Mid-Year Economic and Fiscal Outlook

Financial Year 2018 and 2019 Outlook

Ministry of Finance, Trade, Investment and Economic Planning, September 2018

MYEFO looks at the state of the economy for the current year (2018) 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 2018 economic activity and tax revenues. Combined, this allows for the determination of a recommended Government expenditure "envelope" for 2018. 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
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
LPG	Liquid Petroleum Gas
LPO	Local Purchase Order
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
MoFTIEP	Ministry of Finance, Trade, Investment and Economic Planning
MFAD	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 Papers.

The MYEFO updates key information contained in the most recent Budget Economic and Fiscal outlook report and contains a detailed statement of tax expenditures, presenting disaggregated information on tax expenditures.

The information in the report is to take 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.

This document provides a snapshot of the economy as after the first half of 2018 giving a brief outlook for the rest of 2018 and 2019. Secondly, the source and amount of taxes that will be collected by Government in the remainder of 2018 and in 2019 is outlined. The taxes are the main component determining the overall level of Government's spending that will be possible in 2018.

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 2018.

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

Economic Outlook

Overview

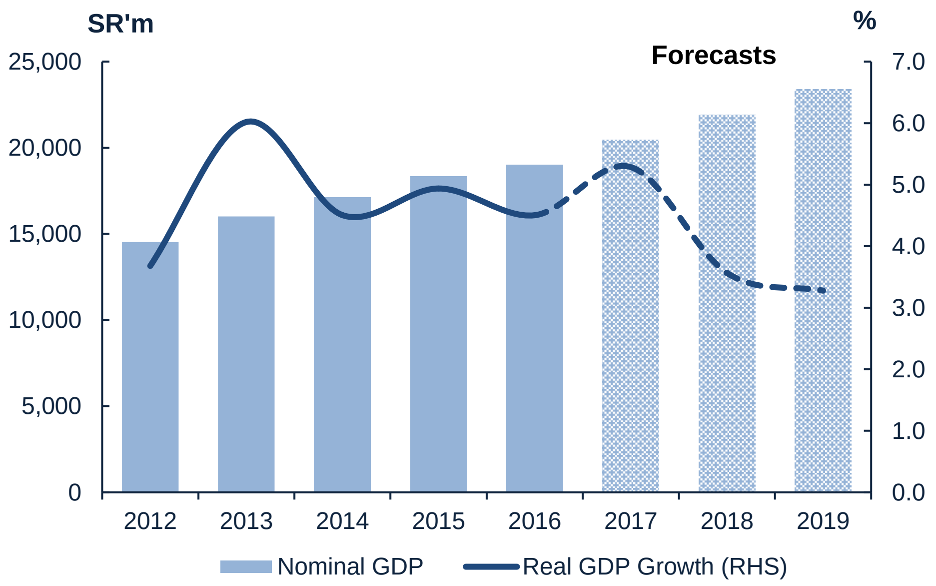
Global growth, as reported by IMF July WEO, is expected to reach 3.9 per cent in 2018. This is being supported by strong momentum, favourable market sentiments, accommodative financial conditions, and the partial recovery in commodity prices that should allow conditions in commodity exporters to gradually improve.

Projected growth for Seychelles economy is reflective of global growth. Economic growth is forecasted at 3.6 per cent this year. Tourism sector continues to sustain growth in the economy, albeit the slower growth in arrivals so far in 2018. By the end of the first half this year, visitors' arrivals grew by 1.3 per cent compared to the same period last year. With continuous increase in data usage, activities in the 'Information and Communication' sector is also driving the growth. Credit growth remains strong in 2018, signalling more growth potential from the 'Financial and Insurance' sector. Other main sectors providing the momentum for growth includes 'Constructions', 'Manufacturing of beverages and tobacco' and 'Wholesale and Retail'. However, there are downside risks to the forecasted growth. This is mainly from the 'Manufacturing of food' activity, which may be adversely affected by the yellow fin tuna quota.

With the observed increased in fuel prices over the first half of the year, increased in public bus fares, and PUC tariff re balancing, inflation rate has been revised upward. This has led to an upward revision of 0.8 per cent in the Nominal GDP level compared to the initial budget.

Over the medium term, economic growth is projected to remain at the current momentum, with growth averaging to around 3.5 per cent.

Figure 1: Nominal GDP and Real GDP Growth for Actuals and Forecasts



Source: NBS and Macroeconomic Forecasting & Analysis Division estimates

Tourism activities have been moderately stagnant throughout the first half of 2018 in comparison to 2017 whereby growth in arrivals remained double digit throughout the year. By the end of June, 172,099 visitors had disembarked in Seychelles, representing a 1.3 per cent growth compared to the same period last year. Despite the slowdown in arrivals, Tourism earnings increased at a much faster rate. Total receipts is estimated at USD 278m for the first half of 2018, which represents a 23.7 per cent increase compared to the same period last year. This is also reflective in the Value Added Tax revenue collected from the Tourism industry.

Outlook **Information and Communication** remains strong as observed in the past 7 years. The driving force behind this is the continuous increase in internet data usage. By the end of the first half of 2018, data usage was up by 49 per cent compared to the same period last year. The sector is also growing following companies' continuous efforts to introduce new and improve on current products they offer. Companies are diversifying their products to be more competitive and offering their services at a more competitive rate.

In the **Manufacturing** sector, the manufacturing of beverages increased on average by 11 per cent after the first half of 2018 compared to the first half of 2017. Beer and stout grew by 3.5 and 41 per cent respectively. Carbonated soft drinks also experienced growth of 32 per cent in the first half of 2017. The Production of Spirits dropped by 33 per cent compared to 2017. The brewery maintains a positive outlook for the rest of 2018 having recently completed certain capital investments such as the installation of a new tunnel pasteuriser. The manufacturing of food such as canned tuna grew by 35 per cent. However, the second half of 2018 remains uncertain due to the difficulties IOT has been facing with seiners transhipping yellowfin tuna to other countries and only about 20 per cent made available to the canning factory.

The **construction** remains positive with several main projects to be completed in 2018. This year, some companies have found the need to increase their labour force to cater for the ongoing projects. Furthermore, an increase in the production of blocks since the beginning of the year up to June in comparison to the same period last year supports the positive indication of growth for 2018. However, the company is still facing timing issues in relation to GOP and with the planning authority. The rising cost of fuel price is also a point of concern for this sector.

