

Mid-Year Economic and Fiscal Outlook

Financial Year 2022 and 2023 Outlook

Ministry of Finance, National Planning and Trade, August 2022

MYEFO looks at the state of the economy for the current year (2022) based on developments and data from the first half of the year. MYEFO comments on economic and fiscal performance for the first half of the year; updates forecasted economic conditions for the second half of the year; and provides an initial forecast of anticipated 2022 economic activity and tax revenues. Combined, this allows for the determination of a recommended Government expenditure “envelope” for 2022. MYEFO is compiled by the Ministry of Finance, with inputs from the Macro-Economic Framework Working Group (MFWG).

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Acronyms and Abbreviations

BT	Business Tax
CBS	Central Bank Seychelles
CIF	Cost, Insurance and Freight
CSR	Corporate Social Responsibility Tax
EIB	European Investment Bank
ET	Excise Tax
FA4JR	Financial Assistance For Job Retention
FPCD	Financial Planning and Control Division
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
LMG	Locally Manufactured Goods
LMO	Liability Management Operation
LPG	Liquid Petroleum Gas
PIM	Public Investment Management
PIT	Progressive Income Tax
PEMC	Public Enterprise Monitoring Commission
PFM	Public Finance Management
PPBB	Performance Program Based Budgeting
PSIP	Public Sector Investment Program
NBS	National Bureau of Statistics
NTB	National Tender Board
NDEA	National Drug Enforcement Agency
MoFEPT	Ministry of Finance, National Planning and Trade
MFAB	Macroeconomic Forecasting and Analysis Division
MDAs	Ministries, Departments, and Agencies
ODC	Other Depository Corporations
OT	Other Tax
SEAS	Seychelles East-Africa Submarine cable
SIDS	Small Island Development States
SSF	Social Security Fund
SRC	Seychelles Revenue Commission
TMT	Tourism Marketing Tax
TT	Trade Tax
VAT	Value Added Tax
WEO	World Economic Outlook

About the Document

Introduction

The purpose of the MYEFO report is to provide updated information to allow the assessment of the Government's fiscal performance against the fiscal strategy set out in the current Budget Strategy papers.

The MYEFO updates key information contained in the most recent fiscal report and contains a detailed statement of Government tax and non-tax revenues, expenditures, and financing. The information in this report takes into account, to the fullest extent possible, all Government decisions, and all other circumstances that may have a material effect on the fiscal and economic outlook for 2022.

This document provides a snapshot of the economy as at the first half of the year, giving a brief outlook for the rest of 2022, and 2023. Secondly, the source and amount of taxes that will be collected by Government in the remainder of 2022 and in 2023 is outlined. The taxes are the main component determining the overall level of Government's spending that will be possible in 2022. The document then discusses the ability of the ministries, departments and Budget-dependent agencies to spend their allocated annual Budget based on performance after the first half of 2022.

Lastly, the document lists out the levels of debt contracted by the Ministry responsible for Finance (on behalf of Government).

Economic Outlook

Overview

International Developments

Revised global growth estimates range between 2.3 to 3.2 per cent for 2022 as per recent published estimates of major international financial institutions and economic organizations such as the IMF (Table 1). Overall, these estimates depict a firm beginning to recovery in 2021, while 2022 GDP growth projections have been lower than previously anticipated at the beginning of the year.

Several shocks have hit the world economy already weakened by the pandemic: higher-than-expected inflation worldwide, triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID19 outbreaks and lockdowns; and further negative spill-overs from the war in Ukraine. Slow global growth is expected to continue into 2023 as disinflationary monetary policies continue to take effect.

Table 1: World Output forecasts from various financial organizations and bodies

	World GDP Growth (%)		
	2021	2022	2023
IMF	6.1	3.2	2.9
OECD	5.8	3.0	2.8
Fitch Ratings	5.7	2.9	2.7
World Bank	5.7	2.9	3.0
GPMN	6.2	2.8	2.4
Average:	5.9	3.0	2.8
Seychelles:	7.9	10.8*	5.7

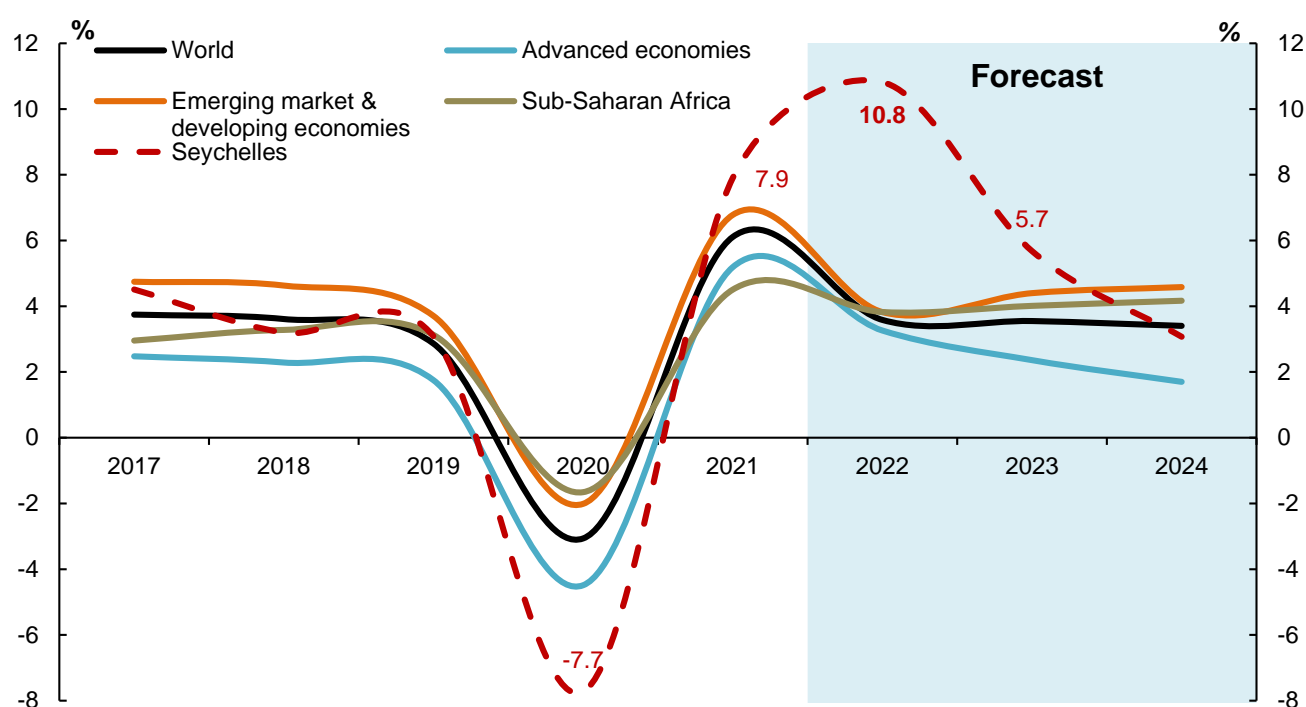
Source: Fitch Ratings / GPMN / IMF / MFAD / OECD / World Bank ¹
* Preliminary revised estimate

Domestic Developments

Seychelles' real GDP growth for 2022 has been revised upwards by 3.7 percentage points to 10.8 per cent. This mainly results from the upward revision of the 2022 tourism arrivals growth estimate to 75 per cent in light of the surge in tourism arrivals over the first half of the year, surpassing the 2021 total tourism arrivals figure by July. In addition, Quarter 1 Quarterly National Accounts supplemented by production statistics reported by the NBS portray promising growth in the manufacturing and ICT industries while data on Q2 performance is pending publication. In the 'Manufacturing' sectors Q1 beverage production is up by 33 per cent on average while Concrete and rock production has increased by an average of 25 per cent which also indicates activity in 'Construction' sector. The ICT sector remains strong recording a 43 per cent increase in data traffic over the first quarter. In contrast, slow private sector credit growth has resulted in the 'Finance and Insurance' sector remaining relatively flat while challenges to canned tuna production over the first half of the year indicate a 4 per cent contraction in the manufacturing of fishery products over the first quarter.

¹ Fitch Ratings Global Economic Outlook June 2022; GPMN Global Projections July 2022; IMF World Economic Outlook Update July 2022; Macroeconomic Forecasting and Analysis Division; OECD Economic Outlook June 2022; World Bank Global Economic Prospects July 2022;

Figure 1: Real GDP Growth estimates (2017-2024)



Source: IMF World Economic Outlook Update July 2021

The medium term economic outlook remains firm, as real GDP growth over the period 2023 to 2025 projected to average about 4 per cent. This is mainly driven by projected tourist arrivals surpassing 2019 levels and resuming a pre-COVID growth path, in addition to other positive contributions from other sectors, such as 'Manufacturing' and 'Construction' where output is expected to increase through various major building projects of hotels and resorts which further grow the capacity of the tourism industry.

Tourism

With the increase in global travel which has already reached 250 million for the first five months of 2022², a positive performance is expected for the Seychelles' economy given that tourism related activities accounts for about 19 per cent of GDP. Looking back at 2021, arrivals grew by about 59 per cent over 2020 and with the removal of restrictions in most countries, as well as the appetite to travel and holiday abroad, especially now with the administration of vaccines in most countries which boost visitors' confidence to travel. Tourism arrivals continue to grow in 2022 with Europe remaining as the main market and France replacing Russia as the top market with a share of 14 per cent of total arrivals year-to-date.

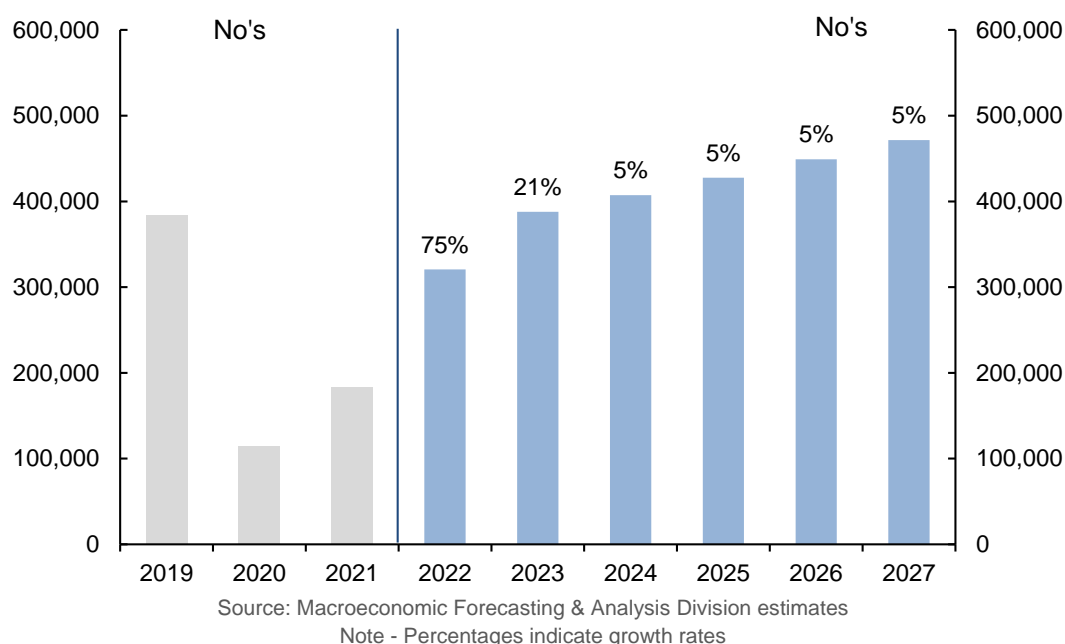
As at 25th August, about 209,357 tourists arrived in Seychelles, representing an increase of about 14 per cent over the whole of 2021. The year-on-year growth for 2022 is estimated to be about 320,593 or 75 per cent and when compared to 2019 pre-pandemic levels, the growth represents a drop of about 46 per cent.

