign owned immovable properties with a rate of 0.25 per cent is scheduled to enter into effect in 2018 (revenue impact: SR 40m); it will supplement the current stamp duty and sanction duty on property transfers. The taxation of vessels registered with the Seychelles Maritime Safety Administration (SMSA) will be aligned with international standards as of 2018 (revenue impact SR 30m). The tax advantages associated with the certificate issued under the Tourism Investment Act and granted to construction of hotels and other tourism related facilities will expire at end of

2018; this will put an end to the generous accelerated depreciation benefits provided under the existing certificates and will produce additional revenue starting 2019.

Blue Bond

The Government is issuing a USD 15m Blue Bond in the first quarter of 2018 that will accelerate the implementation of fisheries management plans specifically for the Mahé Plateau as part of its initiative to develop a sustainable blue economy. The Bond will be guaranteed by the World Bank in combination with GEF resources to support the need to secure attractive terms. The proceeds from the Blue Bond will finance part of the Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFISH 3). A Blue Investment Fund, which will be administered by the Development Bank of Seychelles, will be created for commercial loans for projects consistent with the provisions of the fisheries management plans. 80 per cent of the bond proceeds will be utilized by the Blue Investment Fund. The remaining 20 per cent of the bond proceeds will be transferred to Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) to establish the Blue Grants Fund for grants to be made available to the public and private entities on a project proposal basis.

Debt Currency Swap

With regards to the existing USD 154m bond which matures in 2026, Government has decided to carry out a liability management operation, which will involve a straight currency swap of the bond from US dollars to Euros. This will reduce sizably interest costs and reduce the foreign exchange risk as Seychelles earns most of its foreign exchange in Euros.

State Owned Enterprises (SOE's)

Governance and operational assessments of six major SOEs were conducted in 2016 with the World Bank assistance[4]. The objective was to identify areas of improvement in operational and financial performance and in the enterprises' current corporate governance practices to support efforts in building resilience and reducing the companies' exposure to external risks. On this basis, an implementation plan for governance and operational review of public enterprises 2017 to 2019 was prepared and approved by the Cabinet of Ministers (SOE Action Plan). To improve transparency and risk management, the Commission will be preparing a Fiscal Risk Statement to be included in the Budget document to show the effect of the performance of Public Enterprises on the 2019 Budget. In order to achieve this, the Commission will be coordinating an exercise to calculate the cost of social obligations being absorbed by Public Enterprises by December 2018.

[4] Seychelles Petroleum Company Limited (SEYPEC), Public Utilities Corporation (PUC), Seychelles Trading Company Limited (STC), Seychelles Ports Authority (SPA), Seychelles Pension Fund (SPF), and Seychelles International Mercantile Banking Corporation Limited (Nouvobanq)

Budget Outlook

As part of the comprehensive reform programme of 2008, the Government has followed a contractionary fiscal policy and targeted a primary Budget surplus with the view of steering the country towards the path of fiscal sustainability and to lower sovereign Debt to 50 per cent of GDP by 2020. This has been largely successful as is evident by current reduced Debt levels (Figure 17 overleaf). Despite the more expansionary nature of recent policies[5] resulting in a slight loosening of the fiscal stance, the Government remains committed towards achieving a primary surplus of 3 per cent of GDP by the end of 2017, equivalent to about SR 603m. For the 2018 Budget and over the medium term, and a target of 2.5 per cent has been set (Table 12 below).

Table 12: Government Revenue and Expenditure Projections, SR'000s

DESCRIPTION	2016 Actual	2017 EOY	2018 Budget	2019	2020
Revenue & Grants	7,376,461	8,134,952	8,439,028	8,784,316	9,070,123
Primary Expenditure	6,795,874	7,532,299	7,901,058	8,204,138	8,453,010
Primary Balance:	**580,587**	**602,653**	**537,970**	**580,177**	**617,113**
% of GDP:	**3.1**	**3.0**	**2.5**	**2.5**	**2.5**

Source: MFTEP, MFAD, FPCD

For the end of year 2017 Budget, the surplus target has been marginally lowered by about 0.1 per cent of GDP, or by SR 28m in comparison to the initial Budget. Although the Primary expenditure estimate has been lowered by about SR 80m to account for lower domestic interest payments and capital expenditure, a shortfall on the revenue side by about SR 108m, largely a result of lower Grants, is anticipated and so pulling down the surplus. It must be noted that pressures still remain on certain expenditure items such as goods and services which has been increased by about SR 104m or 4 per cent, and ASP benefits and programmes which has been revised upwards by 4 per cent or SR 69m.

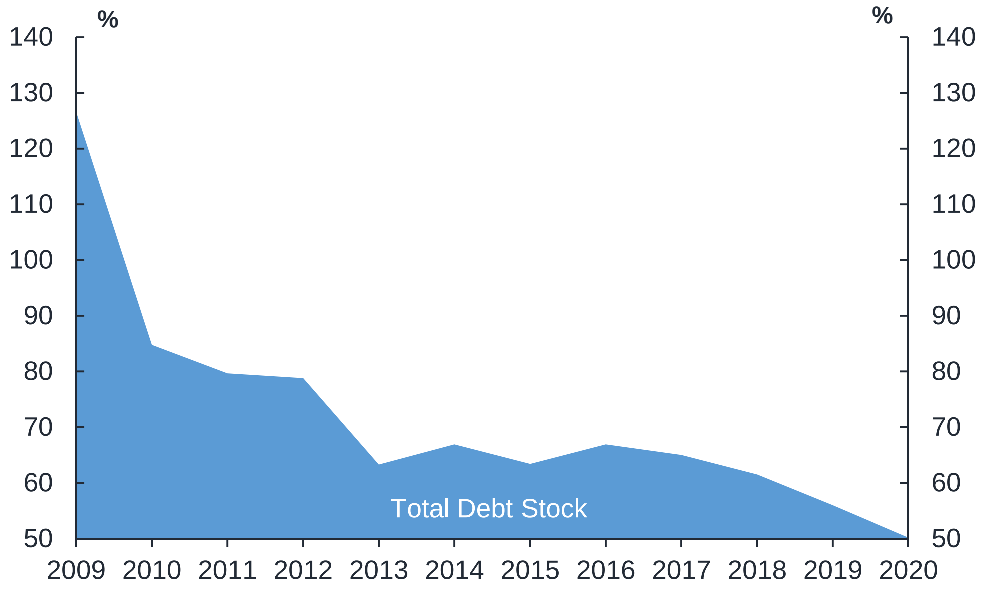
As of 2018 and over the medium term, the Government will target a lower primary surplus of 2.5 per cent of GDP. This will amount to SR 538m in 2018 and will provide additional fiscal space to buffer against an anticipated slowdown in revenue collections and mounting expenditure priorities. With regards to the Budget envelope, costly policies such as the Progressive Income tax (PIT) system, as well as the removal of one-off windfall gains, will impede total receipts. On the expenditure side, additional funds will be provided for further capital projects under the PSIP and an increased wage bill.

Although a lower primary surplus target is projected over the medium term, total Debt to GDP will continue its downward path towards 50 per cent by 2020. Continued fiscal discipline remains paramount to achieving this outcome. By the end of 2017, a total of SR 669m in external debt service payments will have been made and the stock will stand at 65 per cent of GDP. External Debt repayments will amount to SR 674m in 2018,

[5] Such as the increase of the minimum wage by 25 per cent, Income tax exemptions for low income earners, a compulsory 13th month salary for all Seychellois etc.

with a year-end total stock estimated at 61 per cent of GDP. The chart below depicts the path of debt reduction since 2009.

Figure 17: Total Debt Stock as a percentage of GDP, 2009-2020



Source: MFTEP, Debt Division

Revenue & Grants

As can be seen from Table 13 below, total Government revenue and grants for 2017 is estimated to reach SR 8.13bn, equivalent to 40.1 per cent of GDP. This equates to a downward revision of just over 1 per cent or by about SR 108m from the initial Budget estimate of SR 8.24bn. Whilst tax revenue receipts, the largest contributor to overall revenue, has performed better than expected and consequently been revised upwards by about SR 104m, expected shortfalls in Grants and Non-tax revenue by SR 156m and SR 55m respectively, has resulted in this net overall reduction (expanded upon in the ensuing sections). This, nonetheless, remains a significant outturn over 2016, with the revised estimate moving past the SR 8bn mark.

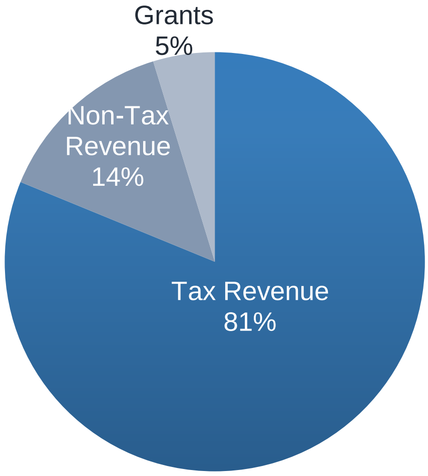
In 2018, the Budget envelope is estimated at SR 8.4bn, corresponding to a 4 per cent or SR 304m increase over 2017, equivalent to 38.8 per cent of GDP. This fall as a ratio to GDP is fully reflective of an estimated slowdown in tax revenue to single digit growth (as compared to double digit average growth over the past 3 years) following the removal of a large Stamp Duty windfall payment from the base and the introduction of the PIT. Non-tax revenue, on the other hand is set to increase by about 12 per cent over 2017, while Grants will remain flat. The ratio to GDP of total Government revenue is expected to continue this downward path over the medium term in line with the dwindling of Grant income, despite a projected rebound in tax revenue.

Table 13: Breakdown of Medium Term Revenue Projections, SR'000s

REVENUE & GRANTS	2016 Actual	2017 EOY	2018 Budget	2019	2020
Tax Revenue	6,192,205	6,677,035	6,853,400	7,250,678	7,616,097
Non-Tax Revenue	913,700	1,057,931	1,185,747	1,199,360	1,248,521
Grants	270,556	399,986	399,880	334,277	205,505
Total Revenue & Grants:	**7,376,461**	**8,134,952**	**8,439,028**	**8,784,316**	**9,070,123**
% of GDP:	**38.8**	**40.1**	**38.8**	**38.0**	**37.0**

Source: MFTEP, MFAD, FPCD

Figure 18: Revenue and Grants 2018 proportions



Source: MFTEP, MFAD, FPCD

Tax Revenue

As a whole, tax revenue has performed well so far in 2017 with collections up to August standing at 9 per cent higher than over the same period in 2016. Total receipts is now estimated at SR 6.7bn, a growth of 8 per cent over 2016, accounting for 32.9 per cent of GDP (Table 14 below). This represents a slight 2 per cent upward revision (about SR 104m) when compared to the initial Budget, and almost SR 10m over the mid-year Budget estimate (equivalent to 0.2 per cent).

Business tax has had exceptional performance so far in 2017 and has been the main driver behind these upward Budget revisions – 35 per cent growth in year on year collections as at August 2017. Year-end collections for this tax is estimated at about SR 1.3bn, a remarkable turnaround for a tax that has averaged about SR 840m in receipts over the past 5 years. Stronger profits realised from major companies (such as SEYPEC), as well as a lower level of refunds have been the key factors behind this performance. 2016 therefore follows from 2015 as another very profitable year for businesses. Box 3 on Page 43 delves deeper into this issue. The outlook for the remaining taxes has not been as positive – Income tax has under-performed slightly whilst Import taxes, Trade tax, Excise and VAT on imports, have had sluggish collections. An extension of the VAT exemption list, however, has not led to a negative net effect given strong Domestic VAT. Other tax has faced lower than expected collections under 'Stamp Duty', as well as classification issues with 'Road tax and licenses'[6].