Monetary Sector

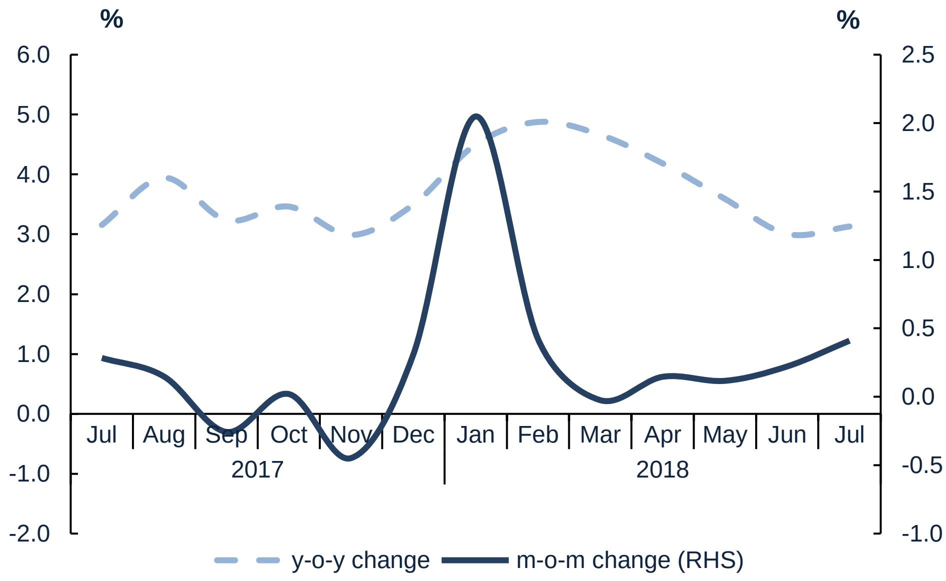
Inflation

The year 2018 started off with a spike in inflation rates with one of the main contributors being the one-off increase in public bus fares. Year-on-year inflation stood at 3.13 per cent at the end of July 2018 which was mainly due to a 4.28 per cent increase in Non-food items of the CPI. Other factors which contributed to the higher prices during the first half of 2018 were increases in fuel and electricity prices. The 12-month average inflation rate stood at 3.75 per cent at the end of July 2018.

Following the peak in inflation at the beginning of 2018, moderate inflationary pressures are expected for the rest of the year. This is due to a rise in international commodity prices, predominantly that of food and fuel. Notwithstanding the relative stability of the Seychelles rupee (SCR), the currency has been gradually depreciating since 2016 although at a slower pace than anticipated. On the assumption that this trend persists, it could translate to higher import prices thus affecting domestic price levels.

In order to ensure domestic price stability, the Central Bank has tightened monetary policy since the second quarter of 2018, a stance that is expected to be maintained for the remainder of the year. This is on account of the forecasted rise in external inflationary pressures in the short to medium term. Additionally, the Bank recognises that seasonal depreciation of the domestic currency and higher foreign exchange demand may adversely impact domestic prices. The Bank remains vigilant to both domestic and international developments and stands ready to adjust its policy stance should the need arise.

Figure 2: Year-on-year and month-on-month change in the Consumer Price Index



Source: Central Bank of Seychelles

Interest Rates

Consistent with the tight monetary policy stance adopted by the Central Bank, the interest rates on the Standing Deposit Facility (SDF) was raised from 1 per cent to 2 per cent while the Standing Credit Facility (SCF) was increased from 6 per cent to 8 per cent effective April 1st, 2018[1]. In line with this, an overall increase was observed in market interest rates.

Since the start of the year and up to June, the interest rate spread narrowed marginally by 3.5 basis points to stand at 9.58 per cent. This was a result of an increase in the average effective rate on lending from 11.98 per cent to 12.45 per cent in June 2018. The average interest rate on savings deposits also increased over the same period, from 2.37 per cent to 2.87 per cent. As regards to the average return on fixed-term rupee deposits, it rose by 18 basis points, from 3.41 per cent as at January to 3.59 per cent as at mid-2018.

Similarly, Treasury bill rates have been on an increasing trend since the start of the year. Yield on these short-term government securities at the end of June 2017 stood at 4.26 per cent on the 91-day bill, 5.14 per cent on the 182-day bill and 6.20 per cent on the 365-day bill.

[1] The SCF and SDF rates form the ceiling and the floor for short-term money market interest rates, that is, the interest rate corridor.

External Sector

On the external front, the country's balance of payments is anticipated to slightly worsen in comparison to 2017. Although initial projections at the start of the year suggested a narrowing of the current account, a larger deficit is now being forecasted as a result of a slowdown in visitor arrivals coupled with a relatively stronger growth in imports.

Imports

A rise in the total value of goods imports is anticipated in 2018. This follows an increase in commodity imports driven primarily by rising international energy prices. The increased quantity of imported goods is also on account of greater capital projects such as road infrastructure and housing developments being undertaken by the Government.

Exports

A decline in the volume and value of tuna exports is being projected, despite greater stability in tuna prices relative to the previous year. This follows the implementation of a quota set in 2017 on yellow fin tuna fishing by the Indian Ocean Tuna Commission (IOTC) on its member states geared towards ensuring sustainable fishing.

Services

The country's net exports of services is expected to maintain a positive trend, notwithstanding mixed indicators in the tourism sector. The arrival of two new airlines during the first half of the year heightened the country's connectivity to Europe, as evidenced by a rise in the number of European visitors from traditional markets being registered, which has partly offset the decline in the emerging markets of Russia, United Arab Emirates (UAE) and China. Earnings from the sector is expected to remain positive, albeit lower than initial estimates.

Capital and Financial Accounts

The capital and financial accounts balance is a useful indicator of how a country finances its current account transactions.

As has been the case in recent years it is estimated that capital transfers will maintain a declining trend in 2018. This is primarily driven by the fact that Seychelles has attained high income status which consequently limits its eligibility to access concessionary credits as well as grants. FDI, predominantly comprising of tourism-related flows, is projected to fall in 2018 mainly as a result of the moratorium that was imposed on new large hotel projects until end 2020.

External Reserves

The country's gross international reserves is expected to end the year at USD 531m or 3.6 months of import cover. This represents a drop of USD 14m in comparison to the same period in the previous year whereby total external reserves stood at USD 545m or equivalent to 3.7 months of imports. The decline in external reserves mainly relates to the expected repayments of public debt due in 2018. In addition, higher demand for imports along with an increase in international commodity prices are expected to translate into additional demand for external reserves. Nonetheless, the level of external reserves remains "adequate" according to the benchmark of the International Monetary Fund (IMF).

Fiscal Outlook

Going into 2018, the Government of Seychelles remains fully committed towards reducing public debt to 50 per cent of GDP by 2021. Fiscal policy has kept a tight stance (albeit looser in recent years) and a Primary surplus target of 3 per cent has been set. Measures undertaken in 2016 and 2017 to address the mounting social pressures (of which includes income equality concerns) have not halted the repayment of Debt, with the total stock expected to lessen by 5 per cent of GDP to reach 62 per cent by the end of 2018. Additionally, the ambitious infrastructure projects announced in the SONA will not be financed directly from the Budget, with innovative financing solutions being considered, and so will not impact upon the surplus target.

With a more favourable outlook under Revenue and grants, the primary balance estimate for 2018 has been revised upwards from 2.5 to 3 per cent of GDP, amounting to about SR 657m (Table 1 below). This represents an increase of about SR 104m or 19 per cent. A significant Government arrears repayment exercise amounting to SR 233m has inflated both the size of the envelope, and total primary expenditure figures without having any real impact on the target (positive arrear income will be netted off under expenditure). Not accounting for this, about SR 158m of additional revenue is expected (more specifically tax), whilst expenditure has remained tight with only about SR 54m in further spending needed.