Despite the Russian-Ukraine invasion, which was expected to have pernicious impacts on the tourism economy, tourism arrivals and tourism-related activities showed resilience and continues to grow. Tourism arrivals are

² United Nations World Tourism Organisation

expected to reach 2019 levels by 2023. In the medium term, tourism is expected to grow at an average of 8 per cent for the period of 2023-2027. The graph below depicts the arrival growth path over the medium term.

Figure 2: Medium term tourist arrivals estimates



Agriculture and Fisheries

First quarter livestock production was down by about 35 per cent on average in comparison to 2021, despite a 25 per cent increase in poultry and egg production. Agriculture growth projections remain relatively flat at 1 per cent for 2022. Over the medium term, agriculture sector growth projections average 3.8 per cent as policies to develop agriculture on the outer islands, and efforts to expand the sector's work force materialise; all in efforts to reinforce the country's food security.

First quarter performance has been lower than expected for the fisheries sector as Q1 fish catch fell by 58 per cent in comparison to 2021. While this fall in performance is not expected to persist, South east trade winds over the next two quarters will remain a challenge for the industry. The Fisheries sector is expected to contract by 5 per cent for 2022 but recover to 3.5 per cent in 2023 as more infrastructure is implemented to support fishing activities around the country.

Manufacturing

Mixed paths are forecasted for the manufacturing industries in 2022 with average real GDP growth for the sector standing firmly at 6 per cent.

'Manufacturing of fishery products', which consists mostly of canned tuna production, has been revised downwards by 4.5 percentage points. IOT has faced various challenges over the first half of the year, such as delays in deliveries of packaging materials and staffing shortages, which have significantly hindered their chances of reaching their initial production targets. This is consistent with quarter 1 production statistics which show a 4 per cent contraction of output. Canned tuna production is expected to pick up over the rest of the year, however, 2022 output growth projections remain at -2.5 per cent in comparison to 2021, while 3 per cent growth is forecasted for 2023.

2022 growth projections for the 'Manufacturing of beverages and tobacco' sector have been revised upwards to 10 per cent, 7 percentage points above the previous forecasts. This is linked to high demand brought on by the surge in tourism in addition to efforts by manufacturers to diversify and extend the product range on offer. This is also reflected in quarter 1 production indicators which show an average of 33 per cent year-on-year increase in beverage production and 38 per cent growth in cigarette production. Steady growth is expected to continue for this sector in 2023 at 3 per cent.

Strong production of concrete and rock products pushes the 'Manufacturing of other' sector 2022 growth projection to 15 per cent. Quarter 1 statistics indicate an average of 25 per cent increase in production of blocks, rock aggregate and crusher dust. This trend is expected to continue over the rest of the year while the sector's 2023 growth forecast remains steady at 2.5 per cent.

Construction

The construction sector remains robust at 6 per cent growth expected for 2022. The industry remains active as various major construction projects continue to progress. Year-to-date credit remains stable in comparison to the same period of 2021 while the aforementioned production of concrete and rock products bounces back from the lows of 2021. The industry is expected grow steadily by 3 per cent in 2023.

Information and Communication Technology

Over recent years Seychelles' ICT sector has uninterruptedly achieved double digit growth. Data traffic statistics for the first quarter show a strong increase of 43 per cent over 2021, reinforcing a steady growth projection of 7 per cent for the sector in 2022. The demand for ICT services is expected to remain strong, with medium term sector growth projected at 3 per cent, as new technology and ICT solutions are applied throughout various industries of the economy.

Finance and Insurance Activities

Finance and insurance activities are estimated to remain relatively flat in 2022 with a very modest 0.5 per cent growth, about 1.5 percentage points lower than in 2021. Despite the fast recovery in economic activities during the first half of the year, this sector has shown little to no growth. This may be attributed to year-to-date VAT receipts from 'Financial and Insurance sector' under-performing significantly by over 30 per cent, coupled with a decline in private sector credit of about 2.4 per cent year-on-year. As at June 2022, private claims from 'Transportation', 'Tourism Facilities' and 'Wholesale & Retail trade' sectors have declined by about 18, 16 and 13 per cent respectively.

Finance and insurance activities is expected to pick up in 2023 and the projected growth for this sector is estimated at 2 per cent.

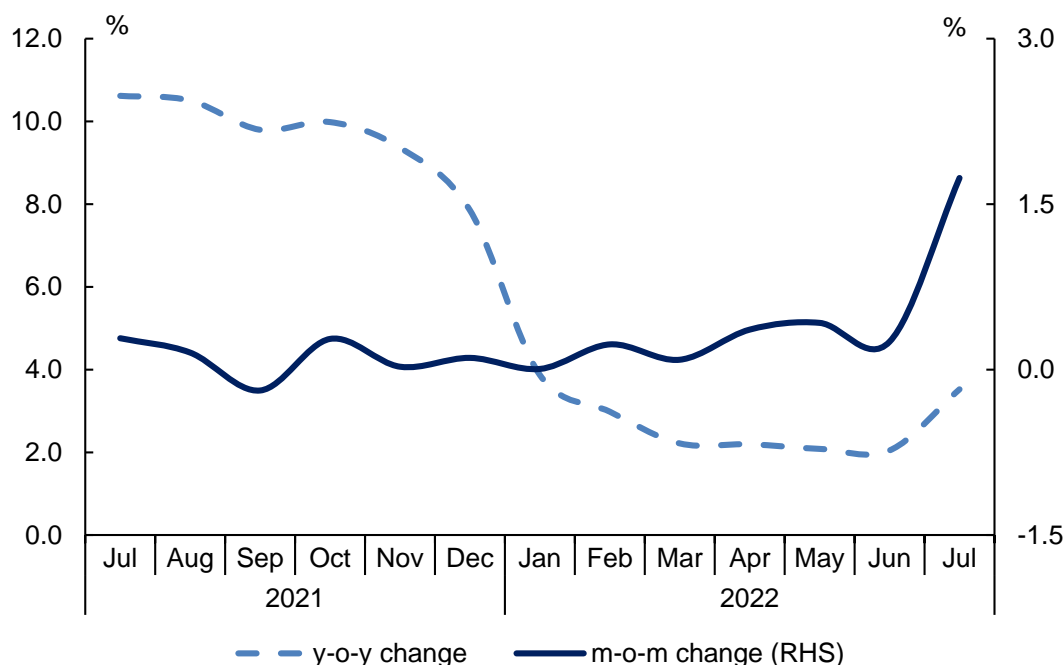
Monetary Sector

Inflation

The Consumer Price Index (CPI), as published by the National Bureau of Statistics (NBS), showed a moderation in inflation thus far in 2022 relative to 2021. Nonetheless, compared to the beginning of the year, there was an uptick in average prices of goods and services in July 2022. The year-on-year inflation rate in July 2022 stood at 3.5 per cent as compared to 7.9 per cent in December 2021. With reference to July 2021, the index for 'Fish' rose by 17 per cent. The average prices of the 'Non-Food Items' expanded by 3.8 per cent primarily on account of a 13 per cent rise in the housing, water, electricity & gas sub-category. The latter was attributed to increases in electricity tariffs as of January and July 2022. The index for 'Other Food' expanded by 0.7 per cent mainly as a result of a 19 per cent rise in the oils and fats sub-category. As for the 12-month average inflation rate, it stood at 5.4 per cent.

The inflation outlook for the rest of the year is expected to be contingent on the repercussions of the geopolitical tensions associated with the war between Russia and Ukraine as well as the movements in the domestic currency against its main trading partners. Externally, food prices are anticipated to remain elevated on account of supply shortages in edible oils and wheat as well as potential shocks in agricultural output due to tight conditions in the fertiliser markets. In a bid to offset declines in oil prices observed in July and August 2022, OPEC+ members may reduce oil supply as of September 2022. As such, international fuel prices are expected to remain elevated and hover around USD 100 per barrel in the upcoming months. The prices of domestic goods and services rose as a consequence of various external developments such as the higher cost of fuel, gas and food. For the rest of the year, although shipping constraints are expected to moderate, elevated international commodity prices and higher foreign inflation are anticipated to increase inflationary pressures.

Figure 3: Year-on-year and month-on-month change in the Consumer Price Index



Source: National Bureau of Statistics

The positive performance of the tourism industry since the beginning of 2022 led to an increase in foreign exchange inflows. As of the second quarter of the year, demand for foreign exchange rose at a faster rate compared to supply. This development was partially attributed to higher international commodity prices. As for

the value of the domestic currency, an appreciating trend was observed from January to July 2022. In the upcoming months, the supply of foreign exchange is expected to be sustained in line with the positive tourism sector outlook, whilst the demand for foreign exchange is anticipated to increase primarily as a result of higher international commodity prices. As such, if the demand for foreign exchange exceeds that of the supply, the domestic currency may weaken. Nevertheless, the dynamics in the foreign exchange market remains contingent on international developments and their implications on the domestic economy.

For the first three quarters of 2022, accommodative monetary policy conditions were maintained to support domestic economic activity in view of the abating effects of the pandemic. As customary, the Central Bank remains vigilant to both domestic and international developments and will adjust its policy stance should the need arise.

Interest Rates

The monetary policy stance remained accommodative for the first three quarters of 2022, a stance that was unchanged since the second quarter of 2020. In its December 2021 meeting, the Board decided to maintain the Monetary Policy Rate (MPR) for the first quarter of 2022. This was in view of supporting the domestic economy that had not yet fully recovered from the effects of the COVID-19 pandemic. Consequently, the MPR was kept at 2.0 per cent whilst the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) stood at 0.5 per cent and 3.5 per cent, respectively. At the March 2022 meeting, in spite of the pick-up in domestic economic activity since the beginning of the year, the stance remained unchanged given the emergence of downside risks to the economy which were heightened due to the implications of the war between Russia and Ukraine.