Table 14: Tax revenue ratios to GDP

DESCRIPTION	2016 Actual	2017 EOY	2018 Budget	2019	2020
Total Tax Revenue (SR' bn):	**6.2**	**6.7**	**6.9**	**7.3**	**7.6**
Top tax revenue earners ranked			***Ratios to GDP (%)***		
Value Added tax	10.5	10.4	10.7	10.7	10.7
Business tax	5.5	6.4	6.3	6.3	6.3
Excise tax	6.0	6.3	6.1	6.0	5.9
Income tax	4.9	4.3	3.8	3.8	3.8
Other tax	3.1	3.2	2.1	2.2	2.2
Trade tax	1.9	1.5	1.6	1.4	1.4
Corporate Social Responsibility tax	0.5	0.5	0.5	0.5	0.5
Tourism Marketing tax	0.2	0.3	0.3	0.3	0.3
Property tax			0.2	0.2	0.2
Goods & Services tax	0.0	0.1	0.0		
Total :	**32.5**	**32.9**	**31.5**	**31.3**	**31.1**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

In 2018, total tax revenue is estimated to reach SR 6.9bn. In level terms, this represents a modest 3 per cent, or SR 176m, increase over the end of year 2017 estimate. As a ratio to GDP however, tax revenue is estimated to contract to 31.5 per cent, a fall of 0.6 percentage points. This reduction is largely attributed to the dampening effect that the removal of the one-off SR 225m Stamp duty payment, regarding the sale of CWS, will have on

[6] FSA Fees has also been transferred out of Other tax and into Non-tax.

the 2018 base. Although the new PIT will lower collections further, this will be more than compensated for by the remaining taxes, of which all have positive outlooks. Furthermore, the introduction of a foreign owned Property tax will also help to supplement expected receipts. Table 15 below provides a summary of all estimated tax revenue policy costs in 2018.

Table 15: Cost of Tax revenue policies in 2018 (SR'000s)

DESCRIPTION OF POLICIES	2018 Cost
Revenue losing	
Income Tax	
Phase 2 2016 extended to June 2018 & PIT effective July 2018	-59,623
Trade Tax	
Decreased rate on protective clothing to 0%	-53
Decreased rate on dietary supplements to 0%	-1,116
Excise tax	
Reduced rates for Plug-in Hybrid vehicles	-6,300
Value Added Tax	
Hybrid loss Spillover	-75
Exemption Spillover	-9
Revenue Gaining	
Trade tax	
Spill over from increase in tax on Hybrid vehicles	6,052
Excise tax	
Spillover from 2017 policies:	
Increase of SR 0.5/l on Excise rate on Petroleum	8,350
10% increase in Excise tax rate for all < 16% alcohol Imports	1,784
10% increase in Excise tax rate for all < 16% alcohol LMG	2,248
Increase in excise on Hybrid vehicles	15,800
10% increase Tobacco Import	175
10% increase Tobacco LMG	3,000
Other tax	
General review of licence fees	14,200
Property Tax	40,000
TOTAL:	**24,434**

Source: MFTEP

As can be seen in Table 14 (on the previous page) which ranks the largest taxes, VAT remains as the top tax revenue earner accounting for a third of all collections in 2018 with a ratio to GDP of 10.7 per cent. This is followed closely by the resurgent Business tax and Excise tax, with collections of both estimated at an average of 6.2 per cent of GDP. This is expected to remain the case over the medium term, where baseline growth is projected to remain relatively stable.

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. The Income tax rate was harmonized to 15 per cent for all workers in January 2011.

As of the 1st of July 2018, the current Income tax regime will be replaced by a progressive system with different rates applicable at different income brackets. This will bring more vertical equity and will ensure that the tax burden is lessened on the low income earners.

2017 Context

As can be seen in Table 16 below, the end of year 2017 estimate for Income tax has been lowered by about SR 4m in comparison to the mid-year Budget revision[7] to amount to SR 870m, equivalent to 4.3 per cent of GDP (a decrease of 0.6 percentage points when compared to 2016). 2017 has not been buoyant for Income tax with collections lower and uneven compared to previous years. Year to date monthly collections have averaged about SR 72m, SR 8m less than the 2016 average over the same period. This performance was to be expected given the continuation of 2016 reforms targeting low income earners (i.e. the SR 8,555.50 monthly tax exemption) in place. Compliance issues have also been a concern in 2017 and have partly contributed to lower collections. The SRC remains committed to improving compliance in Income tax, especially with further reforms envisaged in 2018.

A closer look at the individual components of Income tax reveals that 'Private sectors' has been the main under-performer in 2017 with collections now estimated at about SR 7m less, whereas 'Other Public sectors' has performed better-than-expected and has been revised upwards by SR 2m. The 'Central Government' line remains in line with the mid-year Budget the estimate with a slight SR 1m increase in the estimate.
Chart showing collections over the years

Table 16: Income Tax Projections 2016-2019, SR'000s

INCOME TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Central Government	246,500	237,502	223,681	238,004	251,922
Other Public Sector	117,114	118,947	112,727	119,945	126,959
Private Sector	575,712	513,360	480,807	511,593	541,511
Total Income Tax:	**939,325**	**869,809**	**817,215**	**869,542**	**920,392**
% of GDP:	**4.9**	**4.3**	**3.8**	**3.8**	**3.8**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

[7] It must be noted that the mid-year Budget revision revised the estimate for Income tax upwards to account for further delays in the implementation of the PIT to then January 2018 as announced at the State of the Nation Address in February 2017.

2018 Policy Changes

Following extensive consultations with the public and other key stakeholders, the Government has decided to push back the implementation date of the PIT to July instead of January 2018 as had been earlier announced during the State of the Nation address in February 2017. This will provide sufficient time for all actors to become conversant with the new system, and, to prepare systems and processes accordingly. As a recap the current regime of a flat 15 per cent tax rate on employment income will be converted to a progressive system on broader income with various rates applicable at different thresholds.

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 2018. Table 17 below provides a summary of the estimated cost of these policies.

Table 17: Estimated Cost of Income tax policies 2017-18 (SR'000s)

POLICIES	2017 EOY	2018 Budget
SR 8,555.50 exemption (Phase II 2016)		
January – December 2017	-253,032	
January – June 2018		-119,355
2018 PIT system: Effective July 2018		-193,300
Total Policy cost:	**-253,032**	**-312,654**
Effective cost to 2018 Budget*:		**-59,623**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates
Costs will lower the Budget collections
*Taking into account effect of 2017 policies on the base

2018 Projection and the Medium Term

Given the introduction of the PIT, Income tax will understandably contract further in 2018 with an estimated outturn of about SR 870m, equivalent to about SR 53m or 6 per cent lower than 2017. This represents only 3.8 per cent of GDP, a fall of 0.5 percentage points. As a proportion to total tax revenue, Income tax now accounts for 12 per cent, having previously attributed about 16 per cent on average.

The Private sector will continue being the main earner of Income tax accounting for about two thirds of all collections. This is followed by the 'Central Government' sector and 'Other public sectors'. Over the medium term, Income tax is expected to grow gradually in level terms but remain constant as a ratio to GDP at about 3.8 per cent.

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.

2017 Context

The end of year 2017 estimate for Trade tax is SR 300m, which is about SR 1.3m lower than the mid-year revision. This downward revision is predominantly a result of persistent under-performances in Textile imports, 'Prepared Food' and 'Others'.

Textile imports collections under-performed for much of the year. The mid-year forecast has been revised downwards accordingly by SR 3m. 'Prepared Food' and 'Others' collections under-performed persistently throughout the second and third quarters of 2017. The mid-year forecasts had to be revised downwards by another SR 623k and SR 760k respectively.

Policy Changes

The following policy changes to Trade Tax effective January and April 2018 respectively are:

- Reducing the Trades tax rate on Dietary Supplements from 25 per cent to 0 per cent
- Reducing the Trades tax rate on Protective Ear wear from 25 per cent to 0 per cent
- Reducing the Trades tax rate on Protective Clothing from 5 per cent to 0 per cent

Table 18: Cost of Trade tax policies in 2018 (SR' m)

POLICIES	Proposed Rate	2018 Budget
Dietary Supplements	0%	-1.1
Protective Ear wear	0%	No effect
Protective Clothing	0%	-0.1
2017 spillover of tax on hybrids		6.1
Total Policy cost:		**4.8**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

2018 Projection and the Medium Term

In 2018, Trades tax revenue is estimated at SR 347m, about SR 47m (or 16 per cent) higher than the 2017 estimate. This is mainly attributed to expected increases in 'Alcohol', 'Levy' and 'Others' lines. Alcohol collections are forecasted to be about SR 34m higher in 2018 due to a significant arrear payment from a local manufacturer. Levy collections are expected to be about SR 6m higher in 2018 as a result of the spill-over effect on the base from the increase in tax rates on hybrids which was pushed from January to June 2017.

Table 19: Trades Tax Projections 2017-2020, SR'000s

TRADES TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Trades Tax Direct Imports	**365,760**	**305,084**	**351,823**	**336,118**	**350,295**
Alcohol	145,969	134,299	168,548	143,344	148,114
Petroleum					
Textiles and textile articles	22,277	20,800	22,304	23,732	25,120
Motor Vehicles	40,421	215			
Tobacco	2,092	2,181	2,254	2,328	2,406
Prepared Food	18,360	13,652	14,639	15,577	16,488
Others	62,161	68,024	71,773	76,369	80,835
Levy	71,488	63,236	69,434	71,713	74,100
Documentary Charges	2,991	2,677	2,871	3,055	3,233
Trade Tax Exemptions	**-6,213**	-5,000	-5,000	-5,000	-5,000
Total Trade Tax:	**359,547**	**300,084**	**346,823**	**331,118**	**345,295**
% of GDP:	**1.9**	**1.5**	**1.6**	**1.4**	**1.4**

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.

2017 Context

Excise tax performance for 2017 remained below par. It is for this reason that this tax line has been revised downwards by SR 11.8m, or 1 per cent compared to the Mid-year revision (or SR 7.6m compared to the initial Budget estimate). Underperformance in Locally manufactured alcohol and tobacco accounts for SR 11.1m, or 95 per cent of this revised amount.

LMG Alcohol's stance for the end of year estimate is an under-performance of SR 7.5m. This may be attributed to competition from alcohol imports which has had a dampening effect on the sales of local breweries. This is also consistent with the over-performance of imported alcohol by SR 12m by end of year. LMG Tobacco, on the other hand, has under-performed by about SR 3.6m when compared to the Mid-year revision. MFAD is however, still waiting for the production statistics in order to determine the real cause of this under-performance.

Excise on imports is in line with the Mid-year revision with only a mere SR 639k over-performance. However, there were significant movements between the lines. Petroleum has been revised downwards by SR 5.8m, as collections are no longer as optimistic as indicated previously. Petroleum was previously over-performing due to lack of refunds which were being deducted under the VAT line. The downward revision in Motor vehicles by about SR 7m is partly related a profiling issue where higher collections were expected for August and September 2017, but was not achieved.

Policy Changes

The only new policy tabled under Excise tax for 2018 is the decrease in the excise rate on Plug-In Hybrids, dependent on the engine capacity, which is set to take effect by April 2018. The raison d'etre behind this policy stems from the Government attempting to solve the issues brought forward by car dealers that plug-in hybrid cars are very similar to electric vehicles which currently attracts an excise rate of 0 per cent.
The proposed policy is listed in the table below along with its revenue implications.

Table 20: New policy proposal for 2018 and spill-over from 2017 policies (SR'000s)

POLICY PROPOSAL	Proposed rate increase	2018 Budget
New Plug-in policy:		
<=1600cc	10%	
>1600 <=2000cc	15%	-6,300
>2000cc <=2500cc	20%	
>2500cc	25%	
Spillover from 2017 policies:		
Increase of SR 0.5/l on Excise rate on Petroleum		8,350
10% increase in Excise tax rate for all < 16% alcohol Imports		1,784
10% increase in Excise tax rate for all < 16% alcohol LMG		2,248
Increase in ET on hybrids		15,800
10% increase Tobacco Import		175
10% increase Tobacco LMG		3,000
Total policy cost:		**25,058**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

2018 Projection and the Medium Term

The table overleaf shows Excise tax projections for 2018 and the medium term. Excise tax collections are expected to increase by SR 52m, or 4 per cent, compared to 2017 as a result of a more favourable nominal GDP growth (driving excise on imports), spill-over effects from policies implemented in 2017. The petroleum tax line has been lowered in order to correct the misclassification issue pertaining to petroleum refunds. Over the medium term, Excise tax is expected to have a ratio to GDP of about 6 per cent.