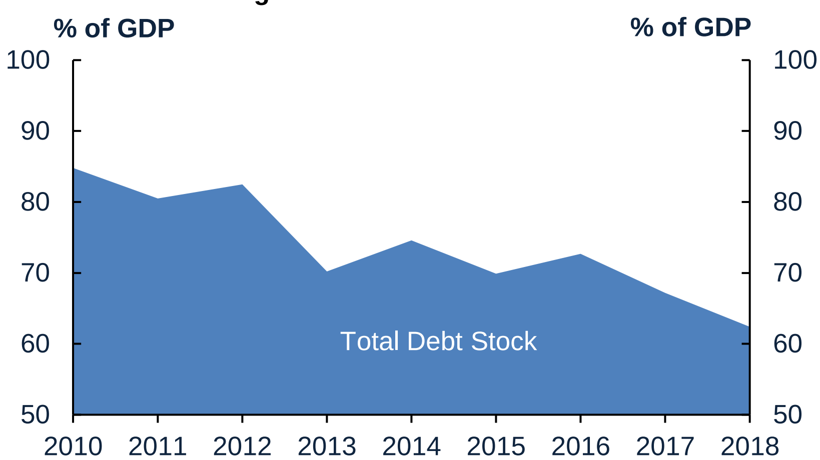
Tax revenue, more specifically Business tax, is the main provider of this additional fiscal space in the Budget envelope, whereas a significant decrease in Government capital expenditure spending, as well as a lower Net Lending and Development Grant outlook, has lessened pressure on the expenditure side. Total Debt is expected to fall just under 62 per cent of GDP by the end of 2018 (Figure 3 below).

Table 1: Revised Government Revenue and Expenditure (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Revenue & Grants	7,516,027	8,439,028	8,829,491	8,792,063
Primary Expenditure	6,826,326	7,885,437	8,172,394	8,206,137
PRIMARY BALANCE:	**689,702**	**553,591**	**657,425**	**585,927**
% of GDP:	**3.6**	**2.5**	**3.0**	**2.5**

Source: Ministry of Finance estimates

Figure 3: Total Debt to GDP



Source: Ministry of Finance, Debt Division estimates

Revenue & Grants

For the mid-year Budget 2018 revision, total Government revenue (including grants) has been revised upwards by about 4.6 per cent or SR 391m, to reach SR 8.8bn for 2018, equivalent to about 40.3 per cent of GDP. This is mainly attributed to positive tax revenue revisions driven by a large stock of tax arrears, the largest of which relating to Government amounting to SR 233m, the rest under Business tax, as well as some other factors, such as stronger than expected performances in some lines.

Non-tax revenue and Grants have, however, been revised downwards by SR 44m and SR 151m respectively. A less positive outlook under 'Fees and Charges' and certain Grant income not materialising in 2018 explains these shortfalls. The table below shows the breakdown of the total Budget envelope over the medium term.

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

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Tax Revenue	6,600,421	6,853,400	7,439,594	7,250,678
Non-Tax Revenue	743,035	1,185,747	1,141,698	1,207,108
Grants	172,571	399,880	248,527	334,277
TOTAL: REVENUE & GRANTS	**7,516,027**	**8,439,028**	**8,829,819**	**8,792,063**
% of GDP:	**39.5**	**38.8**	**40.3**	**40.4**

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

Tax Revenue

As can be seen in Table 3 below, the total tax revenue Budget estimate for 2018 has been revised upwards by about SR 586m (or 8.6 per cent), equivalent to 2.7 per cent of GDP. This increase is a result of several factors; a positive base effect following a buoyant 2017 outturn –where actual collections in most tax lines over-performed, strong year to date performances amongst some lines, more favourable GDP growth assumptions (as discussed in the Economic Outlook section), additional sizeable arrear payments under Business tax, and a one-off stamp duty payment. Furthermore, the Government has identified amongst the Ministries, Departments and Agencies a stock of tax arrears dating back several years, with the largest amount being about SR 208m relating to Social Security tax. These arrears, detailed per tax line in Table 4, total SR 233m or 1.1 per cent of GDP. Although accounting for 40 per cent of the total tax revenue upward revision, these arrears do not amount to a real increase in revenue, and represents an accounting exercise whereby the Ministry of Finance will offset the whole amount in the corresponding expenditure lines.

Countering these positive factors have been some downward revisions in some lines. The Customs Duties estimate has been lowered given a lower 2017 base (import performance fell short of the Budget), as well as year to date under-performances in several of sub lines, most notably alcohol imports, Textiles and Levy. Furthermore, as announced during the SONA, duties on all clothing articles have been removed with effect from July 2018. The estimated collection of SR 40m under Property tax has also been deferred to 2019 given delays in implementation.

Table 3: Breakdown of Medium Term Tax Revenue (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Personal Income Tax	900,059	817,215	859,788	869,542
Social Security Tax Arrears	0	0	207,615	
Trade Tax	284,939	346,823	297,252	331,118
Excise Tax	1,311,674	1,335,873	1,366,937	1,414,863
GST (Goods and Services)	16,955	400	2,692	
Value Added Tax	2,133,831	2,319,788	2,418,702	2,435,997
Business Tax	1,363,881	1,366,314	1,575,197	1,467,224
Corporate Social Responsibility Tax	95,052	99,232	104,643	105,586
Tourism Marketing Tax (TMT)	59,869	63,491	70,147	67,556
Other Tax	434,161	464,265	536,622	518,792
Property Tax		40,000	0	40,000
TOTAL: TAX REVENUE	**6,600,421**	**6,853,400**	**7,439,594**	**7,250,678**
% of GDP:	**32.3**	**31.5**	**32.0**	**31.1**

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

Table 4: Breakdown of Government Tax arrears

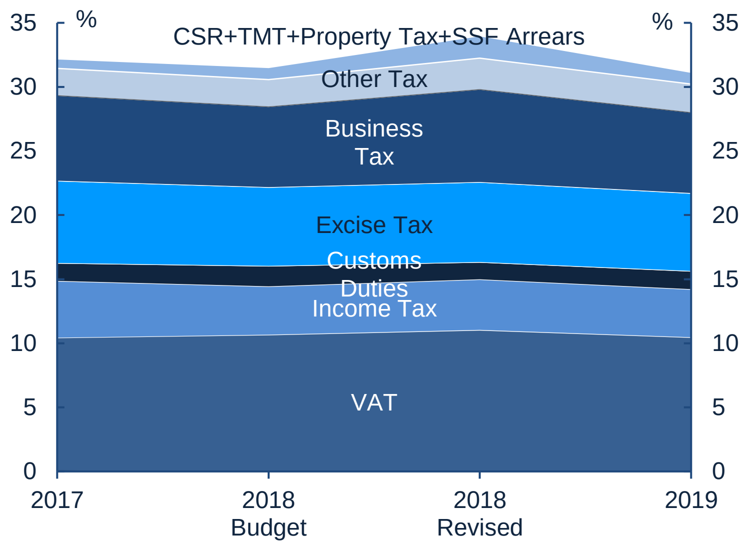
Description	2018 Revised
Social Security Tax	207,615
Income Tax	23,164
Withholding Tax	2,430
TOTAL:	**233,209**
% of GDP:	**1.1**

Source: Ministry of Finance estimates

Looking towards 2019, total tax revenue is expected to fall as a ratio GDP to 31 per cent given removal of the Government arrears (amounting to 1.1 per cent of GDP) from the base. It must be noted that the initial 2019 Budget figures have been maintained during this mid – year Budget revision as figures are yet to be finalised. However, early 2019 estimates points towards a level increase of about 2 per cent over the 2018 revised estimate. The final figures will be published with the Budget in November 2018.

As can be seen in Figure 4, VAT, Business and Excise taxes remain as the main contributors to 2019 tax revenue, while Income tax and Customs duties proportions fall.