More recently, at its meeting in June 2022, the Board maintained the MPR at 2.0 per cent for the third quarter. This was primarily to continue supporting the domestic economy which was facing significant external challenges such as higher commodity and fuel prices, supply chain and shipping constraints, as well as elevated global inflation and tighter financial conditions. These factors were exacerbated by the conflict between Russia and Ukraine, as it negatively impacted global economic growth. In line with its strategy of unwinding the COVID-19 policy measures, the Board also approved for the Minimum Reserve Requirement (MRR) on rupee-denominated deposits to be increased from 10 per cent to 13 per cent effective July 13, 2022, while the MRR of 13 per cent on foreign currency deposits of residents remained unchanged.

In line with the accommodative stance, market interest rates have continued to decline. As at July 2022, the effective savings rate stood at 1.50 per cent, from a rate of 1.57 per cent in December 2021. As for the average lending rate, it rose by 1.9 basis points over the same period to stand at 9.04 per cent in July 2022. Although, in year-on-year terms, the average lending rate fell by 20 basis points.

With regards to the yield on Treasury bills, in July 2022, it stood at 0.94 per cent on the 91-day bills, 1.47 per cent on the 182-day bills and 2.17 per cent on the 365-day bills. In relation to the outcome for end-2021, this was an increase of 54 basis points and 90 basis points in the yield on the 91-day bills and 182-day bills, correspondingly, whereas on the 365-day bills, the return grew by 1.2 percentage points.

External Sector

External developments in 2022 have been largely driven by the adverse effects of the war between Russia and Ukraine, especially in international commodity markets. Whilst on the one hand food and oil prices have increased globally, on the other hand, shipping and transportation costs have moderated relative to 2021, albeit still at elevated levels when compared to pre-pandemic years. In regards to services, the renewed optimism for travel, despite the ongoing threat of contagious diseases, has led to strong visitor arrivals for the year thus far, supported by growth in the traditional source markets of France, Germany and Italy. This positive performance translated into a rise in tourism earnings, and is expected to contribute towards improved balance of payments projections for 2022 compared to 2021.

Imports

The aggregate value of imported goods is anticipated to be above the recorded level for 2021. This is mainly on account of higher international food and oil prices in 2022 compared to 2021, coupled with the rise in domestic demand for imports. The latter is in line with the increase in tourism activity as well as the pick-up in investment and capital projects for the year.

Exports

The total value of goods exported is projected to be higher than in the previous year. One of the main contributing factors is the forecasted increase in the value of oil re-exports, consistent with the higher price of oil internationally. The other major component of merchandise exports is canned tuna, although a reduction in both the export volume and value are being projected in 2022 relative to 2021 as a result of production constraints.

Services

Net export of services is expected to be higher in 2022 compared to 2021, predominantly on account of a projected growth in tourism earnings. Of note, a revised series of tourism earnings was incorporated in the balance of payments statistics for the first quarter of 2022, disseminated end-June 2022 with a backward revision to 2016. This followed a process that began in 2016 to devise a new estimation method that provides greater coverage of earnings from the tourism sector. The previous methodology for calculating tourism earnings was largely based on foreign exchange inflows into the domestic economy, primarily the amount converted into Seychelles rupees through commercial banks and bureaux de change. Given that this estimate did not include the proportion of foreign exchange kept overseas, it therefore underestimated total earnings generated by the sector. To address these shortcomings, the new methodology includes estimates of tourism revenue held abroad, and is calculated based on data for occupancy and room prices. In view of its broader coverage, revenue estimated through this new methodology reflects a higher level of tourism earnings compared to the previous method.

In regards to imports of services, its value is projected to be higher than in 2021 due to higher demand in line with the increase in economic activity in 2022. Nonetheless, the country's services account is projected to remain in surplus.

Capital and Financial Accounts

The capital and financial accounts provide insight into how a country's current account transactions are financed.

Capital transfers continue to be primarily bilateral and multilateral donations of capital equipment from partner countries. Although positive, its value is anticipated to be lower than in 2021 as it is related to ongoing projects, of which some are expected to be finalised by the end of 2022.

As has traditionally been the case, Foreign Direct Investment (FDI) and transactions under “other investments” remain the main financing sources of the current account. The uncertainty brought about by the COVID-19 pandemic over the last two years halted several FDI-related construction projects. Some have resumed or started in 2022, which will therefore lead to an increase in FDI inflows for the year.

External Reserves

The country's gross international reserves are expected to end the year at USD 624m, equivalent to 3.1 months of imports. This is a decline from the recorded level of USD 702m or 3.7 months of imports cover in 2021. The drawdown in external reserves is mostly to meet external debt obligations. As part of the agreement with the International Monetary Fund (IMF) under the Extended Fund Facility (EFF) as of July 2021, disbursements valued at USD 19m are expected in 2022, further to the sum of USD 34m received in the previous year.

Fiscal Outlook

For the fiscal year 2022, the Government recognizes the strong rebound in the economy since the pandemic and remains committed towards the fiscal effort required to return to pre-COVID levels. Compared to the initial Budget, the primary deficit has been revised from -0.8 to -0.9 per cent of GDP, amounting to a SR 256m deficit in level terms (Table 2 below). Measures undertaken in 2021 improved the fiscal position and as a result, debt sustainability has improved substantially with the debt to GDP ratio expected to reach 50 per cent by 2026.

The administration remains committed towards healthier fiscal policies and structural reforms with the continuous support of the International Monetary Fund via the agreed 'Extended Fund Facility' (EEF) arrangement approved in July 2021.

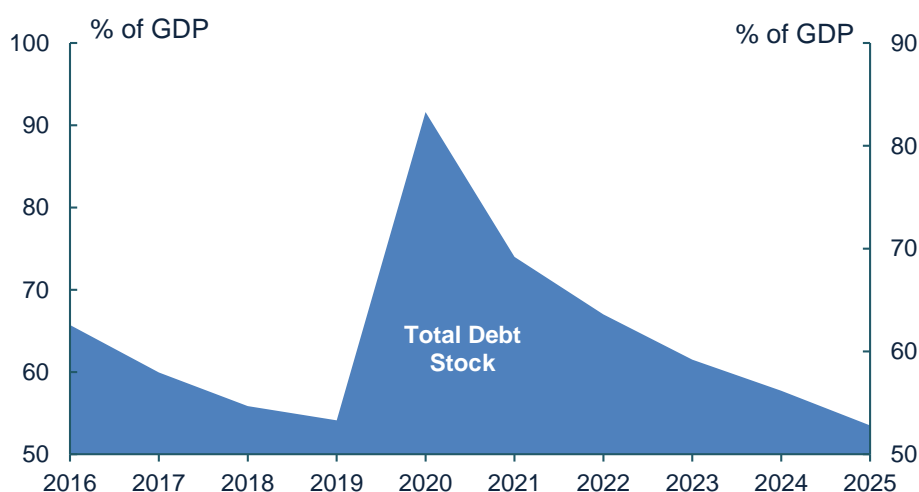
For the mid-year Budget 2022 revision, total Government revenue is estimated at SR 9.3bn, SR 412m less than the initial Budget. Despite the more favourable macroeconomic assumptions for 2022 (driven largely by faster tourism recovery – see 'Economic Outlook' section), several tax lines fell short of the Budget estimates on a year-to-date basis, resulting in a downward revision in the overall tax envelope for the year by about SR 20m. The forecast was reduced further by about SR 576m in line with the shortfall in Grants as at end of June 2022. Non-tax on the other hand, has been revised upwards by about SR 184m, offsetting some of the reductions.. On the expenditure side, primary expenditure now stands at 8.4bn, an upward revision of SR 351m in comparison to the initial Budget estimate. This is mainly attributed to a surge in 'Goods and services' and 'Transfers to Public Enterprises' by about SR 414m in aggregate. 'Capital expenditure' has been significantly reduced to account for the under-execution of capital projects year-to-date.

Table 2: Revised Government Revenue and Expenditure (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Revenue & Grants	8,367,735	9,705,264	9,293,248	10,782,196
Primary Expenditure	7,756,777	8,071,248	8,422,472	8,122,487
PRIMARY BALANCE:	-728,367	-232,146	-256,411	636,027
% of GDP:	-3.0	-0.8	-0.9	2.0

Source: Ministry of Finance estimates

Figure 4: Total Debt to GDP



Source: Ministry of Finance, Debt Office estimates

Revenue & Grants

Total revenue and grants has been revised downwards by about SR 412m or 4 per cent. This is mainly attributed to a reduction in the estimated Grant income by about SR 576m or 74 per cent. Tax revenue was also revised downwards by about SR 20m or 0.3 per cent, mainly due to downward adjustments in some tax lines to account for the persistent under-performance year-to-date.

Partly compensating for these downward revisions is the increased dividend income by about SR 167m.

The table below depicts the breakdown of the total Budget envelope for the year 2022 with a preliminary estimate for 2023.

Table 3: Revised Government Revenue (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Tax Revenue	6,721,133	7,863,234	7,843,141	9,096,982
Non-Tax Revenue	945,392	1,059,905	1,244,231	1,074,310
Grants	700,210	782,126	205,876	585,987
TOTAL: REVENUE & GRANTS	8,366,735	9,705,265	9,293,248	10,757,279
% of GDP:	33.4	34.9	33.1	36.1

Source: Ministry of Finance estimates

Tax Revenue

Tax revenue has been revised downwards by about SR 20m for this mid-year Budget 2022 revision. Total receipts are now estimated at SR 7.84bn, representing a 0.26 per cent reduction from the initial Budget estimate of SR 7.86bn.

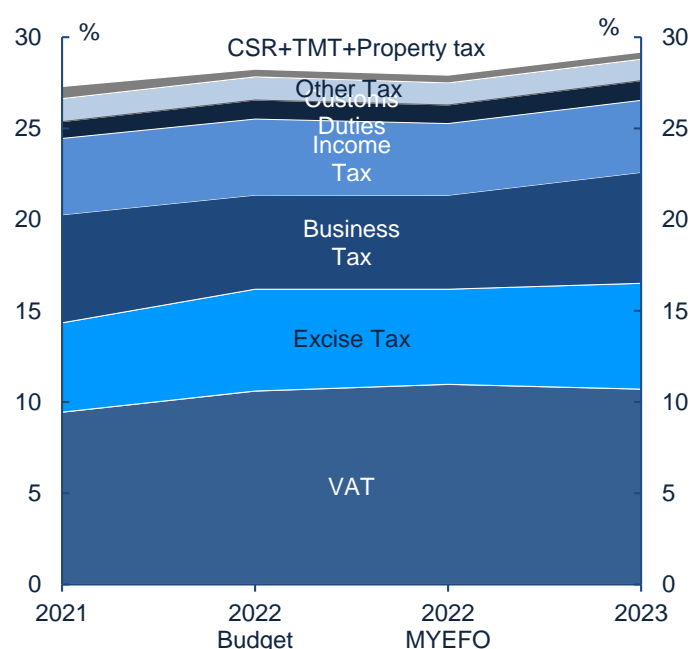
Table 4: Breakdown of Medium Term Tax Revenue (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Income Tax	1,030,128	1,161,867	1,104,150	1,231,207
Social Security Tax Arrears	13	0	0	0
Custom Duties	226,087	289,070	285,095	337,532
Excise Tax	1,206,606	1,553,436	1,462,564	1,807,634
GST (Goods and Services)	2,358	0	600	0
Value Added Tax	2,323,636	2,951,040	3,081,388	3,337,952
Business Tax	1,457,302	1,436,933	1,446,617	1,897,356
Corporate Social Responsibility Tax	61,010	0	7,108	0
Tourism Marketing Tax	59,714	68,142	68,136	75,881
Other Tax	309,903	352,747	337,483	353,322
Property Tax	44,676	50,000	50,000	50,000
TOTAL: TAX REVENUE	6,721,432	7,863,234	7,843,141	9,090,884
% of GDP:	27.3	28.2	27.9	29.2

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates.