Table 21: Excise Tax Projections 2017-2020, SR'000s

EXCISE TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Excise Tax - Imports	**852,342**	**982,466**	**1,019,254**	**1,050,101**	**1,089,969**
Alcohol (Beverages Spirits and Vinegar)	215,320	219,301	236,391	235,977	243,829
Petroleum (Mineral Products)	530,870	627,343	627,800	649,368	671,946
Motor Vehicles (Vehicles, Aircrafts, vessels)	99,262	128,694	147,499	156,943	166,121
Tobacco Imported	6,890	7,128	7,565	7,813	8,073
Excise Tax - Locally Manufactured Goods	**291,372**	**301,129**	**316,619**	**335,619**	**346,787**
Alcohol	141,088	146,072	153,279	166,916	172,471
Tobacco	150,284	155,057	163,340	168,703	174,317
Total Excise Tax:	**1,143,714**	**1,283,595**	**1,335,873**	**1,385,720**	**1,436,757**
% of GDP:	**6.0**	**6.3**	**6.1**	**6.0**	**5.9**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Goods and Services Tax

Background

The Goods and Services tax (GST) was applied to select 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, however, GST arrears are still being collected by the SRC.

2017 Context

GST arrear payments amounted to SR 921k by the end of 2016. It is estimated that about SR 17.3m will be collected by the end of 2017. This exceptional amount is attributed to SR 16.5m one-off outstanding Rent liability.

2018 Projection and the Medium Term

As informed by SRC, no major arrears is foreseen in the short and medium term. SR 400k has been put in 2018. Table 22 presents GST actuals and projections.

Table 22: GST Projections 2017, SR'000s

GOODS & SERVICES TAX	2016 Actual	2017 EOY	2018 Budget
GST Arrears	**921**	**17,309**	**400**
Total GST:	**921**	**17,309**	**400**
% of GDP:	**0.005**	**0.085**	**0.002**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Value Added Tax

Background

VAT commenced in 2013 to replace the previous GST 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 largest tax line, accounting for 32 per cent of tax revenue.

2017 Context

The VAT estimate for 2017 has been revised downwards by SR 17.8m, or 0.8 per cent in comparison to the Mid-year Budget revision. This is mainly attributed to an increase in the allocation under 'VAT Exemptions'. This line has been revised downwards by SR 29m, or 117 per cent, in order to make provision for fuel refunds which had been processed under VAT in 2017 (this will be rectified in 2018). Based on the August 2017 collection, mixed performances within the lines have also lead to some further revisions. Whilst collections of VAT on imports have been low, VAT on the domestic side was high. This has resulted in downward and upward revisions of 1.6 and 2.3 per cent for VAT Imports and VAT Domestic respectively.

The majority of Domestic VAT collections comes from the Tourism sector. The sector contributes to about 51 per cent of the collection. A breakdown of Domestic VAT receipts is given in Figure 4 in the Tourism Box on Page 5.

Policy Changes

No direct policy changes are being proposed for VAT in 2018. There is, however, policies of exempting Trade tax on protective wear and dietary supplements and also revision to the plug-in rate. These polices will have minor impact on VAT Imports revenue. These are presented in the table below.

Table 23: VAT Revenue loss from Trade and Excise tax policies (SR'm)

POLICIES	2018 Budget
Loss on Plugins	-1.4
Loss on Dietary Supplements	-0.84
Loss on Protective gear	-0.17
Total Policy Cost:	**-2.41**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

2018 Projection and the Medium Term

The table below summarises the VAT forecasts for the end of year 2017, 2018 Budget, and the outer years. Collections are anticipated to increase by SR 180m, or 8.5 per cent, in 2018 compared to 2017. This is more or less in line with Nominal GDP growth as well as factoring the spill-over form the aforementioned policies and also an expected arrear payment of SR 4.5m by a locally manufactured company. The VAT revenue collection remains around 10.7 per cent in the medium term with no major policy changes being foreseen.

Table 24: VAT Projections 2017-2020, SR'000s

VALUE ADDED TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
VAT- Domestic	1,071,312	1,205,347	1,318,444	1,402,866	1,484,905
VAT- Imported Goods	947,393	953,023	1,026,344	1,087,274	1,150,857
VAT- Exemptions	-23,775	-54,143	-25,000	-25,000	-25,000
Total VAT:	**1,994,930**	**2,104,227**	**2,319,788**	**2,465,140**	**2,610,762**
% of GDP:	**10.5**	**10.4**	**10.7**	**10.7**	**10.7**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Business Tax

Background

The Business tax revenue consists of a provisional payment (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.

2017 Context

Business tax has exceeded expectations so far in 2017 and has been revised upwards by about SR 290m. Unlike the situation of significant refunds in previous years and loss situation of businesses, this year Business tax has had no significant refunds to date. Apart from better business performance (which has been observed since 2016), the lower number of refunds can also be a result of the revised methodology for estimating provisional tax which is now more conservative than before.

The good performance in companies has mainly been attributed to better compliance by companies in lodging their Business Tax returns. Reports from the SRC suggests that there were significant year on year growth in contribution of Business tax breakdown, namely Business Tax assessments, PAYG instalments and Withholding Tax which grew by SR 81m SR 156m and SR 19m respectively. Refer to Box 3 for more details.

Policy Changes

There are currently ongoing discussions on a new, simplified Business tax regime. This will however only be considered in the 2019 Budget preparation.

2018 Projection and the Medium Term

Table 25 highlights the projections from 2018 to 2020 with all the lines expected to grow with nominal GDP growth over the medium term. Business tax is forecasted to reach SR 1.3bn in revenue for the 2018 Budget which represents 6.3 per cent of GDP and 20 per cent of total tax revenue – a remarkable swing when compared to modest outturns between 2010 and 2015. The majority of this growth is attributed to strong performance by 'Companies', accounting for 84 per cent on the Business tax line. Moreover, the top 30 companies' contribution constitutes approximately 75 per cent of the total tax line in 2017 compared to only 72 per cent in 2017.

Business tax from 'Companies' in 2018 is estimated to continue performing well and result in a higher outturn than in 2017. This will be evident by a higher provisional tax issuance. This follows an exceptional year when businesses' in certain sectors, such as the banking and telecoms sector performed very well. These sectors currently account for 31 per cent. Other Business tax lines are estimated to grow in line with in line with the nominal GDP growth projection of 7 per cent.

Table 25: Business tax Projections 2017-2020, SR'000s

BUSINESS TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Companies	856,499	1,089,796	1,142,832	1,229,432	1,295,380
Sole Traders	39,228	49,051	52,598	55,966	59,238
Partnerships	14,527	17,008	18,238	19,406	20,541
Trusts	29	56	60	64	68
Withholding Tax	83,418	89,589	96,066	102,217	108,195
Others	131	197	211	225	238
Residential Dwelling	47,345	52,513	56,310	59,915	63,419
Total Business Tax:	**1,041,177**	**1,298,210**	**1,366,314**	**1,467,224**	**1,547,078**
% of GDP:	**5.2**	**6.4**	**6.3**	**6.3**	**6.3**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Box 3: Business Tax performance in 2017

In the first three quarters of 2017, Business tax has had exceptional performance. The table below provides a comparison in the number of business tax payers from January to September over 2016 and 2017. The total number of tax payers grew by 12.8 per cent with exceptional growth in Business tax assessment and Other Business Tax.

Table 26: January to September comparison of the Number of Business tax payers

DESCRIPTION	2016	2017
Arrears	39	33
Business Tax Assessment	732	1,049
Other Business Tax	74	109
PAYG Instalment	704	706
PAYG Specified Business	782	785
Residential Rent	967	1,013
Withholding Tax	110	122
Grand Total	**2,658**	**2,998**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Table 2 shows a breakdown and comparison of Business tax collected from January to September between 2017 and 2016. The total Business tax paid for 2017 grew by 31.2 per cent, with the majority of payments made under PAYG instalments, Business tax assessments and Withholding tax. Under these three revenue classifications, the collections were higher in 2017 by SR 156m, SR 81m and SR 19m respectively. The significant growth in PAYG instalments in 2017 is the result of the SRC issuing higher PAYG because of a higher tax base from a very good year in 2016. In addition, PAYG paid in 2016 was lower because of higher refunds in previous years as a less conservative approach was used for estimating provisional tax.

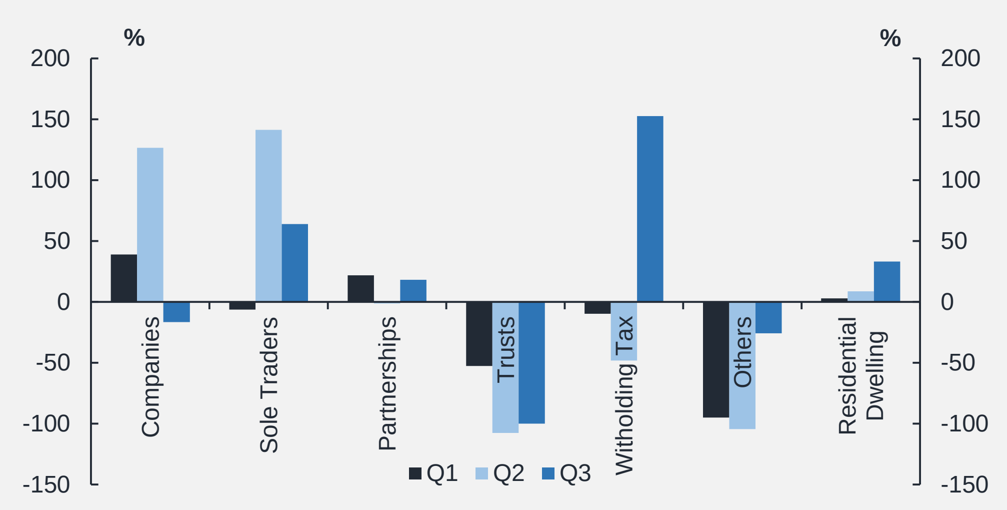
Table 27: January to September comparison of Business tax collections (SR' 000s)

DESCRIPTION	2016	2017
Arrears	2,252	2,898
Business Tax Assessment	313,396	394,405
Other Business Tax	6,751	7,590
PAYG Instalment	364,816	521,030
PAYG Specified Business	39,594	34,478
Residential Rent	34,572	40,503
Withholding Tax	67,711	86,776
Grand Total	**829,091**	**1,087,680**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

The total tax paid under Business tax assessments for the top 10 companies' accounts for 65 per cent of total BT assessment in 2017 compared to 73 per cent in 2016. However, the top 10 companies in 2017 still recorded a 12.6 per cent higher collections than 2016. Data from the Seychelles revenue commission, shows that SEYPEC alone, now in a profit situation, accounts for 26 per cent of all the BT assessments and 15 per cent of the PAYG instalments.

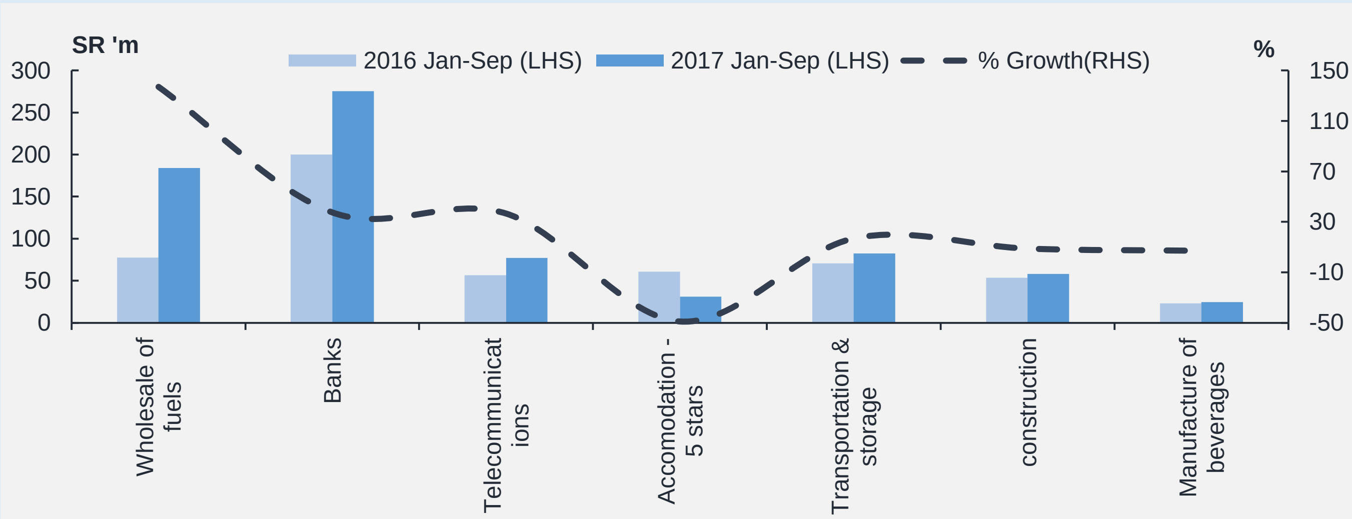
Figure 19: Year-on-year growth in Business tax collections



Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Figure 19, presents the growth in BT collections in the first three quarters of 2017. Data from the SRC suggests that there were significant year on year growth in contribution of Business tax breakdown, namely Business tax assessments, PAYG instalments and Withholding tax which grew by SR 81m, SR 156m and SR 19m respectively. This exceptional performance is in line with the growth in the top business taxpayer's taxable incomes.