Figure 4: Tax Revenue as a per cent of 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. The Income tax rate was harmonized to 15 per cent for all workers in January 2011. Reform in this tax will continue in 2017 when a progressive system will be introduced.

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

2018 Context and 2019 Projections

The Income tax estimate has been revised upwards to a total of SR 860m for the mid-year Budget 2018 revision (Table 5 overleaf). This represents an increase of about SR 43m, equivalent to about 5 per cent, from the initial Budget figure of SR 817m. This has been largely as a result of a large Government arrear payment amounting to about SR 23m, and a stronger 2017 base – the actual outturn was higher than expected at the time of the Budget preparation by about SR 30m. Partially offsetting this has been the move forward of the PIT implementation date to June 2018 (estimated to cost an additional SR 18m), as well as some under-performances to date, particularly in the 'Central Government' line.

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

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Central Government	243,494	223,681	236,391	238,004
Other Public Sector	139,195	112,727	130,047	119,945
Private Sector	517,370	480,806	493,351	511,593
TOTAL INCOME TAX:	**900,060**	**817,215**	**859,788**	**869,542**
% of GDP:	**4.4**	**3.8**	**3.9**	**3.8**

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

As announced during the State of the Nation address in March 2018, the Government has decided to bring forward the implementation date of the PIT to June instead of July 2018 as had earlier been announced during the Budget. As a recap, the 2010 regime of a flat 15 per cent tax rate on employment income will be converted into a progressive system on broader income with various rates applicable at different thresholds.

Given the June 2018 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 May 2018. Table 6 below provides a summary of the estimated cost of these policies.

Table 6. Revisions in Income tax policies for 2017 (SR'm)

PROGRESSIVE INCOME TAX	2018 Effective date	
	July	June
Total Policy cost*:	**313**	**331**
Effective cost to 2018 Budget:**	**60**	**78**
Additional cost to 2018 Mid-Year Budget:		***18***

Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates
Costs will lower the Budget collections
*Total policy cost in comparison to a flat 15% regime
**Taking into account effect of 2017 policies on the base

Custom Duties

Background

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

2018 Context and 2019 Projections

Custom Duties has been revised downwards by SR 49.6m, or 14 per cent, compared to the initial Budget as shown in the table below.

Table 7: Medium Term Custom Duties (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Cutoms Duties Direct Imports	**295,418**	**351,823**	**302,252**	**336,118**
Alcohol	129,322	168,548	130,108	148,114
Petroleum				
Textiles and textile articles	20,063	22,304	17,220	25,120
Motor Vehicles	392	0	343	0
Tobacco	1,804	2,254	2,201	2,406
Prepared Food	11,059	14,639	11,854	16,488
Others	73,500	71,773	74,944	80,835
Levy	57,113	69,434	63,263	74,100
Documentary Charges	2,164	2,871	2,320	3,233
Customs Duties Exemptions	-10,476	-5,000	-5,000	-5,000
TOTAL: TRADES TAX	**284,942**	**346,823**	**297,252**	**317,115**
% of GDP:	**1.4**	**1.6**	**1.2**	**1.4**

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

The downward revision is attributed to a lower 2017 base, an adjustment in 'Alcohol' coupled with windfalls in 'Textiles', 'Alcohol' and 'Others.' The forecast for 'Alcohol' had to be revised downwards significantly by SR 29m due to the removal of a large arrear payment which will no longer materialise. In addition, windfalls were made to account for the under-performances in 'Alcohol' and 'Others' as well as the slight over-performance in 'Textiles'. Furthermore, the policy to remove Custom Duty on textiles and clothing lowered the revenue forecasts by an additional SR 9.2m as shown in the table below. The policy was not factored in at the time of Budget as it was only announced in February 2018 and became effective as of the 1st July 2018.

Table 8: 2018 Revenue loss from Policy

CATEGORIES	2018 Revenue Loss (SR'm)
Textiles	1.3
Clothing	7.9
TOTAL:	**9.2**

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

Imported petroleum products account for the highest contribution to the Excise tax as a whole. 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.

2018 Context and 2019 Projections

Excise tax has been revised upwards by SR 32m, or 2 per cent, compared to the Budget. This is mainly attributed to the over-performance in petroleum excise, and locally manufactured Alcohol.

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

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Excise-Imports	1,002,658	1,019,254	1,026,770	1,050,101
Alcohol	206,903	236,391	214,054	235,977
Petroleum	654,764	627,800	667,412	649,368
Motor Vehicles	135,781	147,499	139,725	156,943
Tobacco	5,210	7,565	5,579	7,813
Excise-Locally Manuf. Goods	309,016	316,619	340,167	335,619
Alcohol	159,495	153,279	172,734	166,916
Tobacco	149,521	163,340	167,433	168,703
TOTAL: EXCISE TAX	**1,311,674**	**1,335,873**	**1,366,937**	**1,385,720**
% of GDP:	**6.4**	**6.1**	**6.2**	**5.9**

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

The 2018 estimate for excise on petroleum products has been increased by SR 40m compared to the Budget. This performance is due to a higher 2017 base. Likewise, LMG Alcohol was revised upwards by SR 19m due to a higher base.

Up to June 2018, LMG Alcohol over-performed by SR 5m, while imported alcohol under-performed by SR 2m. Additionally, Motor Vehicles under-performed by SR 15m up to June 2018.

Goods and Services Tax

Background

Goods and Services tax (GST) was replaced by VAT system as of the 1st of January 2013 in order to have a broader tax base. The GST was applied to select locally manufactured goods; the vast majority of imported goods; as well as selected services. GST was the single largest tax line in terms of rupees collected, accounting to around 30 per cent per cent of total tax revenue collections.

2018 Context

GST arrears are still being collected. This mainly reflects a huge arrears payment pertaining to residential rent. A total of SR 17m was collected by the end of 2017. A total of SR 2.7m has been allocated for GST in the 2018 revised Budget to account for continuous minor collections.

Table 10: GST Revenues 2017 and 2018 YTD (SR'000s)

DESCRIPTION	2017	2018 Revised
GST - Arrears	16,955	2,692
TOTAL: GST	**16,955**	**2,692**
% of GDP:	**0.09**	**0.01**

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

Value Added Tax

Background

VAT is charged on all taxable imports and 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. 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 32 per cent of the total tax revenue collections, making it the single largest tax line.

2018 Context and 2019 Projections

In comparison to the Budget, VAT has been revised upwards by SR 99m, or 4 per cent. This is presented in the table below.

Table 11: VAT Revenues 2017 to 2019 (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
VAT- Domestic	1,294,065	1,318,444	1,472,467	1,402,866
VAT- Imported	910,786	1,026,344	971,235	1,087,274
VAT-Exemptions	-71,020	-25,000	-25,000	-25,000
TOTAL: VAT	**2,133,831**	**2,319,788**	**2,418,702**	**2,465,140**
% of GDP:	**10.4**	**10.7**	**11.0**	**10.5**

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

The upward revision is mainly attributed to Domestic VAT receipts resulting from a higher base following a more favourable 2017 outcome. Additionally, Domestic VAT collection has been higher than anticipated so far in 2018 indicating continued strong performance. By the end of June 2018, the line was over the budget by SR 46m, or 7 per cent.