While the overall level of tax collections has been positive in the first 7 months of 2022, when compared to 2021, downward adjustments have been made to account for continued under-performances vis-a-vis the Budget in several lines. Income tax has been lowered by SR 57m or 5 per cent driven mainly by lower-than-expected performances in the 'Central Government' and 'Other Public sectors' lines. Delays in recruitment and the public sector wage freeze are primary contributing factors to this. Excise tax has been lowered by SR 91m or 5.8 per cent given shortfalls in petroleum excise and locally manufactured tobacco where high recovery assumptions have not been met. Given the strong performance of tourism arrivals up to July 2022, VAT receipts have been buoyant resulting in a SR 130m increase in the estimate for this tax, which has compensated for most of the downward revisions.

Figure 5: Tax Revenue to GDP



Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates

Income Tax

Background

Income tax is a withholding-based tax on wage income for nationals and resident expatriates. Also levied on Non-Monetary employee benefits, this tax was introduced on the 1st of July 2010 and replaced the previous Social Security Contribution system. As of the 1st of June 2018, the current Income tax regime was replaced by a progressive system with different rates applicable at different income brackets.

2022 Context and 2023 Projections

Income tax has been revised downwards by SR 57m, or 5 per cent, for the mid-year 2022 Budget revision. Total receipts from this tax are now estimated to reach SR 1.1bn by the end of 2022. These revisions are driven by the 'Central Government' line which is accounting for about $\frac{3}{5}$ of the total.

Table 5: Medium Term Income Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Central Government	256,479	290,870	256,569	288,978
Other Public Sector	93,543	110,555	94,031	105,909
Private Sector	680,107	760,442	753,550	836,321
TOTAL: INCOME TAX	1,030,129	1,161,867	1,104,150	1,231,207
% of GDP:	4.2	4.2	3.9	4.0

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimate

While the end of year 2021 outturn for Income tax was better than expected by about SR 33m, expectations of continued fast recovery in wages for 2022, in line with economic growth, were not realised – as evidenced by the year-to-date monthly collection levels falling below Budget estimates.

It must be noted, however, that the overall level of receipts has increased over the first 7 months of 2022 when compared to the same period in 2021 by about -6 per cent, but not as fast as was forecasted. The only line where this is not the case is the 'Central Government', where collections are about SR 5m lower than the same period in 2021. As a result of significant delays in recruitment, as well as the overall freeze in public wages (inclusive of periodic gratuities etc.), Income tax from the 'Central Government' is not expected to show any growth in 2022 and has been kept flat – revised downwards by 34m, or 12 per cent in comparison to the Budget. Additionally, 'Other Public sectors' line has been reduced by about SR 17m on account of persistent under-performances, showing no signs of recovery or the reversal of its downward trend since 2020. On the other hand, the 'Private sectors' line has tracked much closer to the Budget on a year-to-date basis with only a slight downward adjustment needed given certain timing issues.

Custom Duties

Background

Custom Duties are levied on specified goods that are imported to Seychelles based on their CIF (Cost, Insurance and Freight) value. However, approximately 90 per cent of the tariff lines are subject to a zero per cent rate. The applicable tax rate depends on the nature of the Custom duty component,

whether it is specific or ad valorem. Tax collections on ad valorem rate items tend to grow in tandem with the nominal GDP whereas, tax collections on specific rate items grow in tandem with real GDP only. Following WTO policies and regulations, certain Custom Duty rates have been significantly reduced and others, such as petroleum, motor vehicles and levy, have been or are expected to be transferred out of Custom Duties.

2022 Context and 2023 Projections

Custom Duties has been revised downwards by about SR 4m, or 1.4 per cent when compared to initial Budget. The main downward revision is attributed to a windfall accounting for continuous under-performance in 'Levy' of about SR 9.6m. The forecast was further adjusted downwards by about SR 6m to factor in the weak end of year 2021 collections which resulted in a lower base.

The total tax collection for Custom duties for the period January to July 2022 amounted to about SR 161m, representing a 40 per cent increase when compared to the same period last year. This can be attributed to stronger imports this year in comparison to last year where there was a closure of borders and import restrictions in the first quarter.

Custom duties collections have been on a declining trend since 2018 and is expected to pick up in 2023. This is based on the assumption that import continues to increase in line with the expected recovery in tourism-related activities. The total tax collection under the tax line is forecasted at SR 338m or 1.1 per cent of GDP for the year 2023.

Table 6: Medium Term Customs Duties (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Custom Duties Direct Imports	229,294	294,070	290,095	342,532
Alcohol	68,645	92,768	98,364	124,782
Textiles and textile articles	7,384	9,054	7,130	7,914
Tobacco	2,448	3,520	5,097	5,387
Prepared Food	11,704	14,096	13,355	14,822
Others	91,619	94,110	103,140	114,469
Levy	15,262	49,995	30,798	40,931
Documentary Charges	3,101	3,735	3,538	3,926
Livestock Trust Fund	29,132	26,791	28,673	30,301
Custom Duties Exemptions	(3,207)	(5,000)	(5,000)	(5,000)
TOTAL: CUSTOM DUTIES	226,088	289,070	285,095	337,532
% of GDP:	0.9	1.0	1.0	1.1

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates

Excise Tax

Background

Excise tax is applied to specific imported and locally manufactured goods in order to control consumption due to health or environmental implications. The former reason applies to alcohol, tobacco

and sugar while the latter applies to petroleum and motor vehicles. Excise tax on all goods, other than motor vehicles, is specific.

Imported petroleum products account for the highest contribution to the Excise tax as a whole. The demand for excisable goods generally show a minimal response to price fluctuations since the demand for most goods being taxed, in particular tobacco, are relatively price inelastic. Hence, this tax line proves to be a significant revenue earner for the Government.

2022 Context and 2023 Projections

Compared to the initial Budget, Excise tax has been revised downwards by about SR 91m, or 5.8 per cent. The forecast was hinged on more favourable growth assumptions coupled with a revision in the recovery assumption for imported motor vehicle. However, this was fully offset by a lower 2021 base and poor year-to-date performances. Downward revisions were made in line with the poor year-to-date collections in 'Petroleum' and 'Locally-manufactured tobacco' by about SR 57m aggregate coupled with some informed revisions made to the recovery assumptions for both imported and locally manufactured alcohol. As a result, the forecast was reduced by another SR 34m.

It must be noted that despite the added optimism in the forecasts which have not materialized, excise collections are positive where up to July 2022 amounted to about SR 807m, representing a SR 156m or 24 per cent increase when compared to the same period in 2021. The strong performance this year stems largely from an increase in imports as afore-mentioned in Custom duties as well as the faster than anticipated recovery in tourism-related activities year-to-date.

Excise tax revenue has increased by about 1.4 per cent on average for the last five years and is expected to surpass the 2019 level by the end of 2022, representing about 5.2 per cent of GDP.

Table 7: Medium Term Excise Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Excise-Imports	800,194	1,019,241	1,004,750	1,302,810
Alcohol	188,771	241,252	244,237	320,505
Petroleum	575,095	729,838	667,698	815,493
Motor Vehicles	32,534	42,293	88,277	161,809
Tobacco	3,795	5,858	4,537	5,003
Excise-Locally Manuf. Goods	365,292	478,800	406,777	448,545
Alcohol	168,733	215,237	197,656	217,952
Tobacco	196,559	263,562	209,120	230,593
Sugar Tax	41,120	55,395	51,039	56,279
Imported Beverages	19,146	25,909	24,765	27,308
LMG - Beverages	21,974	29,486	26,273	28,971
TOTAL: EXCISE TAX	1,206,607	1,553,436	1,462,565	1,807,634
% of GDP:	4.9	5.6	5.2	5.8

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates.

Total Excise tax collections for the year 2023 is estimated at SR 1.8m or 5.8 per cent of GDP. This represents a 24 per cent increase in revenue collections under this tax line.

Value Added Tax

Background

VAT is charged on all taxable imports but not on exports, also known as the 'destination principle'. VAT is imposed on the value added of all taxable products that are produced and consumed domestically provided by VAT registered companies. Compulsory registrations are for businesses with an annual turnover exceeding SR 2m, and all the registered businesses can also claim VAT credit and refund. Currently, a 15 per cent flat rate is applied on all taxable goods and services. VAT collections tends to grow in tandem with Nominal GDP and it accounts to approximately 39 per cent of the total tax revenue collections, making it the single largest tax line.

2022 Context and 2023 Projections

In comparison to the Budget, VAT has been revised upwards by SR 130m, or 4 per cent. The upward revision is mainly attributed to the Domestic VAT receipts as a result of a higher base following a more favourable 2021 outturn than expected. The base was revised upwards by SR 38m, driven mainly by the pick-up in Tourism sector activities. Additional upward revision has been made to Domestic VAT to account for higher than anticipated collection in 2022 - by the end of July 2022, Domestic VAT was over the Budget by SR 97m or 10 per cent. Across the lines, VAT tourism recorded the most significant over-performance by SR 102m or 23 per cent by the end of July 2022, this is mainly attributed to the surge in arrivals to date surpassing what was recorded for the whole of 2021 by 11 per cent. Other significant increases were observed in VAT real estate and LMG-alcohol by SR 15m or 40 per cent and SR 3m or 5 per cent respectively.

The upward revision has however been moderated by a downward revision on the Import side following a lower base, there are fluctuations in the collections to date, MFAB will continue monitoring the performance closely and adjust accordingly. Other under-performances were recorded in VAT financial and insurance activities by SR 15m, followed by ICT and telecommunications by SR 5m, Construction and LMG-tobacco by SR 9m and SR 7m respectively.