Figure 20: Performance comparison of top Business Tax paying sectors



Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Figure 20, shows the Y-o-Y comparison of the BT paid by the top BT paying sectors from January to September 2017 compared to 2016. In each of the sectors presented (accounting for over 65 per cent of total BT paid), the 2017 collections are higher than in 2016 with an aggregated growth rate of 35 per cent. The most significant growth contribution came from whole of fuels, Banks and telecommunications. Note that refunds have not been included in the dataset used for the analysis but instead the gross amount is recorded.

Corporate Social Responsibility Tax

Background

Corporate Social Responsibility tax (CSR) was introduced 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 collections have been on target in 2017 with a modest SR 1m or 1 per cent upward revision made for the end of year CSR estimate. This would amount to about SR 93m, equivalent to 0.5 per cent of GDP.

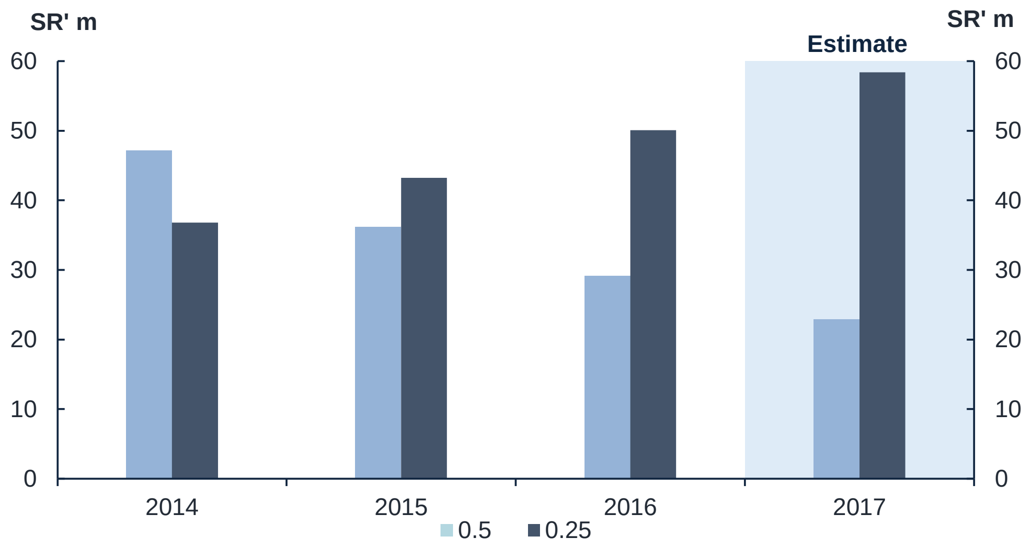
Table 28: Corporate Social Responsibility tax Projections 2017-2020, SR'000s

CORPORATE SOCIAL RESPONSIBILITY TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Corporate Social Responsibility	86,596	92,541	99,232	105,586	111,760
Total CSR:	**86,596**	**92,541**	**99,232**	**105,586**	**111,760**
% of GDP:	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**

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 now opting to enter into CSR projects and so only pay 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 has decreased over the years as is evidenced by the smaller value of payments collected on this as shown in Figure 20 below.

Figure 21: Amount of CSR paid on 0.5 and 0.25 per cent of Turnover 2014-17



Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Policies

There will be no policy changes made to CSR tax for the 2018 Budget.

2018 Projection and the Medium Term

CSR tax revenue for the year 2018 is forecasted to be about SR 99m (7 per cent increase from 2017 forecast). It is expected that CSR tax collection will continue to grow at a moderate pace and it is projected to break the SR 100m mark in the outer years. This is also evident in the shares to GDP for this tax, which is projected to remain constant at 0.5 per cent.

Tourism Marketing Tax

Background

Tourism Marketing tax (TMT) was introduced in January 2013 and is applicable to all Tourism operators, Banks, Insurance, and Telecommunication 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 towards the Tourism Marketing Fund.

2017 Context

TMT has tracked the Budget closely so far in 2017 with an under-performance of about SR 2.6m. Consequently, TMT has been revised downwards by SR 2.5m or 4 per cent for the end of year 2017.

Policy Changes

No new policies have been tabled for TMT for the year 2018.

2018 Projection and the Medium Term

As shown in Table 29 below, TMT will continue to grow steadily over the medium-term. This is also evident in the shares to GDP for this tax, which is projected to remain constant at 0.3 per cent.

Table 29: Tourism Marketing tax Projections 2017-2020, SR'000s

TOURISM MARKETING TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Tourism Marketing tax	44,774	59,210	63,491	67,556	71,507
Total TMT:	**44,774**	**59,210**	**63,491**	**67,556**	**71,507**
% of GDP:	**0.2**	**0.3**	**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', 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 and registrar.

2017 Context

The end of year 2017 estimate for 'Other tax' stands at SR 652m. This represents SR 28m or 2 per cent downward revisions compared to the Mid-year revision. The main contributor to this revision was 'Stamp duty' which was lowered by SR 20m. This was necessary after significant under-performances were observed throughout the year. Whether this is a direct result of the 'exemption for first time buyers' is being looked at and remains to be seen.

'Road tax and other licences' was revised downwards by about SR 8m to better adjust for the misclassification issues observed during the year, whereby Trade tax 'Levy' was being allocated under this line. This was later rectified. Furthermore it is important to note that during the mid-year revision, 'FSA fees' was removed completely under Other tax and has now been categorised as a 'Non-tax' revenue item.

Policy Changes

The only policy change anticipated for 'Other tax' in 2018 is an increase in all licence fees. These licences include 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 and has been included in the Budget.

Table 30: Increase in Licence Fees, SR'000s

LICENCES	2018 Budget
Trade/Ind Licences	8,700
Other Licence Registration	2,800
Other Licences (driver's licences etc.)	300
Casino Licences	2,000
Hotel Licences	100
Liquor and Toddy Licences	300
Total	**14,000**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

2018 Projections and the Medium Term

An amount of SR 464m is projected for 2018 Other tax collections, representing about SR 187m less than that of 2017 equivalent to 28.8 per cent. The main reduction was the removal of the CWS Stamp duty payment, an amount of SR 225m, from the base. While the other difference is accounted for by the increase in licence fees of SR 14m. For the medium term, Other tax revenue will continue to grow at a moderate rate of 7 per cent in 2019 and 2020. This is also evident in the shares of Other tax, which is projected to remain constant at 2.2 per cent.

Table 31: Other Tax Projections 2017-2020, SR'000s

OTHER TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Ministry Of Finance, Trade and Economic Planning					
Trade/Ind Licences	9,018	10,400	19,448	20,739	21,429
Licences and Other Licence Registration	2,921	4,996	7,963	8,237	8,511
Road Tax and Other Licences	94,955	110,819	114,823	127,442	131,683
Telecommunications Licences	80,716	78,040	83,971	84,013	84,013
Casino Licences	919	313	1,323	1,512	1,562
Hotel Licences	326	340	691	714	738
Liquor and Toddy Licences	282	294	603	623	644
Radio Broadcasting Licences	2,050	2,050	2,050	2,050	2,050
SIBA Fees	157,833	-	-	-	-
Sub Total:	**349,019**	**207,251**	**230,873**	**245,331**	**250,631**
Ministry Of Environment, Energy and Climate change					
Annual EU Fishing License Fees	35,689	36,468	40,792	41,226	41,567
EU Fishing License: Vessel Fee	32,844	43,435	37,302	48,601	49,003
Non-EU Fishing License Fees	64,234	52,955	53,808	54,239	54,600
Local Fishing Licence Fees	518	540	558	577	596
Sub Total:	**133,285**	**133,398**	**132,459**	**144,643**	**145,766**
Department Of Legal Affairs					
Stamp Duty	91,675	303,863	93,143	120,755	127,817
Department Of Transport					
Vehicle Testing	7,241	7,538	7,790	8,064	8,332
Total: Other Tax	**581,220**	**652,050**	**464,265**	**518,792**	**532,545**
% of GDP:	**3.1**	**3.0**	**2.1**	**2.2**	**2.2**

Source: MFTEP, Macroeconomic Forecasting & Analysis Division estimates

Non-Tax Revenue & Grants

Non tax revenues are other revenues generated other than by taxation, through the different services being offered by Government either through a cost recovery basis or depending on the Government policy on the services being offered. The table below depicts the breakdown of the non-tax revenue forecasted for 2018 and the medium term. The 2018 Budget reflects a 5 per cent increase from the revised figures of 2017. Dividend income continues to remain the main contributor towards this category of revenue.

Table 32: Non-Tax revenue & Grants, SR'000s

NON-TAX & GRANTS	2016 Actual	2017 EOY	2018 Budget	2019	2020
Fees and Charges	427,578	479,473	502,171	530,160	559,377
Dividends Income	303,684	515,009	550,009	531,317	546,811
Other Non-Tax	182,438	63,448	65,991	68,041	70,116
Grants	**270,556**	**399,986**	**399,880**	**334,277**	**205,505**

Source: MFTEP, Financial Planning and Control Division estimates

Dividend Income

The Dividend income for 2018 is budgeted at SR 544m. This represents an increase of 5 per cent from the revised 2017 figures. Most of the dividends for 2018 are at the revised 2017 levels. Contrary to this are the dividend income forecasts for Nouvobanq, Land Marine and Port Authority which have been set at levels lower than the revised 2017 figures. SEYPEC, on the other hand, will be increasing its dividend income. The company is expecting to end 2017 on a positive note with profits likely to go beyond the set projections.

Table 33: Dividend income, SR'000s

DESCRIPTION	2016 Actual	2017 EOY	2018 Budget	2019	2020
SIMBC Nouvobanq	175,500	150,000	100,000	100,000	100,000
SEYPEC	46,500	150,000	250,000	226,865	240,423
Land Marine Ltd	-	10,000	-	-	-
Port Authority	25,000	30,000	25,000	25,000	25,000
AFRICAN INSURANCE CORPORATION	539				
SEYCHELLES MARITIME SERVICES	70				
SCAA	43,200	53,000	53,000	50,500	50,500
IOT	-	36,880	36,880	38,724	40,660
IDC	-	4,000	4,000	4,500	4,500
AFREXIM BANK	795	375	375	375	375
STC	-	-	-	5,000	5,000
SEYCHELLES COMMERCIAL BANK	12,079	3,600	3,600	3,200	3,200
FINANCIAL SERVICES AUTHORITY		77,153	77,153	77,153	77,153
Total:	**303,684**	**515,009**	**550,009**	**531,317**	**546,811**
% of GDP:	**1.6**	**2.5**	**2.5**	**2.3**	**2.2**

Source: MFTEP, Financial Planning and Control Division estimates

Fees and Charges

For 2018, the Fees & Charges are expected to record a slight increase of SR 23m, or 5 per cent. The full year implications of the revision in Passenger service fee by USD 10 as of July 2017 has resulted in the marked increase in the 2018 figures where the amount is forecasted to increase by 44 per cent, or SR 23m. While the revised haemodialysis fees remained at the original Budget levels for 2017. This is expected to increase slightly by 5 per cent in 2018. Immigration Fees, which contributes significantly to the Overall Fees & Fines forecasts, is expected to increase by 7 per cent to an amount of SR 147m.

Other Non-Tax

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

Other Non-tax is expected to increase marginally by 4 per cent to an amount of SR 66m. This category of revenue consists of inflows from Rent & Royalties, Interest income, statutory transfers from CBS and other miscellaneous income.