The upward revision has however been moderated by a downward revision on the Import side following a lower base and loss of revenue following the policy to remove Custom Duty on 'Textiles and Clothing' as aforementioned under Custom Duties. However there remains upside potential in this line.

Business Tax

Background

Business tax revenue consists mainly of the provisional payments made by the 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. Thereafter, an adjustment is made either additional tax or refund required.

2018 Context and 2019 Projections

The total upward revision in this tax line has been by SR 209m or 15.3 per cent. There has been a positive base change of SR 65m. Changes in assumptions also had a positive impact of SR 37m. This is in two folds; firstly, the overall nominal GDP growth assumption used was revised upwards. Secondly, for the mid-year revision, a less conservative nominal growth was assumed for Business tax. Additionally, reallocation of SPA arrears based on timing and new arear payments has made a positive change of SR 145.7m. Finally, windfalls accounted for a negative change of SR 35m.

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

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Companies	1,110,245	1,142,832	1,323,807	1,229,432
Sole Traders	55,241	52,598	53,351	55,966
Partnerships	16,329	18,238	17,698	19,406
Trusts	49	59	75	64
Withholding Tax	126,405	96,066	119,669	102,217
Others	212	211	227	225
Residential Dwelling	54,994	56,310	60,368	59,915
TOTAL: BUSINESS TAX	**1,363,475**	**1,366,314**	**1,575,197**	**1,467,224**
% of GDP:	**6.7**	**6.7**	**7.2**	**6.3**

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

Corporate Social Responsibility Tax

Background

Corporate Social Responsibility tax (CSR) is a newly introduced tax, as of January 2013 and is applicable to all businesses with a turnover of SR 1m and over. 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.

2018 Context and 2019 Projections

Higher 2017 total collections than initially anticipated at Budget time, has resulted in an upward revision of SR 5.4m, or 5.5 per cent in CSR. The revision is shown in the table below.

Table 13: Medium Term breakdown of Corporate Social Responsibility Tax (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Corporate Social Responsibility Tax (CSR)	95,052	99,232	104,643	105,586
TOTAL: CSR	**95,052**	**99,232**	**104,643**	**105,586**
% of GDP:	**0.5**	**0.5**	**0.5**	**0.5**

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.

2018 Context and 2019 Projections

The 'Tourism Marketing tax' was revised upwards by SR 6.7m, or 10 per cent reflecting stronger anticipated performance up to July.

Table 14: Medium Term breakdown of Tourism Marketing Tax (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
Tourism Marketing Tax (TMT)	59,869	63,491	70,147	67,556
TOTAL: TMT	**59,869**	**63,491**	**70,147**	**67,556**
% of GDP:	**0.3**	**0.3**	**0.3**	**0.3**

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

Other Tax

Background

There are five main components of Other Tax that account for approximately 95 per cent of other tax Revenue. They are 'Fishing License Fees', 'Road Tax', 'Telecommunication License Fees', 'FSA Fees' and 'Stamp Duty'. Other tax is collected by various regulatory entities such as Seychelles Licencing Authority (SLA), Seychelles Fisheries Authority (SFA) and Financial Services Authority (FSA).

2018 Context and 2019 Projections

Other tax has been revised upwards by SR 73m, or 16 per cent. The main increase relates to SR 57m under 'Stamp duty' to account for the sale of Banyan Tree hotel expected in the last quarter. A further upward adjustment made was the 'Non-EU fishing Licence fees' by SR 28m, in line with the increase in actuals collected since the beginning of the year in this line.

A downward revision was also made; this was a total of SR 13.2m after the 'licence fee increase' policy anticipated for 2018 has now been postponed. The 2017 outturn and the medium term revenue for 'Other tax' is summarised in the table below.

Table 15: Medium Term Other Tax (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised	2019
OT- Ministry of Finance				
Trade/Ind Licences	10,501	19,448	10,879	20,739
Licences and Other Licence Registration	6,267	7,963	5,095	8,237
Road Tax and Other Licences	107,607	114,823	111,481	127,442
Telecommunications Licences	69,702	83,971	80,463	84,013
Casino Licences	-7	1,323	0	1,512
Hotel Licences	663	691	686	714
Liquor and Toddy Licences	292	603	302	623
Radio Broadcasting Licences	2,150	2,050	2,150	2,050
FSA Fees	0	0	0	0
SUB TOTAL	**197,174**	**230,873**	**211,056**	**245,331**
OT- MoENRT				
Annual EU Fishing Licence Fees	36,796	40,792	42,500	41,226
EU Fishing Licence: Vessel Fee	29,494	37,302	42,737	48,601
Non-EU Fishing Licence Fees	72,266	53,808	81,871	54,239
Local Fishing Licence Fees	245	558	1,058	577
SUB TOTAL	**138,800**	**132,459**	**168,166**	144,643
OT- Department of Legal Affairs				
Stamp Duty	90,504	93,143	150,055	120,755
OT-Department of Transport				
Vehicle Testing	**7,683**	**7,790**	**7,960**	**8,064**
TOTAL: TAX REVENUE	**434,162**	**464,265**	**537,238**	**518,792**
% of GDP:	**2.1**	**2.1**	**2.5**	**2.2**

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

Non-Tax Revenue & Grants

2018 Context and 2019 Projections

The total non-tax collected during the first half of the year summed up to SR 362m. This was against a budgeted figure of SR 567m. The same period last year recorded a total amount of SR 258m. Non Tax Revenue has been revised downwards for the mid-year budget 2018 by about SR 111m, equivalent to 22 per cent change.

Table 16: Non-Tax revenue and grants (SR'000s)

DESCRIPTION	2017 Actual	2018 Budget	2018 Revised
Non-Tax Revenue	**743,035**	**1,185,747**	**1,141,698**
Fees and Charges	349,319	502,171	391,019
Dividends Income	279,903	550,009	531,491
Other Non-Tax	45,475	65,991	44,090
Proceeds from Sale of Assets	68,338	67,577	175,098
Grants	172,571	399,880	248,527
TOTAL: TAX REVENUE	**915,606**	**1,585,628**	**1,390,225**
% of GDP:	**4.5**	**7.3**	**6.3**

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

Fees and Charges

During the first half of the year, the total revenue collected within Fees & Charges summed up to SR 158m. This represents an under-performance of revenue of SR 87m when compared to its budget of SR 246m.

Table 17: Fees and Charges (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised
First half of the year	**150,605**	**245,837**	**158,345**
Second half of the year	198,714	256,334	232,674
TOTAL: TAX REVENUE	**349,319**	**502,171**	**391,019**
% of GDP:	**1.7**	**2.3**	**1.8**

Source: Financial Planning and Control Division estimates

The principal revenue lines contributing towards the under-performance are passenger service fees, Haemodialysis fees, Registration, Survey & Certification, Sale of Marine Parks tickets. The fees to be collected from Passenger Service, Haemodialysis, Registration, Survey & Certification has been revised downwards. In relation to Sale of Marine Park tickets, the collections for the second half of the year are expected to pick up to compensate for the underperformance during the first six months.

Dividend Income

The first half of 2018 recorded actuals of SR 104m. This is against a budget of SR 245m.The same period last year recorded actuals of SR 84m.