Table 8: Medium Term Value Added Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
VAT- Domestic	1,430,464	1,791,187	1,985,792	2,079,735
LMG- Alcohol	81,539	107,021	106,783	114,069
LMG- Tobacco	38,548	49,741	41,548	47,774
Construction	95,663	109,062	103,989	128,359
Services - Tourism	601,521	815,167	982,879	958,823
Services - Financial and Insurance activities	87,658	95,910	99,780	114,171
Services - ICT and Telecommunication	131,556	164,602	155,320	192,587
Real Estate	48,861	63,906	76,493	65,561
Wholesale Retail - Others	170,964	191,751	200,900	224,713
Others	174,154	194,028	218,100	233,677
VAT- Imported	893,172	1,164,853	1,098,096	1,260,717
VAT-Exemptions	0	(5,000)	(2,500)	2,500
TOTAL: VALUE ADDED TAX	2,323,636	2,951,040	3,081,388	3,337,952
% of GDP:	10.7	10.6	11.0	10.7

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates

Compared to the first half of 2021, VAT collections for the same period of 2022 reflects a growth of 45 per cent. For the year 2022, the total tax revenue forecasted for VAT is about SR 3.1bn, representing about 11 per cent of GDP.

For 2023, VAT collections is expected to reach 2019 levels of about SR 3.3bn, representing about 10.7 per cent of GDP.

Business Tax

Background

The Business tax revenue consists of provisional payments (called Pay As You Go – PAYG) paid by businesses in monthly instalments for the current year. Additionally, the businesses are assessed on their profit of the previous year, which they are required to lodge by March. Based on this assessment, the company either has an additional tax liability (PAYG paid is less than actual tax payable) or is 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.

2022 Context and 2023 Projections

Business tax was revised upwards by about SR 9.7m or 0.7 per cent when compared to the initial 2022 Budget figures. The majority of this positive revision was due to higher expectations following a more positive 2021 end-of-year outturn for Business tax collections, particularly from the 'Sole traders' and 'Withholding tax' lines, leading to a net increase of SR 24m compared to the initial Budget base. In addition, estimates of general business performance during 2021 are higher than previously anticipated as nominal GDP assumptions were revised upwards by 0.6 percentage points, further increasing projections by SR 14.3m.

From a year-to-date perspective, collections total to SR 755m, about SR 87m or 10 per cent short of initial 2022 Budget projections, mainly stemming from the 'Companies' line. This may be a result of many businesses requesting extensions to settle their business tax liability over the course of July to October. Considering the year-to-date collection figures and trends, a negative windfall of SR 28.5m was included in the revised figure. Business tax is expected to remain at 5.15 per cent of GDP in 2022 and 6.09 per cent of GDP in 2023.

Table 9: Medium Term Business Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Companies	1,205,668	1,244,149	1,197,007	1,593,392
Sole Traders	85,224	59,839	89,164	122,242
Partnerships	23,717	26,984	27,596	33,372
Trusts	4,716	7,311,372	5,487,384	5,807,519
Withholding Tax	122,426	82,467	109,259	122,008
Others	0	11,384,58	8	8,933,444
Residential Dwelling	20,262	23,475	23,577	26,328
TOTAL: BUSINESS TAX	1,457,302	1,436,933	1,446,617	1,897,356
% of GDP:	5.9	5.2	5.2	6.1

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates.

Corporate Social Responsibility Tax

Background

Corporate Social Responsibility tax (CSR) was introduced in January 2013, and has recently been abolished in April 2021. It was applicable to all businesses with a turnover of SR 1m and over, and was levied on monthly company turnover at a 0.5 per cent rate. Half of this tax could be offset against any donations or sponsorships a company chose to make. CSR was established to encourage compliance with ethical and regulatory standards, as well as promote accountability for businesses' actions.

2022 Context and 2023 Projections

The mid-year estimate for CSR stands at SR 7m. By the end of July 2022, about SR 5m was collected as a result of arrears being settled up until this date following the April 2021 abolition of the tax. For 2023, no collections have been estimated as it is expected that most, if not all businesses will settle their arrears in 2022.

Table 10: Medium Term breakdown of Corporate Social Responsibility Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Corporate Social Responsibility Tax (CSR)	61,010	0	7,108	0
TOTAL: CSR	61,010	0	7,108	0
% of GDP:	0.2	0.0	0.03	0.0

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates.

Tourism Marketing Tax

Background

Tourism Marketing tax (TMT) was introduced in January 2013 and is applicable to all tourism operators, banks, insurance, and telecom companies with turnovers of SR 1m and above. It is a 0.5 per cent tax levied on company turnover with the aim of having greater private sector contribution to the Tourism Marketing Fund.

2022 Context and 2023 Projections

TMT was revised downwards by SR 0.005m or 0.01 per cent which is about 0.24 per cent of GDP. As at the end of July 2022, a total of SR 45m was recorded in TMT collections, representing an over-performance of about 31 per cent compared to the Budget. This tax line is anticipated to increase in collections to reach about SR 68m for the year 2022 given the pick-up in tourism activities and the improved performance by the business in the tourism industry that contribute towards TMT.

For the year 2023, TMT collections is estimated at about SR 76m in view that tourism activities are expected to reach 2019 levels.

Table 11: Medium Term breakdown of Tourism Marketing Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Tourism Marketing Tax (TMT)	59,714	68,142	68,136	75,621
TOTAL: TMT	59,714	68,142	68,136	75,621
% of GDP:	0.2	0.3	0.2	0.2

Source: Ministry of Finance and 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 are 'Road Tax', 'Telecommunications Licences', and 'Stamp Duty'. These three components account for approximately 91 per cent of the Other Tax Revenue.

2022 Context and 2023 Projections

Other tax has been revised by downwards by SR 15.3m, or 4.3 per cent in comparison to the initial Budget. This was largely a result of reduced expectations following a lower 2021 end-of-year outturn of 'Other tax' collections, particular the 'Telecommunication Licences' and 'Stamp duty' lines, leading to a net decrease of SR 13.7m. This was partially offset with the revised GDP assumptions by about SR 7m.

Table 12: Medium Term breakdown of Other Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
OT- Ministry of Finance				
Trade/Ind Licences	10,768	11,430	11,933	12,143
Licences and Other Licence Registration	3,652	4,501	4,047	4,118
Road Tax and Other Licences	115,918	124,462	128,462	130,723
Telecommunications Licences	60,071	71,880	78,303	70,733
Hotel Licences	344.38	104.7217	381.6443	388.3614
Liquor and Toddy Licences	251	340	277.9605	282.8527
Radio Broadcasting Licences	928.61	1750.9	1,660	929
SUB TOTAL	191,933	214,468	225,064	219,317
OT- MoENRT				
Environment Trust Fund	6,637	5,326	7,355	7,484
OT- Department of Legal Affairs				
Stamp Duty	102,701	123,131	95,499	116,786
OT-Department of Transport				
Vehicle Testing	8,631	9,821	9,565	9,733
TOTAL: TAX REVENUE	309,902	352,747	337,483	353,322
% of GDP:	1.3	1.3	1.2	1.1

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates.

As of July 2022, 'Telecommunication Licences' has over-performed by about SR 15.3m or 47 per cent, mainly due to volatility in the timing of payment of licences by related companies. 'Stamp duty' is the main under-performer at SR 26.7m or 42 per cent short of the Budget forecast. Stamp duty payments do not follow any specific trend and as such can be hard to profile reliably. Considering the low year-to-date collections, particularly in the 'Stamp duty' line, a windfall of SR 8.5m was included in the revised figures.

Other tax is expected to remain at 1.2 per cent of GDP in 2022 and 1.1 per cent of GDP in 2023.

Property Tax

Background

Property Tax came into effect in January 2020, and is applicable to non-Seychellois owners of immovable property for residential purpose. The tax rate is 0.25% of the market value of the property.

2022 Context and 2023 Projections

The Budget estimate for Property tax remains at SR 50m for this mid-year Budget 2021. This is a new tax line and as such is treated with caution at this stage. Year-to-date collections amount to about SR 9.5m, 65 per cent of which was collected over the first quarter.

Over 2021, 795 Property tax payments were made to SRC, 225 of which were applicable to 2021.

Property tax is expected to remain at SR 50m or 0.16 per cent of GDP in 2022.

Table 13: Medium Term breakdown of Property Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO	2023
Property Tax	44,676	50,000	50,000	50,000
TOTAL: PROPERTY TAX	44,676	50,000	50,000	50,000
% of GDP:	0.2	0.2	0.2	0.2

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates.

Non-Tax Revenue & Grants

2022 Context and 2023 Projections

The total non-tax revenue collected during the first half of the year summed up to SR 620m. This was against a budgeted amount of SR 364m. The same period last year recorded a total of SR 284m. Non-tax revenue has been revised upwards at mid-year by SR 184.3m, equivalent to a 17 per cent upward revision.

Table 14: Non-Tax revenue and grants (SR'000s)

DESCRIPTION	2021 Actual	2022 Budget	2022 MYEFO
Non-Tax Revenue	945,392	1,059,905	1,244,231
Fees and Charges	366,402	324,812	346,808
Dividends Income	441,113	590,275	757,263
Other Non-Tax	65,948	60,635	53,744
Proceeds from Sale of Assets	71,929	84,183	86,415
Grants	700,210	782,126	205,876
TOTAL: NON TAX REVENUE	1,645,602	1,842,031	1,450,106
% of GDP:	6.7	6.6	5.2

Source: Ministry of Finance- Financial Planning and Control Division estimates

Fees and Charges

For the first half of the year, the total revenue collected within Fees and Charges category summed up to SR 189m compared to a Budget of SR 159m. This represents an over performance of fees and charges of SR 30m when compared to its Budget, an improved collection of SR 35m compared to same period of 2021.

Table 15: Fees and Charges (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO
First half of the year	154,433	159,144	188,793
Second half of the year	211,969	165,668	158,015
TOTAL: FEES AND CHARGES	366,402	324,812	346,808
% of GDP:	1.5	1.2	1.2

Source: Ministry of Finance- Financial Planning and Control Division estimates

The main revenue lines contributing towards the over performance are Immigration fees SR 25m and Criminal Fees & Fines SR 3.9m.

Fees and charges has been revised upwards by SR 22m to cater for the over-performance under immigration fees mainly.

Dividend Income

The first half of the year recorded an actual of SR 367m in Dividend Income compared against a Budget of SR 133m. The same period last year recorded actuals of SR 57m. The table below shows the dividend income performance for the first six months.

Table 16: Dividend Income for the first half of 2022 (SR'000s)

DESCRIPTION	Budget	Actual
SIMBC	50,000	262,200
Financial Services Authority	57,166	19,426
Ile Du Port Handling Services	5,300	15,870
IOT	10,200	23,826
SCAA	5,000	-
Land Marine Ltd	4,500	-
Afrexim Bank	375	-
Island Development Company	-	5,000
Seychelles Commercial Bank	500	-
Seychelles Cable System Company	-	40,621
SIMBC	50,000	262,200
Financial Services Authority	57,166	19,426
Ile Du Port Handling Services	5,300	15,870
TOTAL: DIVIDEND INCOME	133,041	366,943

Source: Ministry of Finance- Financial Planning and Control Division estimates

Dividend Income has been revised upwards by SR 167m. This primarily linked to increased dividend from Nouvobanq and the dividend from Seychelles Cable System Company.