Table 34: Other Non-Tax Revenue, SR'000

OTHER NON TAX	2016 Actual	2017 EOY	2018 Budget	2019	2020
Other Non-Tax Revenue	182,438	63,448	65,991	68,041	70,116
% of Total Revenue:	**2.6**	**0.8**	**0.8**	**0.8**	**0.8**
% of GDP:	**1.0**	**0.3**	**0.3**	**0.3**	**0.3**

Source: MFTEP, Financial Planning and Control Division estimates

Grants

An equivalent of SR 400m is expected to be received as external grants in the year 2018, out of which an equivalent of SR 288m as cash grants and an equivalent of SR 112m to be received in kind. The total expected disbursement of SR 400m in 2018 represents 2 per cent of GDP for the year and is more or less the same as the revised 2017 figure.

The main projects / programmes across various sectors expected to be implemented from the SR 400m to be disbursed are as follows:

- Blue Economy – Various planned programmes under the Third South West Indian Ocean Fisheries Governance and shared growth project whereby an amount of SR 13m is expected to be disbursed under the Global Environment Facility Trust Fund (GEF) grant component.

- **Education sector** – SR 38m towards the construction of the new school on Ile Aurore and the re-construction of the school of business studies and accounting being financed by the Government of China - SR 21m

- **Housing sector** –The ex-Olivier housing project at St Louis being funded by the Government of Qatar – SR 10m ; Corgate Estate housing estate phase 3 re-development being funded by the Government of China – SR 25m ; Kan Gard redevelopment Plaisance funded by Government of China – SR 14m

- **Fisheries sector** – Construction of Fisheries Facilities Providence-Zone 6 being funded by the Government of Japan through - SR 116m ; European Union support for the implementation of the fisheries and maritime policy -

- **Environment and climate change sector** – On-going environment protection and climate change programmes being funded by GEF and United Nations Development Programme – SR 26m

- **Seychelles Broadcasting Corporation** –The construction of the Seychelles Broadcasting Corporation house, to be funded by the Government of China – SR 20m

- **The Judiciary** –The construction of new magistrate court and tribunals at Ile du Port to be funded by the Government of India - SR 10m allocation

- **Trade Facilitation**

    - The Regional Integration Implementation Programme (RIIP) for the facilitation and increased trade in the COMESA region, being funded by COMESA– SR 14m;

    - Programme in support of Seychelles implementation of the Economic Partnering Agreement (EPA) with the European Union under the 11^{th} European Development Fund - SR 11m

    - The project for enhancing trade facilitation, sanitary and phytosanitary measures, technical barriers trade and trade defence measures under the SADC Trade Related facility – SR 19m.

- **Public Utilities Corporation** - Disbursements for a total amount of SR 22m towards two big ongoing projects namely the Mahé Sustainable water augmentation programme and the consultancy services for the sanitation master plan both being funded by the African Development Bank (AFDB).

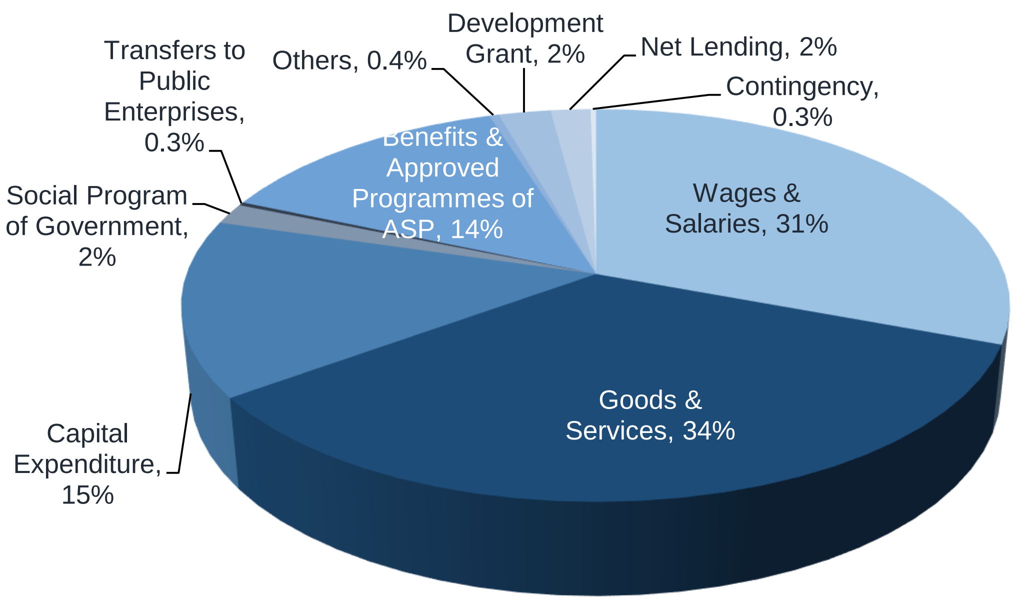
Expenditure

Table 35: Summary of Expenditure, SR'000s

DESCRIPTION	2016 Actual	2017 EOY	2018 Budget	2019	2020
Expenditure and net lending	**7,529,740**	**8,190,670**	**8,610,317**	**8,906,245**	**9,170,472**
Current expenditure	**6,493,540**	**6,883,840**	**7,113,282**	**7,254,489**	**7,321,759**
Primary Current Expenditure	**5,759,673**	**6,225,468**	**6,404,024**	**6,552,382**	**6,604,297**
Wages and salaries	1,960,336	2,220,769	2,423,462	2,567,329	2,582,185
Goods and services	2,547,546	2,643,287	2,713,108	2,716,492	2,748,152
Capital expenditure	824,408	993,072	1,146,576	1,195,159	1,173,427
Social program of Government	130,900	141,917	135,535	133,643	133,643
Transfers to Public Enterprises	50,067	75,453	21,520	22,520	22,520
Benefits and approved programmes of SSF	1,043,255	1,109,332	1,075,686	1,077,686	1,083,085
Others	**27,570**	**34,709**	**34,712**	**34,712**	**34,712**
Interest due	**733,866**	**658,372**	**709,259**	**702,107**	**717,462**
External	234,040	216,431	212,039	211,757	206,637
Domestic	499,826	441,941	497,220	490,350	510,825
Development Grant	**123,189**	**162,408**	**187,295**	**170,979**	**176,108**
Net lending	**57,603**	**134,922**	**143,163**	**260,618**	**474,178**
Contingency	**31,000**	**16,429**	**20,000**	**25,000**	**25,000**
Primary Balance:	**580,587**	**602,653**	**537,970**	**580,177**	**617,113**
% of GDP:	**3.1**	**3.0**	**2.5**	**2.5**	**2.5**

Source: MFTEP, Financial Planning and Control Division estimates

Figure 22: 2018 Budget Allocation



Source: MFTEP, Financial Planning and Control Division estimates

Current Expenditure

Over the medium term Government is expecting growth in the Wages and salaries to stabilise. This is, on account of the restrictions on recruitments for posts except for critical positions, whilst reviewing its pay and employment. However, in the interim, more funding for wages will be appropriated to critical sectors such as home affairs, health and education,. Within the projected Non-interest expenditure growth over the medium term, there is significant growth in Investment expenditure, which is aimed at boosting investment in economic and social infrastructure which allows improvement in the way of life of the citizens.

The following key expenditure priorities were identified for 2018:

- Provision of additional resources for the Agriculture and Fisheries sector. A sum of SR 23m has been allocated over and above the 2017 allocation to cater for what this sector has considered as an 'emergency plan', SR 25m for development infrastructure projects and an additional SR 25m which will be funded in the Livestock Trust Fund

- Improving revenue collection in the Seychelles Revenue Commission, Registration department, Seychelles Planning Authority, Habitat department and Seychelles Maritime Safety Administration

- Increased efforts to improve the social infrastructure, including housing stock, implement the hospital master plan and accelerate the renovations of the existing schools

- Improve the coordination of the various community services and activities that is being provided by Government institutions, namely Youth, Sports and Culture institutions in Government by pulling in services to Local Government to benefit from synergy and targeted programmes

- Fund the construction of a new Juvenile Centre, a drug and rehabilitation centre, a new fire station at Anse Royale and allow for major improvement of the Montagne Pose Prisons facilities

Wages and Salaries

The Wages and salaries Budget for 2018 represents an 11 per cent share of GDP. This is a slight increase over the 2017 Budgeted amount of 10.9 per cent of GDP. It remains Government strategy to ensure that its wages Budget is sustainable. The wage bill since the fiscal year 2017, is being monitored for all institutions compared to previous years whereby wages was being monitored for only the ministries and departments, whilst Budget dependent agencies were classified under 'transfers to public sector".

However, the major challenge to Government is to fully able to recruit in all sectors and increase salaries to fully meet expectations or market price of several expertise fully, as the priority is to ensure that it can sustain the work force. As a result recruitment and revision in schemes of service are carried out on a phased medium term basis based on priority and considering when a latest revision was carried out last for a particular cadre.

As a result, a total sum of SR 2.4bn is being catered for wages and salaries. This is an increase of SR 197.7m or 9 per cent compared to the revised 2017 figures. Total wages, therefore, represents 28 per cent of the total Expenditure and net lending. Of this;

- SR 62.1m is being catered for new recruitment
- SR 91.6m is being catered for revisions or introduction of schemes of service

whereas, SR 68m is being allocated for gratuity, SR 13.8m for compensation for continuous service, SR 22.2m for promotion and upgrading in posts, SR 12.8m for renewals of Public Sector Commission contracts and SR 15.9m for returning graduates.

Recruitment for 2018 has been limited to critical areas. The main Organisations where significant funding has been allocated for the funding of positions are the Department of Education, Home Affairs, Health Care Agency and Agency for Prevention of Drug Abuse & Rehabilitation.

New schemes of services being funded are for:

- Technical staff of the Department of Infrastructure and Habitat
- Ministry of Environment, energy and Climate Change
- Nurses and Health care assistants of the Health Care Agency
- National Sports Council
- National Youth council

In addition, the 2018 Budget is catering for the revision several common cadres, namely Records, Office Assistant, Customer Service, Human Resources, Administration, as well as introducing a scheme of service for Drivers and Public Relations. These common cadre schemes total up to SR 9.96m. The Government is also funding the introduction of a marketable kills allowance for teachers effective July 2018.

The 2018 Budget has also allowed for the review of the gratuity scheme benefitting nurses within the Health Sector, whereby it will align with the gratuity schemes of the Department of Police. This revision in gratuity scheme is part of the sector medium term plans to ensure it attracts and retains suitable individuals.

Goods and Services

In 2018, a sum of SR 2.72bn is being catered for Goods and services. This represents a 31.5 per cent allocation against total expenditure and net lending and an increase of SR 129m compared to the 2017 revised Budget. The main increases are as follows:

The Judiciary

The Judiciary is recording an increase of 18 per cent, or SR 6m, in 2018 over its revised 2017 figures. The main increases within the Organization have been in relation to expenses relating to existing and new judges. This consists of increased security provision and housing rent for the judges.

Ministry of Education and Human resources Development

The Ministry is being provided with an increase of SR 5.9m in 2018 compared to the revised 2017 figures. This is to fund mainly the re current expenditures of the School of Excellence that is to open next year. In addition, with the new security and cleaning contracts which are being tendered, there is expected to be an increase in these services.

Ministry of Environment, Energy and Climate Change

In 2018, the new tender of the Cleaning and Maintenance of Rivers & Wetlands is expected to increase the contract amounts. This is the main factor contributing to the increase of SR 6.9m in its 2018 Budget.

Ministry of Youth, Sports and Culture

The 2018 Budget reflects an increase of SR 6.9m over the revised allocations for 2017. Relocation of the President's Award staff, Administration offices of the Department of Culture and the National Herbarium are the contributing factors to this increase. In addition to this, the New Museum building is expected to be fully operational in 2018. As such, the Ministry's Budget will have to cater for its full year operational expenses.

Family Affairs

With the completion of the Juvenile Centre, the Ministry will have to accommodate for its operating costs. This is primary cost driver towards the increase of 16 per cent in its Goods & Services Budget. As such, the Ministry's Budget for 2018 sums up to SR 17.9m.

Seychelles Fishing Authority

The SFA's Goods & services Budget in 2018 has increased by SR 6m to SR 57.4m. The increase reflects allocations made by the portfolio towards the sector's emergency plan. The additional amount will allow for the purchase of a patrol vessel, an electrical transformer and the refurbishment of 2 fish processing plants.