Table 18: Dividend Income for the first half of 2017 (SR'000s)

DIVIDEND INCOME	Budget	Actual
SIMBC	50,000	57,330
SNOC (SEPEC)	125,000	-
Seychelles Port Authority	10,000	-
Financial Services Authority	38,577	25,331
IOT	-	-
SCAA	21,600	21,600
TOTAL: DIVIDEND INCOME	**245,177**	**104,261**

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

The 2018 figures have been revised downwards to SR 531 m. This is as a result of the dividends from IOT and IDC which is not expected in 2018. In addition, the dividends for SEYPEC and FSA have been revised downwards. These reductions have been offset partially by the increases in the forecasted dividend from Nouvobanq. The dividends from SSI for 2017 have also been added to the revised figure. It is expected during the second half of the year.

Other Non-Tax

Other Non-Tax actuals summed up to SR 7m, compared to a forecast of SR 42m for the first half of the year. This represents an underperformance of SR 34m.

Table 19: Other Non-Tax (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised
First half of the year	23,054	41,613	7,300
Second half of the year	22,421	24,378	36,790
TOTAL: OTHER NON-TAX	**45,475**	**65,991**	**44,090**
% of GDP:	**0.2**	**0.3**	**0.2**

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

The main contributor towards the underperformance within this category was the CBS Statutory Transfer and Royalties from Land Marine.

Grants

Table 20: Grants Receipts for 2018 (SR'000s)

GRANT RECEIPTS	2017 Revised	2018 Budget	2018 Revised
Cash Grant	281,458	288,171	209,001
Grants in Kind	118,529	111,709	39,526
Capital	118,529	111,709	39,526
Recurrent	-	-	-
Program Grant/Budget Support	-	-	-
TOTAL: GRANT RECEIPTS	**399,987**	**399,880**	**248,527**
% of GDP:	**2.0**	**1.8**	**1.1**

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

Cash Grant

For 2018, cash grant has been revised downward by 27 per cent. This is largely accredited to slower execution in projects from the various MDAs. This includes the Construction of Fisheries Facilities Zone 6 (SFA) and Blue Bond SWIOFish (Department of Blue Economy).

Grants in kind

Grants in kind has also recorded a downward revision. The budgeted figure has been revised downward by 65 per cent. This is largely attributed to major capital projects that was planned but will not materialise in 2018; the reconstruction of the School of business studies & Visual arts and the project for the construction of the Ile Aurore secondary school. Slower implementation against the budgeted figure for projects SBC house and new new magistrates' court has also contributed towards the lower revised figure.

Expenditure

Scope

This section is dedicated towards reviewing expenditure incurred by the Central Government and Budget-dependent entities. It does not address costs of financing, net lending or contingency. Thus, it is only focused on spending made by organisations which the Cabinet of Ministers have direct control over.

Overview

The total primary expenditure has been revised upwards from SR 6,388m to SR 6,872m. This increase has been necessary to cater for shortfalls within key budget categories.

Table 21: Primary Expenditure (SR'000s)

PRIMARY EXPENDITURE	2017	2018 Budget	2018 Revised
Wages and Salaries	2,075,485	2,419,385	2,623,135
Goods and Services	2,561,796	2,714,176	2,789,838
Social Programme of Government	113,843	122,923	125,308
Transfers to Public Enterrise	97,092	21,520	61,587
Benefits and Approved programmes of ASP	1,169,154	1,075,686	1,237,326
Other	40,611	34,712	34,712
TOTAL: PRIMARY EXPENDITURE	**6,057,979**	**6,388,402**	**6,871,906**
% of GDP:	**29.6**	**29.3**	**31.3**

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

Current Expenditure

The first six months of the year recorded a current expenditure of SR 2,285m. This was against a budgeted figure of SR 2,454m. This has resulted in an overall surplus of SR 169m. This low surplus amount has been supported by improvements made in the preparation of the cash flow for 2018. The early approval of the 2018 Appropriation Bill has also assisted in ensuring that planned activities for the first half of the year are executed.

Table 22: Current Expenditure (SR'000s)

DESCRIPTION	2017	2018 Budget	2018 Revised
Wages and Salaries	2,075,485	2,419,385	2,623,135
Goods and Services	2,561,796	2,714,176	2,789,838
TOTAL: CURRENT EXPENDITURE	**4,637,281**	**5,133,561**	**5,412,973**
% of GDP:	**22.6**	**23.6**	**24.7**

Source: Financial Planning and Control Division estimates

2018 Context

The 2018 budget is to be revised upwards to SR 5,412m from SR 5,134m. The Wages and Salaries budget has contributed the most towards this increase. This was required to cater for the payment of tax arrears of Governmental Organisations. Similarly, the Goods & Services budget follows the upward trend to ensure key shortfalls within the Organisations are met.

Wages and Salaries

The actual expenditure recorded for the first six months summed up to SR 1,126m. This is opposed to a budget of SR 1,200m, resulting in a positive variance of SR 74m, or 6 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.

On the other hand, for some Departments deficits were recorded for the first six months. In order to cater for this shortfall, their third quarter budgets were released prematurely and virements were done in certain cases. Supplementary budgets are being proposed for those Organisations which will not be able to clear these shortfalls from internal savings.

During the Mid- Year process, savings within the Wages & Salaries budget have been re-allocated to areas of priority shortfalls. Despite this, there has been need to revise the 2018 Wages & Salaries budget upwards by SR 203m. The increase relates mainly to the payment of SFF Tax arrears of SR 208m, Income Tax arrears of SR 23m, withholding tax arrears of SR 2m for Government MDAs. Most MDAs have been able to cater for income tax arrears and withholding tax arrears within their 2018 saving. Without the arrears, the revised Wages & Salaries budget would have been reduced by SR 30m compared to a SR 10 m reduction in 2017.

Goods and Services

A budget of SR 1,254m was allocated towards Goods and Services for the first half of the year. The actual expenditure for the same period was recorded at SR 1,159m resulting in a savings of SR 95m or 8 per cent. The same period of 2017 recorded a positive variance of 24 per cent. The decrease in savings in 2018 compared to 2017 was mainly as a result of better cash flow projections. One of the common factors contributing to the savings has been delays in the implementation of planned activities during the first half of the year. The spending within this category often picks up during the second half of the year where savings are used up.

The main MDAs recording variances within their Goods & Services budget are:

- **Department of Foreign Affairs**

The first half spending recorded was SR 10.2m compared to the allocated budget of SR 25.3m. This was mainly as a result of delays in the posting of the embassies' expenditures.

- **Ministry of Education and Human Resource Development**

During the first half of the year a total savings of SR 18.9m was recorded under the Ministry. This was mainly because of the delays in the tender process for the outsourced services of cleaning of schools and other institutions.

- **Ministry of Health**

The savings identified for the first half was mainly under rent of offices. The Ministry will require the funds in the second half as they will be taking up new office space. Other areas of savings within its budget will be used towards deficits expected in other budget lines.

- **Ministry of Environment, Energy & Climate Change**

Delays in the launching of the new cleaning contracts has been one of the main reasons for the total savings of SR 4.1m within the Ministry. In addition, delays in the implementation of certain activities have contributed to this. This will be used up during the second half of the year.

- **Health Care Agency**

The Agency ended the first half of the year with a negative variance of SR 11.9m. Additional funds and early releases have been required to sustain the commitments within key budget lines, such as overseas treatment, housing rent and medical supplies. Additional allocations will be required to sustain the forecasted spending for the second half of the year.