Other Non-Tax

Other Non-Tax actuals summed up to SR 14m, compared to a forecast of SR 30m for the first half of the year. This represents an under-performance of SR 16m.

Table 17: Other Non-Tax (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO
First half of the year	36,652	30,080	13,850
Second half of the year	29,296	30,555	39,895
TOTAL: OTHER NON-TAX	65,948	60,635	53,744
% of GDP:	0.3	0.2	0.2

Source: Ministry of Finance- Financial Planning and Control Division estimates

The main contributor towards the underperformance within this category was under the interest income SR 10m and Royalties from Land Marine SR 6.4m. Other tax has been revised downward by SR 6.9m.

Proceeds from Sales of Assets

Total revenue from proceeds from sales of assets amounted to SR 50m in comparison to a Budget of SR 42m for the first half of the year. This represents an over-performance of SR 9m or 21 per cent. The main driver of the over-performance is long term Lease of land and buildings due to enforcement mechanism on payment schedule established by Industrial Estate Authority.

Grants

Table 18: Grants Receipts for 2022 (SR'000s)

DESCRIPTION	2021 Actuals	2022 Budget	2022 MYEFO
Cash Grant	136,565	252,329	146,674
Benefits in Kind	563,646	529,796	59,202
Capital	403,996	415,157	-
Recurrent	159,650	114,639	59,202
Program Grant/Budget Support	-	-	-
TOTAL: GRANT RECEIPTS	700,210	782,126	205,876
% of GDP:	2.8	2.8	0.7

Source: Ministry of Finance- Financial Planning and Control Division estimates

Cash Grant

For 2022, cash grant has been revised downward by 42 per cent. This is mainly due to delay in the implementation of projects funded under the India small development grants.

Grants in kind

Grants in kind has also recorded a downward revision. The budgeted figure has been revised downward by 89 per cent. This is due to delay in implementation of the Invoice Management System, construction of Drug Rehabilitation & Youth Hope Centre, construction of the Police Head Quarter, the construction of the Attorney General Chamber, Government House project. In addition, there is a delay with the construction of the Seychelles Broadcasting Corporation House which completion has been postponed to 2023.

Expenditure

Scope

This section is dedicated towards reviewing expenditure incurred by Central Government and Budget dependent entities. It does not include the cost of financing, net lending and Contingency fund.

Overview

Current expenditure summed up to SR 3,498 m for the first six months. The main spending components within the Primary Expenditure relate to Wages & Salaries (39 per cent), Goods & Services (36 per cent) and Benefits and Approved Programmes of ASP (19 per cent). The total primary expenditure has been revised upwards from SR 8,071m to SR 8,422m. This increase has been necessary to cater for shortfalls within key Budget categories.

Table 19: Primary Expenditure (SR'000s)

PRIMARY EXPENDITURE	2021	2022 Budget	2022 MYEFO
Wages and Salaries	2,760,254	3,092,118	3,009,110
Goods and Services	2,826,845	3,034,602	3,325,592
Social Programme of Government	468,336	303,381	317,360
Transfers to Public Enterprise	240,111	149,026	272,780
Benefits and Approved programmes of ASP	1,414,913	1,444,865	1,444,865
Other	46,318	47,255	52,765
TOTAL: PRIMARY EXPENDITURE	7,756,777	8,071,248	8,422,472
% of GDP:	31.5	29.0	30.0

Source: Ministry of Finance- Financial Planning and Control Division estimates

Current Expenditure

The first half of the year recorded a current expenditure of SR 2,621m against a Budget of SR 3,123m. This has resulted in an overall surplus of SR 501m. The current expenditure has been revised upwards by SR 208m to incorporate the additional requirements forecasted for the second half of the year.

Table 20: Current Expenditure (SR'000s)

DESCRIPTION	2021	2022 Budget	2022 MYEFO
Wages and Salaries	2,760,254	3,092,118	3,009,110
Goods and Services	2,826,845	3,034,602	3,325,592
TOTAL: CURRENT EXPENDITURE	5,587,099	6,126,721	6,334,702
% of GDP:	22.7	22.0	22.6

Source: Ministry of Finance- Financial Planning and Control Division estimates

2022 Context

The 2022 Budget is to be revised upwards from SR 6,127m to SR 6,335m. The Goods & services Budget has contributed the most towards this increase. This was required to cater for short falls under some MDAs. Whilst under Wages and Salaries several Budget cuts are being proposed as there has been delays in recruitment.

Wages and Salaries

The actual expenditure recorded for the first six months summed up to SR 1.37bn. This is opposed to a Budget of SR 1.53bn, resulting in a positive variance of SR 158m, or 10 per cent. The positive variance is largely as a result of the delays in recruitments resulting from several factors, notably the lengthy and slow recruitment process but mainly due to the lack of supply in the labour market. Some MDA's also experienced staff turnover, whereby it takes several months before a replacement can be identified. For the second six months the same trend in the filling up of vacancies is expected and as such funds allocated towards vacancies for some MDA's have been considered for Budget cuts.

MDAs with the largest saving under wages and salaries for the first six months are mainly;

- Ministry of Education at SR38.3m;
- Health Care Agency at SR 23.4m;
- Seychelles Revenue Commission at SR 12.9m;
- Ministry of Finance National Planning & Trade at SR 8.7m;
- Department of Legal Affairs at SR 5.2m;
- Public Health Authority at SR 5.1m;
- Department of Defence at SR 4.7m;
- Seychelles Infrastructure Agency at SR 4.5m.

Despite pressure from MDA's to provide more funding for recruitment, we have observed that MDA's are not able to recruit. Savings identified within the Wages & Salaries Budget have been re-allocated to areas of priority.

The Wages and Salaries Budget has been revised downwards by SR 83m, from SR 3.09bn to SR 3bn.

Goods and Services

A Budget of SR 1.59bn was allocated towards Goods and Services for the first half of the year. The actual expenditure for the same period was recorded at SR 1.25bn resulting in a savings of SR 343m or 22 per cent. The spending within this category often picks up during the second half of the year where savings are used up.

The following four MDAs were the main contributors to the savings under Goods and Services and in total, it made up to 60 per cent of the savings recorded under total Goods and Services:

- Ministry of Foreign Affairs and Tourism at SR 59.7m;
- Ministry of Education at SR 43.8m;
- Agency for National Human Resource Development at SR 32.6m
- Health Care Agency at SR 69.4m.

In contrast to the above the following MDAs recorded negative variance for the first six months of 2022.

- The Anti-Corruption Commission at SR 27.4m;
- Ministry of Agriculture, Climate change and Environment at SR 9.4m: This was under Department of Agriculture in relation to the subsidy payment.
- SLTA at SR 5.4m: Deficit mainly under road maintenance and virement and early release was done in order to effect payment.

The goods and services Budget has been increased upwards by SR 290.9m to cater for the additional requirement from MDA's.

Transfers to Social Programs of Central Government

A Budget of SR 138.5m was allocated towards the Social Programs of Central Government. The actual spending was SR 97.5m, resulting in a savings of SR 40.96m or 30 per cent. Most of the line items under this group reported a savings for the first half. A large portion of this savings was under special pension vote which recorded a saving of SR 16.5m representing 40 per cent of total savings under this category. There was no spending under several Schemes and Trust Fund for the first six months, these includes;

- SME Seed Capital
- ADF Scheme
- Innovation Trust Fund

- Sport Trust Fund
- Seychelles Heritage Scheme
- Women Trust Fund
- Housing Finance Scheme.

Benefits and Approved Programs of SSF

An amount of SR 677.9 m was recorded as actual under benefits and approved programmes of ASP in comparison to the Budget of SR 735.7m. This resulted in a variance of SR 57.8m or 8 per cent. This represent a reduction of SR 30m compared to the same period in 2021.

Significant savings were recorded under social safety net, 2022 actual reached only SR 2.5m compared to SR 18.6m which was recorded both in 2021 for the same period, this represents a 649 per cent reduction. However, there has been significant improvement of 242 per cent compared to the Q1 actual. In addition, a lower spending of 10 per cent was recorded under Home Carer scheme compared to the same period in 2021.

Capital Expenditure

Table 21: Capital Expenditure (SR'000s)

DESCRIPTION	2021 Actual	2022 Budget	2022 MYEFO
Total Capital Expenditure	1,123,838	1,526,694	828,176
Government	355,496	433,466	548,381
Foreign Grant	686,802	311,102	73,835
Foreign Loan	81,540	782,126	205,960
Development Grants	102,111	169,133	158,494
Net Lending	41,412	120,336	90,517

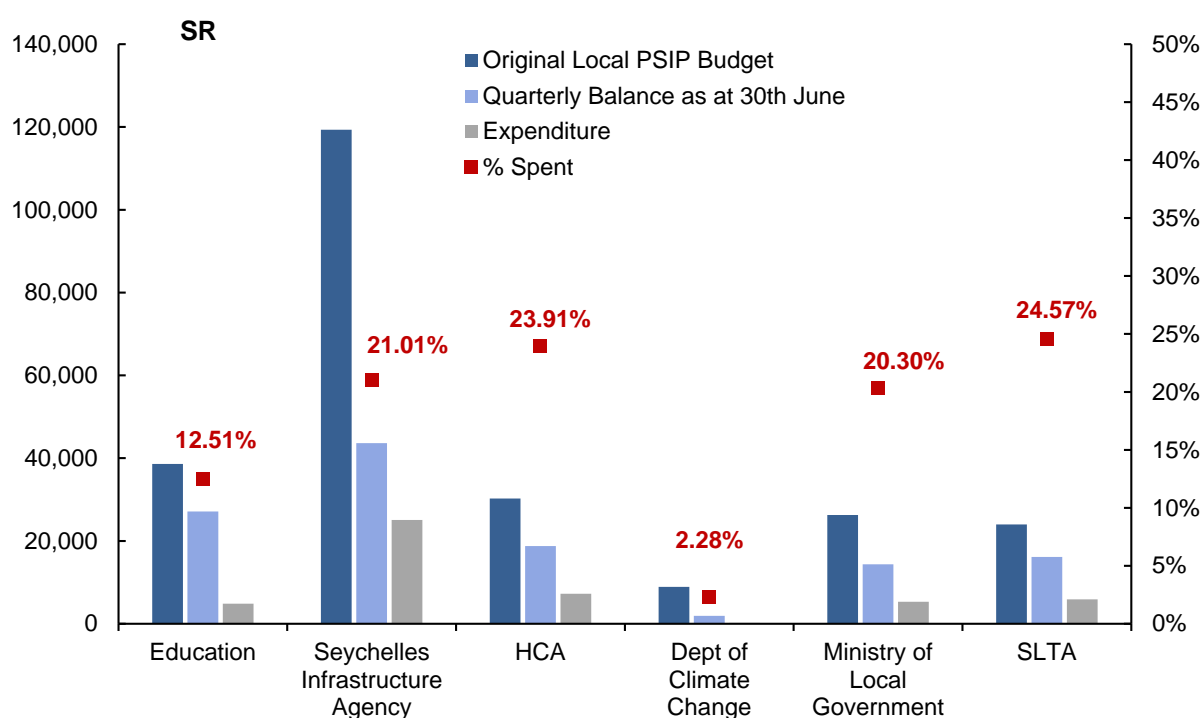
Source: Ministry of Finance- Financial Planning and Control Division estimates

Domestic Financing

A total amount of SR 433.46m was made available for PSIP projects under local Budget for the year 2022. From this, a total of SR 60.69m has been spent representing percentage spending of 14 per cent. This compares to spending of SR 99.75m out of a total Budget of SR 490.58m representing a percentage expenditure of 20.33 per cent for the same period in 2021.