Health Care Agency

In 2018, the Agency's total Goods & services Budget sums up to SR 361m. The increase of SR 10m is expected to cater for the new contracts being tendered out for Cleaning services and security services. It will also cater for the continued increase in demand for medical supplies.

Seychelles Agricultural Agency

Seychelles Agricultural Agency's increase of 44 per cent, or SR 6.6m from its revised 2017 figures is as a result of priority funding allocated towards certain key areas outlined in the sector's Emergency Plan. This includes the survey of agricultural land, introduction of new blood lines, contribution towards the Agricultural Insurance scheme and maintenance of the soil lab.

Landscape and Waste Management Agency

New tenders in the existing cleaning contracts is expected to increase the overall costs of the services provided. This will be as a result of the increase in the number of zones and the expected rates. The increase of SR 13m will also cater for the Waste Collection services which are to be tendered out.

National Bio-security Agency

The increase of SR 5m will cater for the purchase of a specialized car for stray dogs, operational costs of its new inspection facility at the seaport and airport, purchase and operational costs of high tech incinerators, purchase of laboratory supplies and pesticides, and purchase of vehicles. These elements are part of the Emergency plan requested by the sector.

Public Sector Investment Programme

The Central Government investment programme for the period of 2018 to 2020 is estimated to amount to SR 3.5bn. A total of SR 1.15bn worth of projects is to be financed from the 2018 Budget, representing 33 per cent of this medium term investment plan.

In addition to the PSIP allocations, the Government provides funding through Net lending and Development grants to some Public Enterprises for their development projects. Public Enterprises receiving development funding from the Central Government are the PUC, SPTC and the PMC. The table below shows the total PSIP allocations made across the medium term. As indicated, the total investment Budget of the country is forecasted to increase both in nominal terms and as a percentage of GDP over the medium term.

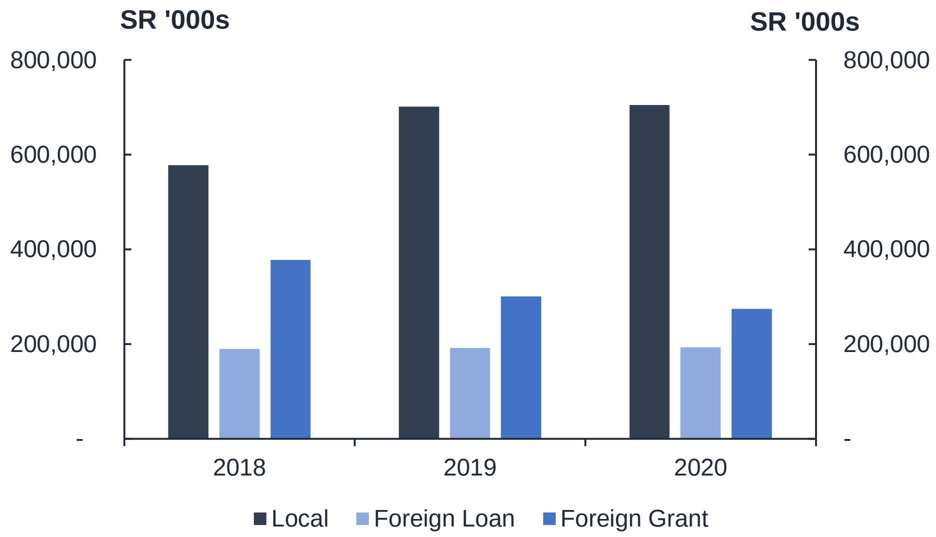
Table 36: PSIP from 2016 to 2020, SR' bn

DESCRIPTION	2016 Actual	2017 Revised	2018 Budget	2019 Forecast	2020 Forecast
Central Government Projects	0.82	0.99	1.15	1.19	1.16
Net Lending	0.05	0.15	0.16	0.27	0.48
Development Grants	0.12	0.16	0.19	0.17	0.18
Total Allocation:	0.99	1.30	1.50	1.63	1.82
% of GDP:	**5.3**	**6.4**	**7.4**	**8.1**	**9.0**

Source: MFTEP, Financial Planning and Control Division estimates

The PSIP is financed through Government financing, as well as through external development partners through loans and grants. The Government Budget is expected to fund a total amount of SR 2bn out of the planned investment of SR 3.5bn (57 per cent) for the period 2018 to 2020. A total amount of SR 576m worth of projects of the PSIP over this period will be financed through foreign loans, whilst SR 956m is expected to be financed from external grants. The local financing component of the investment Budget is projected to increase over the medium term, whilst grant funding is expected to decrease. Loan financing will remain relatively stable over this period. The graph below shows the source of financing for the PSIP 2018-2020.

Figure 23: Source of Financing for PSIP 2018-2020 (SR' 000s)



Source: MFTEP, Financial Planning and Control Division estimates

The main external donors and 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).

2017 Overview

The initial capital Budget allocation for the year 2017 was SR 1.2bn but has been revised downwards to SR 0.99bn, representing a reduction of 18 per cent. The downward revision is largely due to slow rate of project execution.

Large projects which are not expected to materialize in 2017 includes the upgrading of the English River health centre, to which a total of SR 2.5m had been allocated in 2017, construction of Ile Perseverance Health Centre, to which a total of SR 8.4m had been allocated in 2017, the reconstruction of La Rosiere primary school, to which a total of SR 20m had been allocated in 2017, as well as the construction of the Seychelles Agriculture and Horticulture Training Centre (SAHTC) where a total of SR 8m had been allocated.

Despite the slow execution and non-materialisation of some projects, a number of projects in various sectors have been completed or is expected to be completed in 2017. Major projects reaching completion in 2017 includes the:

- Ex-Desaubin housing project in Takamaka district;
- Ex-ION housing estate at Grand –Anse Mahé;
- Ex-Dominic Savio housing estate in Mont-Buxton district;
- Ex-Kashugy housing project at Bel-Ombre and Marie-Jeanne estate on Praslin;
- Ile Perseverance Secondary school;

- Women's and children hospital at Ile Perseverance;
- Phase III Coastal Rehabilitation works at Anse La Mouche, and beach nourishment works La Passe on La Digue;
- Green Estate bridge and hydroponics drainage channel;
- Victoria bypass linking Anse Etoile to Latanier road as part of the Victoria traffic management
- Airport round about, and,
- Renovations of the ex-supreme court to house the National History Museum.

2018 Outlook

A total Budget of SR 1.1bn is being proposed for the Central Government investment projects in 2018. This represents an increase of 13 per cent over the 2017 revised capital Budget. Up to 50 per cent of the total Budget allocation for 2018 (SR 578m) shall be from the Government Budget, 33 per cent (SR 378m) from foreign grants and the remainder (17 per cent or SR 10m) from foreign loan financing.

Out of the total allocation for 2018 an amount of SR 180m (17 per cent) is going towards new projects to start in 2018 and SR 967m towards on-going projects.

Notable infrastructure projects expected to start in 2018 are as follows:

- Ile Perseverance Health Centre to serve the Ile Perseverance community, being co-financed by OFID and BADEA. This project was expected to start in 2017 but has been delayed to start in 2018 – Estimated cost SR 41m.

- Juvenile Centre to provide for day care and residential services for children with behavioural problems – Estimated cost SR 20m.

- Drug Rehabilitation village for the rehabilitation of drugs addicts – Estimated cost being reviewed.

- Re-construction of Freedom Square sports complex – Estimated cost SR 60m.

- DNA laboratory for the Police Department – Estimated cost SR 8m.

- Anse Royale fire station – Estimated cost SR 17.7m.

- Seychelles Broadcasting Corporation House being co-financed by a grant from the Government of China – Estimated cost SR 253m.

- New Magistrate court and Tribunals being co-funded by a grant from the Government of India – Estimated cost SR 50m.

- New bridge at Providence to Sunshine House to replace existing one and third lane at Pointe Larue as part of the land transport master plan – Estimated cost SR 40m and SR 6m respectively.

- Two new Government office buildings to house the Department of Environment and Climate change and the Department of Agriculture and its respective Ministry. These projects are to be implemented through Public Private Partnerships by tender process.

- Construction of new national abattoir for red and white meat – Estimated cost SR 60m.

- Re-construction of La Rosiere primary school being co-financed by a loan from Kuwait Fund. The project has been delayed for several years and is now on track to start in 2018 – Estimated Cost SR 63m.

- Re-construction of the Seychelles Agriculture & Horticultural Training centre being co-financed by Kuwait Fund .The project has been delayed for several years and is now on track to start in 2018 – Estimated Cost SR 60m.

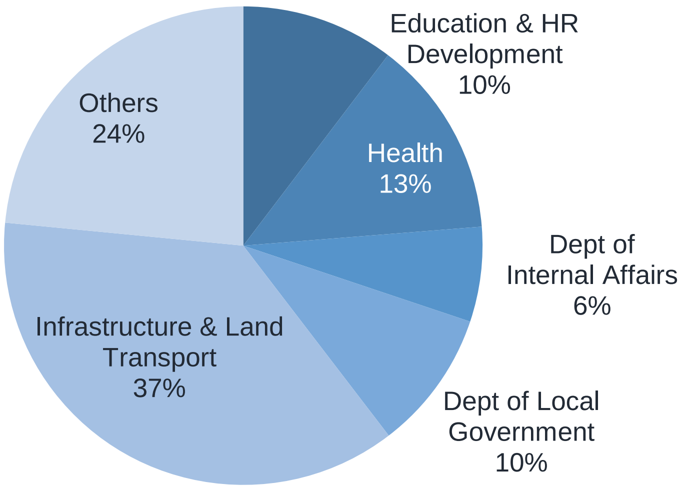
- The construction of the second primary school at Ile Perseverance is being co-financed by BADEA and OFID – Estimated cost SR 73m.

- The re-construction of La Digue School – Estimated cost SR 42m.

Local Financing

The Department of Infrastructure has been allocated with the largest proportion (20 per cent) of the local Budget for 2018 followed by the Seychelles Land Transport Agency (17 per cent) and Ministry of Health (13 per cent). The Departments of Education and Local Government accounts for each 10 per cent of the total local Budget whilst the Department of internal affairs accounts for 6 per cent.

Figure 24: PSIP 2018 Budget Allocation – Local Financing



Source: MFTEP, Financial Planning and Control Division estimates

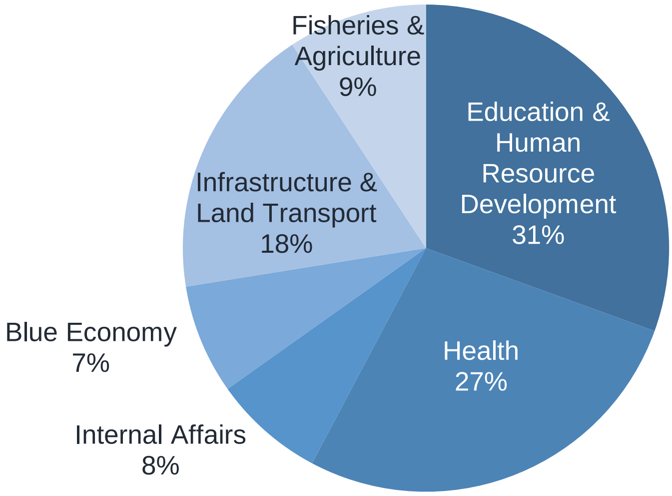
Foreign Loan Financing

A total of SR 190m worth of projects to be implemented in 2018 in various sectors is to be financed from external loans. The La Rosiere primary school and the Seychelles Agriculture & Horticultural Training centre are being co-financed by Kuwait Fund whilst the construction of the second primary school at Ile Perseverance is being co-financed by BADEA and OFID. A total of SR 42.1m under the Line of Credit (LOC) from the

Government of India will go towards the procurement and setting up of the Health Information System. A total of SR 9.7m has been allocated to the Health Care Agency to cater for construction of the Ile Perseverance health Centre under the co-financing agreement with BADEA and OFID. BADEA and OFID is also financing the other ongoing infrastructure works on Ile Perseverance Infrastructure and a total amount of SR 29.2m is expected to be spent under the loan in 2018.

Other projects and programmes to be funded from external loans includes the SWIOFISH project being led by the Department of Blue Economy and financed by World Bank and GEF and the CLISSA project being implemented by the Ministry of Fisheries and Agriculture financed by IFAD .