- **Seychelles Tourism Board**

The savings of SR 5.8m recorded during the first half of the year has been primarily due to delays in the receipt of invoices under the Marketing fund in relation to spending by the overseas Tourism Offices.

- **Seychelles Land Transport Agency**

A total deficit of SR 6.1m was recorded under the Agency for the first half of the year. The main reason being that funds were released prematurely in order to settle the previous year's arrears in relation to pick up hirers and procurement of bitumen.

- **Agency for National Human Resource Development**

The Agency closed the first half of the year with a total savings of SR 6.3m. This savings was mainly within Tertiary Education where fees for Seychellois students on scholarship are paid. These savings will be used up during the latter half of the year as most university fees are due for payment in the third quarter.

Transfers to Social Programs of Central Government

A budget of SR 66m was allocated towards the Social Programs of Central Government. The actual spending was SR 50m, resulting in a savings of SR 16m or 25 per cent. A large portion of this savings is as a result of a reduced number of applications during the first six months of the year. Thus, many of the Government Schemes such as the ADF Scheme, Home Improvement/ Re-Roofing scheme for pensioners and SME seed capital have recorded savings.

The Children's Special Fund was unfrozen by the National Assembly late during the first half of the year. This has resulted in certain delays in receiving and approving projects by the Fund. This is expected to pick up during the second half of the year.

The savings of SR 3.4m within Fond Ferdinand is in relation Government's assistance for 2018. The amount is to be transferred during the second half of the year.

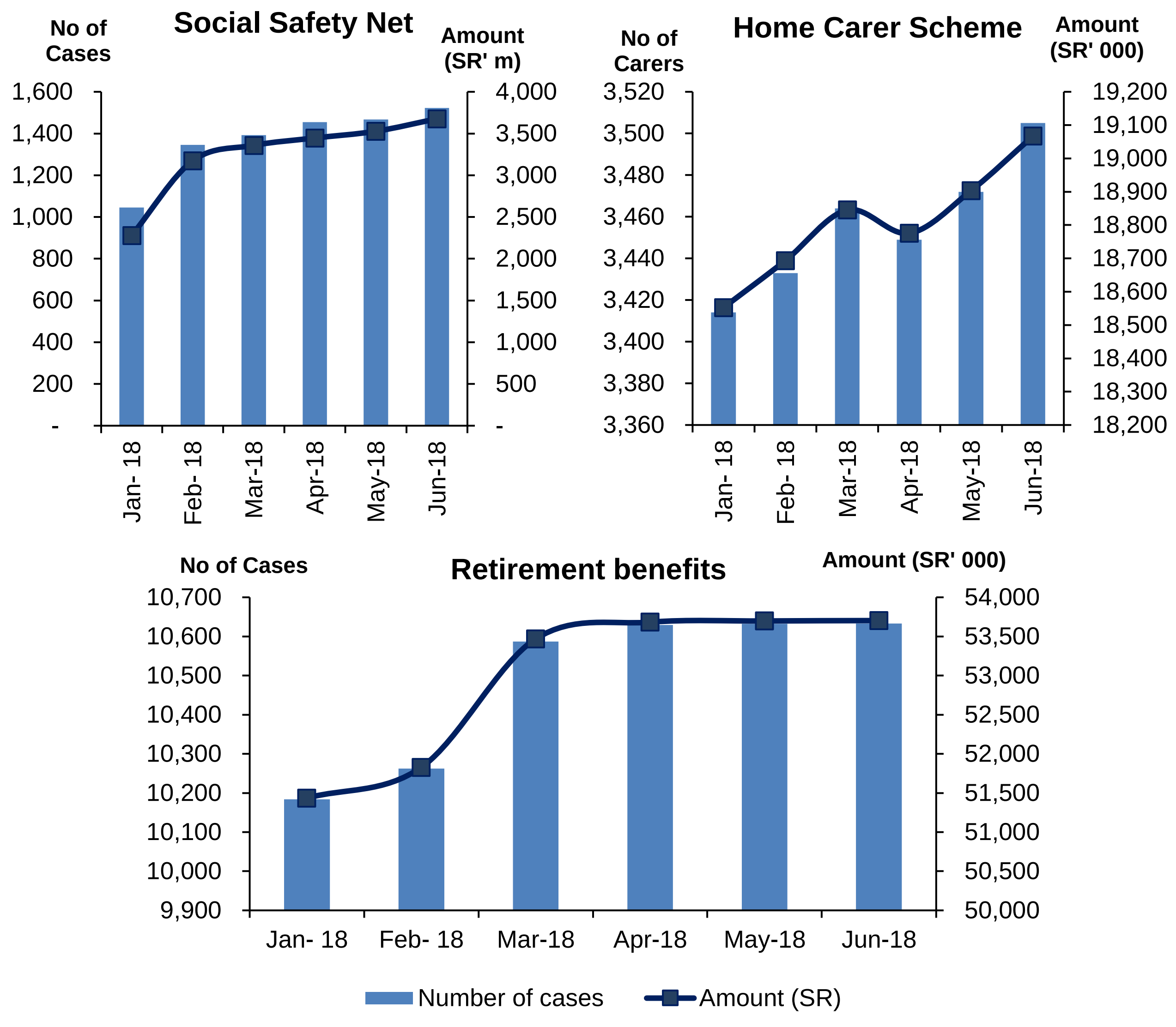
Benefits and Approved Programs of SSF

During the first six months a total of SR 101.3m was added in the budget to cater for the shortfall in the budget of which SR 15.7m was a budget transfer and SR 85.6 was approved as additional fund.

The spending within Benefits and Approved Programme of SSF summed up to SR 621.3m as at 30 June, representing an overspending of 6 per cent, or SR 34.6m. The main budget lines which have contributed to this overspending are the Retirement Benefits (SR 19.7m), and Social Safety Net (SR 12.6m). The first six month report does not show a deficit under Home care Scheme. This is because more funds were pushed into its budget for the first six month. However, at midyear, the actual spending within Home Care scheme was SR 112.9m against a yearly budget of SR 185m.

The shortfall under Social Safety net is mainly due to the increase in weights which took place in 2017, notably the change in the maximum assistance amount which increased from SR 2,500 to SR 3,945 to bring it in line with the poverty line figure. In addition, during the first six month, SR 5.1m under the Social Safety Net related to one-off payments. This is principally linked to the number of cases referred to the Agency by the Poverty Alleviation office.

Figure 5: Benefits and Approved programs of SFF



Source: Financial Planning and Control Division estimates

Net Lending

A total amount of SR 143m was made as provisions of the net lending in the budget for 2018 with the bulk of the provisions being in respect of investment projects of the Public Utilities Corporation. The project planned for the year 2018 is on track and there is no revision in the budget for that line.