Below are the execution rate for the year 2022 as at end of June 2022 for MDAs accounting for the highest shares of the Government's capital Budget: Health Care Agency – 23.91 per cent, Department of Education – 12.51 per cent, Seychelles Infrastructure Agency – 21.01 per cent, Seychelles Land Transport Agency – 24.57 per cent, Department of Local Government – 20.3 per cent.

Figure 6: Capital Budget Execution as at end June 2022 (SR' 000s)



Source: Ministry of Finance- Financial Planning and Control Division estimates

Loan Financing

As at end June 2022 a total amount of SR 11.43m out of an initial loan financing allocation of SR 311.1m has been spent. This represents up to 3.67 per cent expenditure only. The SR 11.43m spent was recorded from spending under the Department of Blue Economy related to blue bond projects

A number of projects that were earmarked to be financed from loan financing during the year are now not expected to materialize as planned. Projects that were originally earmarked to be financed from loan financing from the Kuwait government for example are now being reviewed and the loan financing has been cancelled. The projects include the reconstruction of the La Rosiere primary school and the new infrastructure for Seychelles Institute of Agriculture and Horticulture. A downward revision has been projected in the loan financing for the project Health Information System due to revised progress for implementation. Several projects such as the Social Housing units, New La Digue School, Ile du port infrastructure that were originally planned to be financed from the Saudi government through loan financing are now not expected to materialize given lack of confirmation of funds from the Saudi Authorities.

Grant Financing

A total of SR 782.12m was allocated as grant funding for the year 2022 out of which a total amount of SR 30.55m has been spent as at end June 2022. This represents a percentage expenditure of 3.91 per cent. Projects that were earmarked to be financed from grant financing in 2022 includes construction Government House, several social housing projects, community infrastructure projects and several climate change related projects.

Certain projects earmarked for financing from foreign grant are not expected to materialize during the year including the construction of the Youth Hope Rehabilitation Centre, the Drug Rehabilitation Centre, the Construction of the Government House, the Construction of the New Police headquarters, the

construction of the new office block for the Office of the Attorney General among others. Main project being financed from grant financing that remains ongoing during 2022 is the construction of the SBC house that is due to complete during the first half of the year 2023.

Development Grants

A total of SR 88.9m was allocated as development grant for the first six months against a Budget of SR169.1m. As at June actual spending recorded was SR 41.7m, representing a saving of SR 47.2m or 53 per cent. This has resulted in a downward revision of SR 10.6m under the SPTC Foreign finances relating to the delay in the procurement of the buses under the Line of Credit from Exim Bank.

Table 22: Development Grants (SR'000s)

DESCRIPTION	2022 Budget	2022 MYEFO	Actual as at June 2022	Spending (%)
Seychelles Public Transport Corporation	46,331	35,692	-	0
<i>o/w Government Budget</i>	<i>14,500</i>	<i>14,500</i>	-	0
<i>o/w Foreign Loan/ Grant</i>	<i>31,831</i>	<i>21,192</i>	-	0
Property Management Corporation	62,803	62,803	26,709	43
Public Utilities Corporation Local	60,000	60,000	15,006	25
TOTAL:	169,133	158,494	41,715	

Source: Ministry of Finance- Financial Planning and Control Division estimates

Projects completed first half 2022

The main projects completed during the first half of 2022 include projects such as the La Gogue land bank project estimated at SR.5.8m, and phase 1 of the upgrading of the CSSD building for the Health Care Agency.

Outlook Second half of the year

Overall capital spending has been significantly lower as compared to the total spending for the same period of the previous year including for spending of the capital intensive MDAs. The lowest performance has been recorded from projects financed from foreign grants and the local Budget. It is expected that the spending will see some slight improvement towards the ending of the year. It should be noted that past trends show that most expenses occur at the last period of the year. Project status from MDAs shows that a number of projects are currently ongoing whilst the majority of the remaining are at various stages of design and procurement. Major ongoing projects construction of the construction of a steel frame building at the Ministry of Education for the administrative staff estimated at SR.12.4m, construction of new school block at the Belonie Secondary school at the cost of SR 24m, 24 housing units Union Vale for the sum of SR 26.1m and 46 units Kan Gard Development at Plaisance for the sum of SR 18.8m.

Net Lending

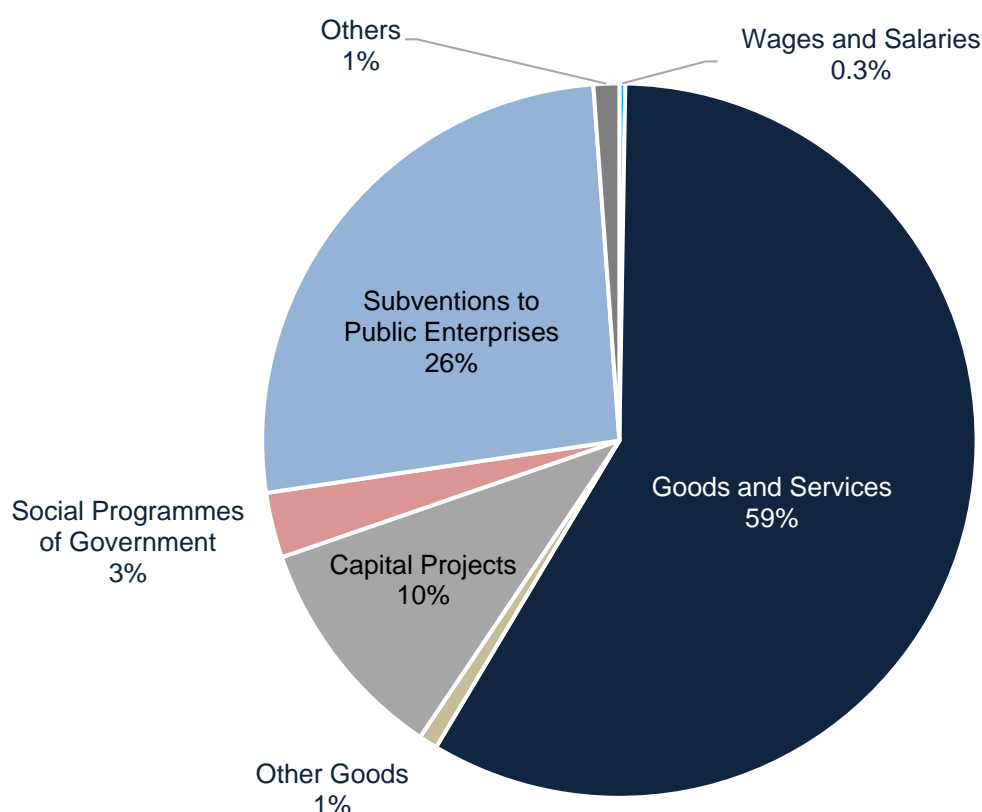
A total amount of SR 264.6m was budgeted as expenditure under net lending in the Budget for 2022. As at June total actual summed up to SR 22.6m. The revised Budget has been reduced downwards

to SR 207.8m. The downward revision is due to foreign exchange variation and in additional lower execution rate under the Neptune Project.

Mid-Year Expenditure Revision

The total proposed supplementary for this mid-year amounts to SR 472.8m. This will entirely be funded through a Budget cut (re-allocation) of SR 887.5m, which means that a net Budget cut of SR 414.6m will be issued for the 2022 appropriation bill.

Figure 7: Supplementary Budget Allocation



Source: Ministry of Finance- Financial Planning and Control Division estimates

Wages and Salaries

As a part of the mid-year review process, savings within the Wages & Salaries Budget have been re-allocated to priority areas for which additional funds were required. The additional funds of SR 1.26m will be offset against the total Budget cuts of SR 63.9m under the various organisations that will be recording a savings at year end within their wages and salaries. Therefore, a net Budget cut of SR 62.6m is being proposed.

Goods and Services

A total of SR 256.1m is required as supplementary to fund shortfall within critical Budget lines of Ministries/Departments and Agencies. The main organizations contributing to this supplementary are:

- Department of Defence (SR 5.02m): To cater for deficit under electricity and fuel.
- Department of Information Communications Technology (SR 9.23m): For the acquisition of the e-ID platform and associated service.
- Department of Police (SR 10.48m): To cater for the additional security provision.
- Department of Agriculture (SR 73.1m): To cater for the deficit under subsidy payment.
- Anti-Corruption Commission (SR 63.6m): To assist ACCS with the current corruption investigations
- Seychelles Land Transport Agency (SR 4.18m): For maintenance of road infrastructure.
- Health Care Agency (SR 109.62m): To procure MRI and shortfall in operational cost.
- Execution for Election (SR 3.99m): For Mayor Office Election.

Capital Expenditure

A total of SR 49m is being proposed as additional funding under this category while a cut of SR 737m is being issued. The supplementary requests will be mainly used for the following MDAs:

- Industrial Estate Authority: SR 11.47m for the road infrastructure for zone 19/20 and Zone 6 phase 1 and for electrical equipment for zone 19/20.
- The Judiciary: SR 9.27m for VAT payment for the New Magistrate Court project and for a tiling work project at Palais de Justice.
- Department of Transport: SR 1.22m additional fund for the for grant financed project - Shift to electricity mobility.

Social Programs of Government

A sum of SR 13.98m is being proposed as additional funds to cater for the shortfall in Temporary Financial Assistance. The revised costing of the financial assistance amounts to SR 48.7m and will be offset against virement within this category.

Subventions to Public Enterprises

A total of SR 123.8m is being proposed to cater for the Budget shortfall under the following:

- Air Seychelles at SR 112.7m: For the extra USD 8m to cater for the USD 13m loan facility with TDB to pay off the ETIHAD liability.
- Seychelles Public Transport Corporation at SR 11.1m: To cater for refund for bus fares subsidise by Government and for SPTC operational cost shortfall based on submitted cash flow.

Others

A total supplementary of SR 5.5m is being proposed as supplementary under Subscription to International Organisations. This is to cater for invoices up to December 2022.

Net Lending

A total cut of SR 56.7m is being proposed under Net lending within PUC On lending.

Development Grants

A sum of SR 10.6m is being proposed as Budget cut within Development Grant under the allocation to SPTC due to delay in procurement of TATA buses.