Figure 25. PSIP 2018 Budget Allocation – Foreign Loans



Source: MFTEP, Financial Planning and Control Division estimates

Foreign Grant Financing

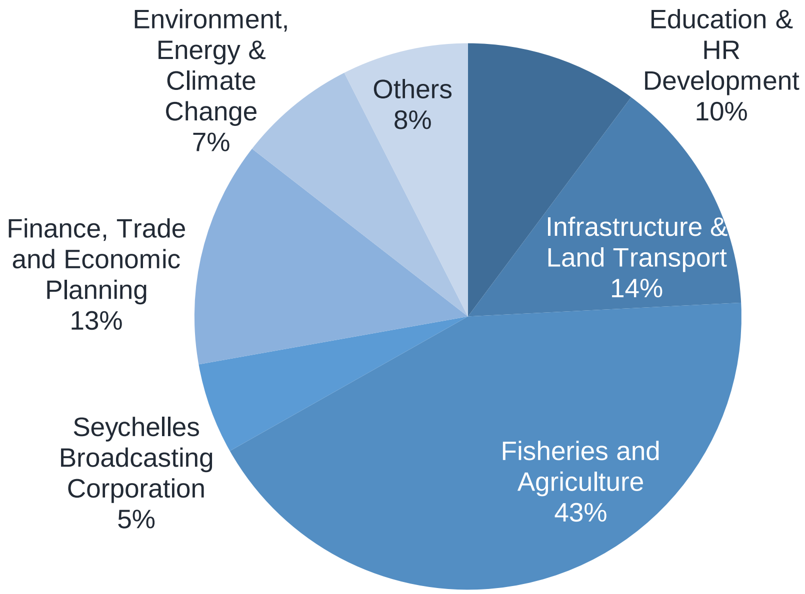
The fisheries sector is expected to benefit from the largest proportion of foreign grants in 2018. The bulk of the grants are for the financing of two particular projects in that sector namely the construction of fisheries facilities on Providence Zone 6, to which a total of SR 161m has been allocated and funded by the Government of Japan, and the implementation of the fisheries and maritime policy being funded by the European Union, with an amount of SR 38m expected to be spent in 2018.

A total of approximately SR 40m are to be spent under a grant from the Chinese Government towards two social housing projects, namely, the Kan Gard Redevelopment project and Phase 3 of the Corgat Estate housing project. The other housing project being funded under grant funding in 2018 is the ongoing project of ex-Olivier at Mont-Buxton being funded by the Government of Qatar and an amount of SR 10m is expected to be spent under the grant in 2018 to complete the project.

Provisions of SR 18m and SR 21m have been made under a grant from China for the construction of a new school on Ile Aurore and the re-construction of the school of Business Studies and Arts respectively.

Other notable projects to be funded from grants includes the Seychelles Broadcasting Corporation house being co-financed by the Government of China and the construction of the magistrate court being financed by the Government of India.

Figure 26: PSIP 2018 Budget Allocation – Foreign Grant



Source: MFTEP, Financial Planning and Control Division estimates

Investment by Sectors

The table below shows PSIP allocations across the main sectors over the medium term.

Table 37: PSIP allocation across main sectors (SR' 000s)

SECTORS	2017 EOY	2018 Budget	2019	2020
Defence	36,233	22,266	33,161	32,784
Housing	256,657	195,104	227,802	247,257
Land Transport	81,987	97,027	126,449	121,511
Economic	27,257	35,409	57,754	73,244
Fisheries & Agriculture	187,157	229,311	100,398	95,365
Health	90,215	131,448	145,892	139,774
Education	121,113	153,804	180,432	142,013
Community amenities	51,727	52,309	57,809	56,809
Public Order and Safety	13,958	68,093	79,063	76,683
Youth Sports & Culture	26,157	28,149	42,763	62,887
Social Affairs	3,600	18,200	18,000	15,000
Environment	40,393	35,991	38,142	35,825
General Public Services	56,618	79,465	87,494	74,275
TOTAL:	**993,072**	**1,146,576**	**1,195,159**	**1,173,427**

Source: MFTEP, Financial Planning and Control Division estimates

Housing and land development

The total planned investment in the housing sector for 2018 accounts for up to 17 per cent of the total investment programme at an amount of SR 195m.

Major projects in this sector include:

- Ongoing works at various social housing estates including Ex Desaubin, Ex Ion & Ex Kashugy, Kan Gard redevelopment , Ile Perseverance Phase II infrastructure, Corgate Estate Phase 3 redevelopment
- Ongoing infrastructure development on various land bank projects including Creuve Coeur, Carana, La Gogue, Ex Murray and Cayole Land Banks.
- A provision of SR 30m have also been made in the Budget towards land acquisition by the Government for housing development and land compensation.
- An amount of SR 10m have been allocated towards disaster cases

In addition, an amount of SR 150m through a loan from the Seychelles Pension Fund has also been allocated to this sector to support the Ministry in attaining its target of constructing 24 housing units in each district.

Land Transport

The total allocation for the Land transport sector for 2018 amounts to SR 97m representing 8 per cent of the total capital Budget for the year. Main projects being funded in this sector are as follows:

- Traffic management program includes the Stevenson Delhomme/St louis Bel Air by-pass road to alleviate traffic jam from the north , junction improvement at revolution avenue/Bel-air , the STC – Foret noire round about to help reduce traffic in the Mont- Fleuri area , third lane at Pointe Larue and airport round about.
- New bridge at Providence /Sunshine House as part of land transport master plan
- Various new road improvement projects in various districts including road widening Salazie Baie St Anne, road improvement Mont Plaisir, Anse La Blague, North East Point and Anse Royale.

Fisheries

Investment in the fisheries sector for the year 2018 amounts to SR 202m. This includes SR 25m from the development fund set up for the fisheries and agriculture sector. Main infrastructure projects planned for this sector includes:

- Ongoing works on the Fisheries Facilities Providence Zone 6.
- Phase II of Ile du Port infrastructure development.
- Artisanal Fisheries infrastructure project at Bel-Ombre funded by EU.
- Construction of fishing facilities such as markets , gear stores , slip ways in various districts
- Upgrading of ice plants and stores.
- Renovation of the Seychelles Fisheries Authority headquarters particularly re-roofing works.

Agriculture

Government aims on spending a total of SR 51m in the Agricultural sector in 2018 out of which SR 26m from the PSIP Budget and SR 25m from the Livestock Trust Fund . Main projects being funded in the 2018 Budget in this sector include:

- Construction of building to house the office of the Department of Agriculture and its respective Ministry to be procurement through PPP.
- Re-construction of veterinary services facilities at Union Vale.
- Construction of new national abattoir facility on Mahé to replace existing one – SR 30m.
- Construction of small red meat abattoir on Praslin – SR 2.5m.
- Construction of new building at Anse Boileau for crop research and development and to house the relevant research staff.
- Ongoing renovation works on the Victoria Market – SR 2.7m.
- Refurbishment of ex-BBB station at Grand Anse to house biosecurity lab – SR 5.5m.
- Setting up of new Goat Genetic centre at ex-BBC Grand Anse Mahé – SR 0.7m.

Other projects includes construction of 17 new farm roads and improvement on others and improvement of irrigation systems.

Health

Up to 11 per cent of total PSIP spending amounting to SR 131m has been allocated to the Health Sector in 2018. Main projects being financed from this sector as part of the health sector master plan which have started implementation includes:

- A total amount of SR 24m has been allocated towards on ongoing works at the Seychelles Hospital as part of the health sector master plan. This includes the conversion of the Diagnostic Centre into the clinical laboratory, ongoing renovations work on CSSD building, conversion of clinical laboratory into ICU.
- Construction of new Ile Perseverance Health Centre.
- Construction of New La Digue Logan hospital including the outpatient services.
- Anse Royale Outpatient clinic.
- Construction of new Isolation Unit for the country which currently does not exist – SR 9.1m.
- New Public health laboratory to cater for increasing and new types of tests undertaken - SR 3.4m.
- New headquarters for the Ministry of Health – SR 4m.

Other projects in the sector includes renovation of various health centres whereby an allocation of SR 18m have been made.

The Health Information System is also expected to be procured and set up in 2018 and an amount of SR 42m has been provided in the Budget.

Education

A total amount of SR 154m is to be spent on capital projects in the education sector in the year 2018 with main projects to be financed highlighted below:

- Construction of Ile Perseverance Primary School 2 to which SR 15m has been allocated.
- Construction of La Rosiere Primary School to which a total of SR 36m has been allocated.
- Construction of School of Business Studies & Accounting and School of Visual Arts to which a total of SR 16.7m has been allocated.
- Re-construction of La Digue School.

Local Government

The Ministry of Local Government has been allocated a total of SR 52.3m for the year 2018 under the PSIP. Main projects from this sector include:

- District small projects across all districts on Mahé, Praslin and La Digue to which a total of SR 30m has been allocated.
- Ongoing works on three day cares namely the Grand Anse Praslin, Anse aux Pins and the Takamaka Day care which are all expected to be completed in the year 2018 – total allocation of SR 9m.
- An allocation of SR 2m have also been made for upgrading of facility to provide for a day care centre at Glacis.
- An amount of SR 5m has been allocated to provide for additional spaces required at some District Administration offices in line with the setup of regional district councils as part of the de-centralization process of Government services.

Public Order and Safety

A total amount of SR 50m representing per cent of overall spending in PSIP has been allocated to the internal Affairs Sector for the year 2018. Major projects from this sector include:

- Construction of DNA Lab for the Department of Police to which a total of SR 8m has been allocated.
- Upgrading of facilities to improve safety of detainees and staff at the Montagne Posee prison which includes the medical clinic (SR 4m) and the kitchen and storage facilities (SR 3m) as well as a new administrative block (SR 5m) for the Department of Prison.
- Construction of a new fire station at Anse Royale in line with SFRA's strategy to bring the services closer to the community hence reduce response time in emergencies - SR 13.6m has been allocated.
- Construction of Magistrate Court and Tribunals at Ile du Port to re-locate the service from current location of Unity House – SR 11.5m.

Defence

The Department of Defence has been allocated with a Budget of SR 22m for the year to mainly finance the following projects:

- Renovations/ upgrading of military facilities – SR 6m.

- Construction of jetty to berth increasing fleet of sea vessels – SR 6m.
- Construction of hangar at the Seychelles International Airport to accommodate for arrival of a second dornier maritime patrol aircraft – SR 9.7m.

Environment

A total of SR 36m has been allocated to the Environment Sector the year 2018 under the PSIP. Major projects expected to be undertaken from this sector include:

- Ongoing works under the disaster mitigation project to which a total of SR 5m has been allocated.
- Priority drainage projects across various districts to which a total of SR 1.5m has been allocated.
- Ongoing coastal rehabilitation projects to which a total of SR 5m has been allocated.
- Construction of a building to house the Ministry and the Seychelles National Parks Authority is also set to start in 2018 through a Public Private Partnership.

Sports

Total allocation for the sports sector stands at SR 14.3m to fund the main projects below:

- Upgrading of the Anse Royale Sports Complex – SR 2m.
- Ongoing renovations works on the Victoria gymnasium which started in 2017 and to be completed in 2018 – SR 2m.
- Re-construction of the freedom square sports complex to upgrade existing facilities and accommodate Judo, Karate and boxing disciplines – SR 8m.
- A provision of SR 2.3m has also been made for renovations of national sports facilities.

Arts and Culture

- Re-location of the national herbarium to better preserve the specimens in a more conducive environment – SR 1.5m.
- Construction of new archive building to better preserve and showcase historical archival materials– SR 1m.
- New museum to house artefacts and accommodate staff from temporary location – SR 1m.
- Construction of new kiosks at Domaine de Val de Pres in line with the extension of the cultural village to provide space for more entrepreneurs to sell their locally made products– SR 1m.

Social

- Construction of Juvenile Centre at Cap Ternay to provide for day care and residential services for children with behavioural problems – SR 8m.
- Construction of Drug rehabilitation village at Cap Ternay for the rehabilitation of drug addicts – SR 10m.
- Re-building of one block of 4 units and concrete wall fencing at the English River elderly home – SR 4m.

Others

- Construction of the Seychelles Broadcasting house – SR 27m.
- An amount of SR 7.3m have also been budgeted for ongoing infrastructure works on industrial estates particular on Eve Island on Praslin.