Debt Outlook

2022 Overall Context

As at the end of June 2022, the total Government debt stock amounted to SR 17.2bn, which represents about 62 per cent of GDP. As can be seen in Table 23 below, the total stock of Domestic debt amounts to SR 9.8bn whilst the external debt stock amounts to about SR 7.4bn, equivalent to 35 per cent and 27 per cent of GDP respectively. The total debt stock comprises mainly of domestic debt, which accounts for approximately 57 per cent of the stock.

Table 23: Total Debt Stock as at June 2022 (Millions)

DESCRIPTION	Domestic SR'm	External SR'm	USD'm	Total SR'm
Total Debt Stock	9,778	7,454	535	17,231
Debt to GDP Ratio (%)	35.1	26.8		61.9

Source: Debt Management Office

2022 External Debt Stock

The external debt is defined as the outstanding amount of those actual current, and non-contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of the Seychelles economy.

External Debt by Creditor Category

At the end of June 2022, the total stock of external debt amounted to about SR 7.4bn, equivalent to 43 per cent of the total debt portfolio. As shown in Table 24, the external debt stock comprises mostly of debt owed to multilateral creditors amounting to SR 4.8bn, or 65 per cent of the total external debt. This is followed by the bilateral and private creditor, which represents 17 per cent and 15 per cent respectively of the total external debt. The smallest portion of the external debt is attributed to the Banks at only 3 per cent.

Table 24: External Debt by Creditor Category as at June 2022

DESCRIPTION	Debt Stock SR' m	Debt Stock USD'm
Multilateral	346	4,821
Bilateral of which;	90	1,248
<i>Paris Club</i>	45	625
<i>Non Paris Club</i>	45	623
Banks	17	234
Private	83	1,150
TOTAL: EXTERNAL DEBT	535	7,454

Source: Debt Management Office

Table 25 below shows a comparison of the external debt stock for the first half of 2022 compared to the end of 2021. As can be seen, the external debt stock decreased by SR 781m or 9.5 per cent. The largest contributor to the decline is attributed to the multilateral creditor category, which declined by SR 363m, or 7 per cent, followed by the Bilateral creditor which decreased by SR 210m. The fall in the external debt stock is mainly due to the appreciation of the Seychelles rupee against the US Dollars from 14.70 in December 2021 to 13.93 in June 2022. Furthermore, the reduction of the stock reflects the continuous payments being made towards servicing the country's debt supported by the fact that no new external loans were taken in the first half of 2022. The commercial banks and Private creditor also decreased in comparison to December 2021. The latter decreased by SR 188m whilst the former decreased by SR 21m, or 14.1 per cent and 8.2 per cent respectively.

Table 25: Comparison in External Debt Stock (Jun 2022 vs Dec 2021) (SR'm)

DESCRIPTION	Dec-21	Jun-22	% Change
Multilateral	5184	4,821	-7.0
Bilateral of which;	1,458	1,248	-14.4
<i>Paris Club</i>	751	625	-16.8
<i>Non Paris Club</i>	707	623	-11.9
Commercial Banks	255	234	-8.2
Private	1,338	1,150	-14.1
TOTAL: EXTERNAL DEBT	8,235	7,454	-9.5

Source: Debt Management Office

External Debt Repayments

The table below shows the repayment schedule on External Debt for the second half of 2022. The major portion of repayment remains in July and amounts to USD 12.6m. This mainly reflects the repayment on the Euro Bond.

Table 26: External Debt Forecast by Month - 2022 in USD' (000)

EXTERNAL DEBT	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Total Interest	9,644	1,187	1,900	1,881	5,410	21,402	9,644
Total Principal	2,973	643	667	484	437	6,190	2,973
TOTAL: EXTERNAL DEBT	12,617	1,830	2,567	2,365	5,847	27,592	12,617

Source: Debt Management Office

2022 Domestic Debt Stock

The stock of domestic debt comprises of all debt liabilities owe to residents of Seychelles economy. As at June 2022, the total domestic debt amounted to SR 9.8bn. Government Securities remains the main components of the domestic debt, accounting for almost 84 per cent of the stock. Loans accounts for about 11 per cent whilst Other Liabilities and Other securities accounts for 2 per cent and 3 per cent respectively of the total domestic debt.

Table 27: Changes in Domestic Debt Stock (SR'm)

DOMESTIC DEBT	Debt Stock Dec-21	Debt Stock Jun-2022	% Change
Government Securities	8,713	8,181	-6.1
Other Securities	158	350	121.5
Loans	1,178	1,062	-9.8
Other Debt Liabilities	239	183	-23.4
TOTAL: DOMESTIC DEBT	10,288	9,778	-5.0

Source: Debt Management Office

In comparison to December 2021, despite the increase in the Other Securities category by SR 192m, which is due to the Government guaranteeing DBS on two new Bonds during the first half of 2022, the overall domestic debt portfolio decreased by SR 510m or 5 per cent. This is attributed mainly to a decrease in the volume of T-Bills issuances whilst previously issued bills matured. This has helped to minimised the rollover risks associated with short-term securities. There has also been a SR 56m, or 23 per cent decrease in other debt liabilities. This relates to the Small and Large Private Relief Scheme guarantee facility that was set up with the CBS to help businesses facing financial difficulties during the COVID-19 pandemic. The facility ended in March 2022 hence there were no new disbursement in Q2.

As part of its strategy to lengthen the maturity of the debt profile, since last year, Government started regular issuances of T-bonds. Currently the issuance is being done on a quarterly basis. As such, two new sets of bonds were issued in the first half of 2022, equivalent to SR 500m each, of which a total SR 806m were subscribed. Further details of the issuances are provided in Table 28 below.

Table 28: Summary of Government T-Bonds Issuances as at end of June 2022 (SR'm)

Quarter	T-Bonds	Issue Limit	Total Subscribed	Coupon Rate (%)
Q1	3- Yr Bond	250	129	2.5
	7- Yr Bond	250	143	5.0
Q2	3- Yr Bond	150	167	2.7
	5- Yr Bond	150	151	4.3
	7- Yr Bond	200	216	5.9
Total		1,000	806	

Source: Debt Management Office

Furthermore, Government guaranteed DBS on two separate bonds that were issued. The aim was for DBS to raise SR 200m to resume its lending activities. However, the bond was undersubscribed in the first issuance and only SR 57m was raised. In order to compensate for the shortfall, in April 2022 DBS raised an additional SR 136m. The two T-Bonds had coupon rates of 3.70 per cent and 4.25 per cent respectively.

TREASURY BOND	5- Year Bond Mar- 22	5- Year Bond Apr- 22
Issue Limit (SR'm)	200	150
Total Subscribed (SR'm)	57	136
Coupon Rate (%)	3.70	4.25

Source: Debt Management Office

Composition of Domestic Securities

Government securities remains the principal component of the debt stock. As at June 2022, Government securities amounted to SR 8.2bn, or 47 per cent of total debt stock. Compared to previous years, T-Bonds is the main component of the domestic securities accounting to 70 per cent. This is reflective of the increase in issuance as part of the debt strategy to lengthen the maturity profile. T-Bills is the second component with 29 per cent of the total domestic securities. On the other hand, treasury deposits accounts for only 1 per cent of the domestic securities.

Table 29: Composition of Domestic Securities (SR'm)

	Debt Stock	
	(SR'm)	(%)
Government Securities		
Treasury Bills	2,382	29.1
Treasury Bonds	5,754	70.3
Treasury Deposits	45	0.5
Other	-	
TOTAL:	8,181	

Source: Debt Management Office

Interest Rates on Treasury Bills

From January to June 2022, the weighted average interest rates for the 91 Days 182 and 365 Days T-Bills were lower compared to the same period in 2021 at 0.48 per cent, 0.99 per cent and 1.17 per cent respectively. As depicted in Table 30 below, the interest rates on the different T-Bills declined significantly mainly due to the reduction in T-Bills gross issuance as depicted in Table 31 further below.

Table 30: Interest Rates on Treasury Bills

T-Bills	Interest Rates (%)		% Change
	Jan-Jun 2021	Jan-Jun 2022	
91 Days	4.31	0.48	-88.9
182 Days	5.86	0.99	-83.1
365 Days	6.29	1.17	-81.4

Source: Debt Management Office and CBS

The variations across the rates are mainly attributed to the composition of T-Bills allocations. There has been a significant decrease in the issuance T-Bills across all tenors. In order to lengthen the maturity profile of the debt portfolio, more T-Bills have been issued in the 365 Days and 182 Days whilst issuance for the 91 Days has been on the lower end. As can be seen, overall T-Bills issuance for the first half of the year decreased by SR 3,505m, or 90 per cent. This was partly offset by the issuance of T-Bonds as previously highlighted.

Table 31: Treasury Bills Gross Issuance Comparison

T-Bills	Amount issued SR'm		% Change
	January - June 2021	2022	
91 Days	798	1.1	-99.9
182 Days	1,445	10	-99.3
365 Days	1,652	380	-77.0
TOTAL:	3,896	391	-90.0

Source: Debt Management Office and CBS

Selected Economic Indicators

	2021	2022	2023
National income and prices			
Nominal GDP (millions of Seychelles rupees)	24,611	28,082	31,167
Real GDP growth	7.90	10.82	5.68
GDP deflator growth	7.8	2.5	4.8
CPI (annual average)	9.8	3.9	4.7
Government Budget (% GDP)			
Total revenue, including grants	34.0	33.1	34.6
Total revenue, excluding grants	31.2	32.4	32.7
Grants	2.8	0.7	1.9
Expenditure and net lending	40.0	36.2	35.2
Current expenditure	31.5	30.0	26.1
<i>Of which: interest payments</i>	3.0	2.2	2.6
Capital expenditure	4.6	2.9	5.0
Net Lending	0.2	0.3	0.6
Overall balance	-6.0	-3.1	-0.6
Primary balance (accrual basis), including grants	-3.0	-0.9	2.0
Primary balance (accrual basis), excluding grants	-5.8	-1.6	0.2
External sector (USD'm, unless otherwise indicated)	-10.6	-7.2	-5.7
Current account balance including official transfers	-154	-134	-113
<i>Imports of goods</i>	1,023	1,262	1,345
<i>Imports of services</i>	798	1,032	1,069
<i>Exports of goods</i>	516	540	556
<i>Exports of services</i>	1,235	1,745	1,882
Primary Income, net	111	234	213
Secondary Income, net	-83	-89	-97
Foreign Direct Investment	-2	-36	-39
Gross official reserves (USD'm)	702	624	656
In months of imports, c.i.f.	3.7	3.1	3.2
Total debt outstanding (% of GDP)	76.8	69.6	66.5
Total debt outstanding (SR'm)	18,901	19,545	20,726
<i>Domestic debt (% of GDP)</i>	42.4	37.0	33.8
<i>External debt (% of GDP)</i>	34.4	32.6	32.7

Source: Seychelles Macroeconomic Framework Working Group