Social Programme of Central Government

A sum of SR 133.5m is being catered to this category of spending. This consists of Government contribution towards a significant number of Non-Governmental organisations, funds towards various councils and Funds created by Government as well as schemes introduced by Government to incentivize targeted sectors or programmes aimed at providing assistance to small entrepreneurs or to promote educational and social programmes and values to society. Government contribution towards the Non-Governmental organizations have been mostly been kept at the same level as previous years, in view that this is an assistance and not full Government obligation. The Budget being provided to the Government councils and funds are to cater for the recurrent costs for implementing these programmes. Whereas, for the various schemes, the allocation is based mostly on either the number of applicants eligible in the target group or on a Budget limit.

Agricultural Development Fund (ADF) schemes

The Fund objective is to provide financing for the development of small and medium sized agricultural and horticultural projects, particularly to boost production and promote food security. Government will continue to provide SR 3m towards this scheme.

Small and Medium Enterprise (SMEs) scheme

The SME financing scheme was launched in 2013 with the participation of commercial banks. The objective of this scheme is to provide financial assistance to the small and medium sized enterprises at affordable lending conditions. An amount of SR 10m is being catered.

Seychelles Energy Efficiency and Renewable Energy Programme (SEEREP) incentive scheme

This scheme is a financial facility which became effective in 2014. It is accessible to the household sector through an affordable loan scheme by all major commercial banks. The objective of SEEREP is to encourage the adoption of energy-efficient home appliances and other items of renewable technology by the domestic residential sector. In June 2016 this scheme was extended to small businesses –SR 1m is being catered for this.

The other various business schemes are as follows:

- SR 5m for Youth Employment Scheme (My First Job scheme)
- SR 6.7m for Day care scheme
- SR 1m for the Youth Entrepreneurship Scheme (YES)
- SR 5m for SME seed capital

In the 2018 Budget, Government will maintain its commitment to finance social programs targeting the most vulnerable people in our society. The Budget for the various programmes are as follows:

- SR 40m for Social Safety Net by the Agency for Social Protection
- SR 185m for Home Carers which include their 13th month pay
- SR 14.5m for Home Improvement/Re-roofing Scheme for Pensioners through HFC
- SR 15m for Vulnerable Home Repair scheme through ASP
- SR 18m for housing finance Subsidy Scheme
- SR 4.2m for dedicated funds for Schools

Government has allocated SR 17.3m for the post-secondary student's bursary. A lot of sacrifices are being done by students from Praslin and La Digue to come and study on Mahé for the post-secondary. From 2018, Government will increase the allowances for students from Praslin and La Digue in post-secondary institutions by SR 600. Thus the minimum the students will receive is SR 2,000. SR 5m will be financed by PUC to fund a scheme for water tanks and solar water heaters for household. This will be loan to individuals and pay from their monthly bill.

Subvention to Public Enterprises

SR 21.25m is being provided to financially assist several State Owned Enterprises (SOEs). As per the agreement signed in 2011 with Etihad, when a merger agreement was signed with Air Seychelles, Government is committing SR 16.02m annually.

The Guy Morel Institute (TGMI) is being assisted with SR 2m. this is in view that the entity is now moving out of the University of Seychelles. This fund is therefore being provided to the Institute as a start-up grant fund.

The Seychelles Postal Services is being provided with SR 3.5m. This will cater for the re-current Budget shortfall of the Postal Services to meet its office expenses for Praslin and Mahé.

For the past few years Government had allocated SR 40m for SPTC in the Budget. In regards to 2018, limited funding will be allocated to SPTC. Thus SPTC will become a partially self-sufficient entity. As such SPTC bus fare will increase by SR 2 and will now by at SR 7. However, Government will still subsidise the travel for the elderly, disabled and school children. SR 24.2m has been allocated for this travel concessions for these categories of people.

Development Grants to Public Enterprises

A total allocation of SR 166.6m is being catered as development grants to state owned enterprise as well. This is to mainly finance the capital project implementation of these SOEs.

- SPTC is being provided with SR 10m from Government as contribution towards their capital project implementation. In addition, SR 20.84m is also being allocated for the procurement of buses which is being financed by the India Line of credit.
- Property Management corporation (PMC) is to be allocated with SR 17.42m. An amount of SR 7m will finance the renovation of various housing estates in the country being managed by the Corporation and an amount of SR 10.42m will be contributed towards the Government plan for construction of 14 units in each districts
- PUC will continue to be allocated with SR 120m as in the previous year. In 2018, the EUR 14.49m loan repayment with Nouvobanq for the generation expansion project will be completed. Furthermore, SR 20m is being allocated for the deferment of the tariff rebalancing, SR 30m for the domestic tariff concession and SR 11m for VAT claims that will be incurred during the year.

Net Lending

Government is catering SR 155.58m towards Net Lending. For 2018, these are funding financed by loans from financial institutions and is then allocated to PUC and the allocation is as follows:

- SR 59.641m, equivalent to USD 4.3m is being catered to the PUC as the last tranche of funding to complete their infrastructure master Plan. This is a loan on lending being financed by the European Investment Bank (EIB) and African Development Bank (ADB).
- A tranche of SR 48.55m equivalent to USD 3.5m is also being provided to the PUC to finance the 33 KV Project which has been signed in 2016. The loan, is being financed by BADEA.
- SR 55.48m equivalent to USD 4m will be on lent to PUC as well to fund the La Gogue dam raising project. This was also signed in 2016 and is being financed by BADEA.

Contingency

A total provision of SR 20m has been made within the 2018 Budget for the Contingency. This represents 0.09 per cent of GDP.

Debt Outlook

The public debt stock has maintained a downward trend since the comprehensive debt restructuring as of 2008. The Government is committed to maintaining sustainable debt levels with various strategies such as debt swap/buyback for environment purposes and limiting its borrowings to more affordable loans. The public debt stock includes monetary debt which is used by the Central Bank to mop up excess liquidity, as well as debt owed to the IMF. The debt stock, excluding the debt for monetary policy, is already within the 50 per cent debt to GDP target set for 2020.

2018 External Debt Stock

The external debt stock has a fairly constant trend since 2009, with increases in 2011 and 2014 and decreases in 2015 and 2016. The external debt stock for 2018 is projected to increase due to disbursements under various on-going projects as well as the blue bond to be issued early 2018. The blue bond is part of the SWIOfish3 project which will accelerate the implementation of fisheries management plans specifically for the Mahé Plateau as part of its initiative to develop a sustainable blue economy.

Table 38: External Debt Stock 2010-2018, SR'm

Years	External Debt Stock
2010	5,538
2011	6,221
2012	6,109
2013	5,764
2014	6,511
2015	5,783
2016	5,461
2017	5,607
2018	6,156

Source: MFTBE, Debt Division estimates

2018 Domestic Debt Stock

The domestic debt stock has indicated a constant upward trend since the introduction of Treasury Bills for monetary policy in 2012. A significant 35 per cent of the total domestic debt stock is for Treasury Bills and Bonds for monetary policy. However, the conversion of a portion of the Paris Club debts into domestic debt following the debt swap and Treasury Bonds issued in 2017 has also contributed to the increase in the domestic debt stock.

Table 39: Domestic Debt 2014-2017, SR'm

Year	Net Govt Debt	T-Bills for Monetary Policy	Gross Govt Debt
2014	2,901	2,858	5,759
2015	4,224	2,376	6,600
2016	4,613	2,880	7,493
2017	4,900	2,682	7,582

Source: MFTBE, Debt Division estimates

External Debt by Creditor Category

The external debt stock is made up of multilateral, bilateral, private and commercial debts. Private debt, which is the external bond due in 2026, accounts for about 35 per cent of external debt. Multilateral debts, of which the World Bank and the African Development Banks are the largest creditors, also accounts for 35 per cent of the total external debt stock. This is followed by bilateral debts (22 per cent) owed to members of the Paris Club as well as non-members. Commercial debts, which are considered as the more expensive debts, accounts for 8 per cent of the external debt stock.

Table 40: External Debt Stock Composition, SR'm

Creditor Category	External Debt Stock
Multilateral	1,945
Bilateral, (of which);	1,231
Paris Club	664
Others	567
Commercial	425
Private	1,963
Total:	**5,565**

Source: MFTBE, Debt Division estimates

External debt repayments

Following the debt restructuring in 2008/2009, external debt repayments were projected to reach its peak in 2017, with a smooth path in the coming years. However, with the debt swap a significant portion of the Paris Club debts were repaid in 2016 and coupled with the contraction of new debts, the external debt repayments are now expected to gradually increase and reach its peak in 2022.

Table 41: Annual Debt Service Forecast, 2017-2028, SR'm

DEBT SERVICING	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Interest	221	213	209	205	181	154	127	102	77	51	39	34
Principal	448	461	443	513	522	578	592	622	632	541	330	241
Total:	**669**	**674**	**652**	**718**	**703**	**732**	**719**	**724**	**709**	**592**	**369**	**276**

Source: MFTBE, Debt Division estimates

Selected Economic Indicators

	2014	2015	2016	2017	2018	2019	2020
National income and prices							
Nominal GDP (millions of Seychelles rupees)	17,119	18,336	19,033	20,282	21,748	23,141	24,494
Real GDP growth	6.21	4.97	4.48	4.25	3.34	3.28	3.33
GDP deflator growth	2.26	2.03	-0.89	2.22	3.76	3.02	2.44
CPI (annual average)	1.39	4.04	-1.02	3.15	3.35	3.29	3.03
Money and credit							
Broad money growth (12–month per cent change)	26.6	2.9	12.1	10.6	7.2	…	…
Money multiplier (broad money/reserve money)	5.0	4.7	4.6	4.2	4.5	…	…
Velocity (GDP/broad money; end of period)	1.4	1.5	1.4	1.3	1.3	…	…
Foreign currency deposits (USD millions)	353	360	372	456	408	…	…
Government Budget (% GDP)							
Total revenue, including grants	39.2	34.7	38.8	40.1	38.8	38.0	37.0
Total revenue, excluding grants	37.8	33.9	37.3	38.1	36.9	36.5	36.2
Grants	1.4	0.8	1.4	2.0	1.8	1.4	0.8
Expenditure and net lending	40.0	33.4	39.5	40.4	39.6	38.5	37.5
Current expenditure	34.5	28.5	33.9	34.0	32.8	31.4	30.0
Of which: interest payments	3.9	3.1	3.9	3.2	3.3	3.0	2.9
Capital expenditure	4.4	3.7	4.3	4.9	5.2	5.1	4.7
Net Lending	0.3	0.4	0.4	0.7	0.7	1.1	1.9
Primary balance (accrual basis), including grants	3.1	-1.8	3.2	3.0	2.5	2.5	2.5
Primary balance (accrual basis), excluding grants	1.6	3.6	1.7	1.0	0.6	1.0	1.6
Overall balance (accrual basis)	-0.8	1.3	-0.7	-0.3	-0.8	-0.6	-0.4
Overall balance (cash basis), including grants	0.6	0.2	-0.7	-0.3	-0.8	-0.6	-0.4
Overall balance (cash basis), excluding grants	-0.8	-0.55	-2.12	-2.26	-2.62	-2.0	-1.3
Domestic bank financing (net)	2.0	-0.96	1.00	-0.79	-1.99	-1.0	0.8
External sector (% GDP, unless otherwise indicated)	**-21.4**	**-18.6**	**-20.4**	**-18.4**	**-19.2**	**-17.5**	**…**
Current account balance including official transfers	-308	-256	-287	-273	-301	-275	…
Imports of goods	1,081	922	991	1,052	1,063	1,066	…
Imports of services	504	498	507	516	495	514	…
Exports of goods	539	449	459	461	428	424	…
Exports of services	834	848	894	949	946	963	…
Foreign Direct Investment	108	106	86	128	152	138	…
Gross official reserves (USD'm)	464	535	523	512	513	520	…
In months of imports, c.i.f.	3.9	4.3	4.0	3.9	3.9	3.9	…

Total external debt outstanding (% of GDP)	**38.0**	**31.6**	**29.5**	**27.6**	**28.3**	**26.3**	**24.8**
Total debt outstanding (SR'm)	12,270	12,386	13,324	13,189	13,371	12,959	12,316
Total debt outstanding (% of GDP)	67	63	67	67	61	56	50
Domestic (% of GDP)	34	36	41	37	33	30	25
External (% of GDP)	38	32	29	28	28	26	25

Source: MFTEP, IMF tables