Capital Expenditure

Table 23: Capital Expenditure (SR'000s)

DESCRIPTION	2017 Actual	2018 Budget	2018 Revised	2018 Revision(%)
Total Capital Expenditure	604,915	1,146,576	929,350	-18.9
Government	421,597	578,323	594,411	+2.8
Foreign Grant	172,571	377,825	248,527	-34.2
Foreign Loan	10,747	190,429	86,412	-54.6
Development Grants	142,419	187,295	180,630	-3.6
Net Lending	-453	143,163	143,163	-

Source: Financial Planning and Control Division estimates

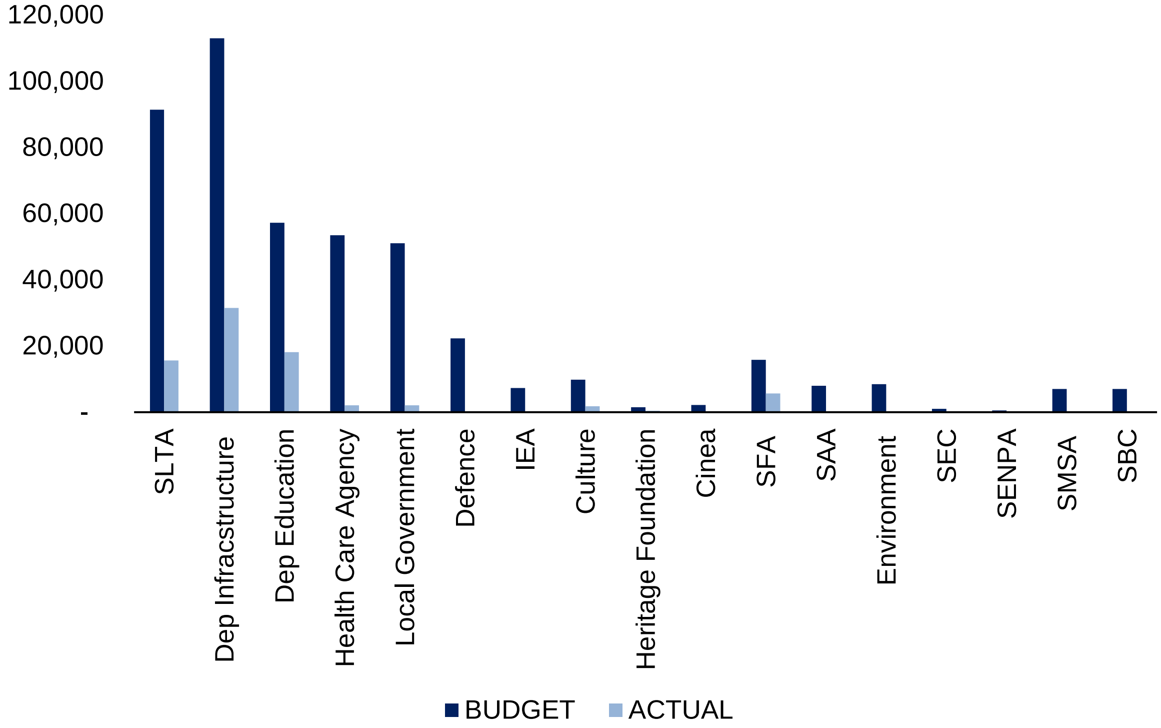
Domestic Financing

A total amount of SR 578.3m has been made available for PSIP projects under local budget for the year 2018. From this, a total of SCR 84.6m has been spent representing percentage spending of 14.6 per cent. This compares to spending of SCR 104.4m out of a total budget of SCR 504m representing a percentage expenditure of 20.7 per cent for the same period in 2017.

Below are the execution rate for the year 2018 as at end of June 2018 for MDAs accounting for the highest shares of the Government's capital budget:

- Health Care Agency – 4%
- Department of Education – 29.1%
- Department of Infrastructure – 27.8%
- Seychelles Land Transport Agency – 17.1%
- Department of Local Government – 4.1%
- Department of Environment – 3.8%

Figure 6: Capital Budget Execution as at end June 2018 (SR' 000s)



Source: Financial Planning and Control Division estimates

Loan Financing

As at end June 2018 a total amount of SR 11.1m out of an initial loan financing allocation of SR 190m has been spent. This represents up to 5.8 per cent expenditure only. This compares to a lower figure of 3.5 per cent for expenditure under loan financing for the same period in the previous year. The SR 11m spent comprises of spending primarily from the Department of Blue Economy within the SWIOfish project and the CLISSA project being implemented by the Ministry of Fisheries and Agriculture.

Other projects being financed by loans includes the construction of the second primary school at Ile perseverance, reconstruction of La Rosiere Primary school, construction of Ile Perseverance Health Center, Infrastructure Phase II Perseverance and the Health Information system. Limited spending is expected under loan financing for the year 2018 as a number of loan financed project are not expected to fully materialise including the health information system, the reconstruction of La Rosiere primary school and the construction of the Ile Perseverance Health center.

Due to the delays in the execution of the above projects, the loan-financing component of the capital budget has been adjusted downwards to SR 86.4m.

Grant Financing

A total of SR 377.8m was allocated as grant funding for the year 2018 out of which a total amount of SR 139.6m has been spent as at end June 2018. This represents a percentage expenditure of 37 per cent compared to expenditure rate of only 13.1 per cent for grant financing in the same period of the previous year. Projects being financed from grant financing in 2018 includes construction of new Magistrates' Court, reconstruction of school of Business studies & visual arts, construction of Ile Soleil secondary school, Ex Ion and Ex Kashugy housing project and project for 46 units at Kan Gard housing project.

Certain projects earmarked for financing from foreign grant would not materialise in 2018 including Ile Aurore Secondary school, and reconstruction of School of Business Studies & Visual arts for which the projects are still in design phase.

Projects such as Ex Kashugy saw completion in 2017 with a second phase commencing in 2018 whilst Ex Ion saw completion in March 2018.

Development Grants

The budget of SR 162m for development grants for 2017 has been maintained in view that the corresponding projects are more or less on track. Total spending at as end June 2017 stood at SR 66m, representing 41 per cent of the above allocation.

Table 24: Capital Expenditure (SR'000s)

DESCRIPTION	2018 Budget	Actual as at June 2018	Spending (%)
Seychelles Public Transport Corporation			
o/w Government budget	10,000	2,054	20.54
o/w Foreign Loan	20,814	0	0
Property Management Corporation	17,419	6,204	35.62
Public Utilities Corporation Local	120,000	58,932	49.11
Public Utilities Corporation Foreign loan / grant	19,062	0	0
TOTAL:	**187,295**	**67,190**	**35.87**

Source: Financial Planning and Control Division estimates

The foreign components of the development grants for both the SPTC and PUC have not been seen to materialise as of the second half of the year. The SPTC amount is to be considered for virement to the local component. On the other hand PUC's amount will partly be used to cater for shortfalls within PMC and the balance is to be considered for budget cut. While the expenditure outturn for the first half of the year has been reasonable, the spending within these lines are expected to increase in the coming months.

Projects completed first half 2017

Main projects completed during first half of 2018 includes housing projects such as Mont Plaisir housing project to deliver up to 9 housing units and part of the Ex Desaubin housing project, land bank projects such as Carana land bank extension expected to deliver up to 7 units and Pascal Village Creuve Coeur land bank from the Department of Infrastructure. There are also certain land infrastructure projects from the Seychelles Land Transport Agency including feeder road Lilot Glacis, Parson Road and Benoit Road at Les Canelles.

Outlook Second half of the year

Overall capital spending has been slow for the first half of 2018 but is expected to pick up in the second half of the year as has been the trend from previous years. Project status from MDAs shows that a number of project have completed designing stage and have either proceeded to or have already been tendered and are expected to begin implementation. These include among others 22 units for Kangard development PLS out of the 52 total units for the project, 24 units at Vilaz Kafe Anse Etoile housing project, 18 units 'Dan Zil Belombre' housing project as well as road improvement works at Pte Larue, Union Vale, Baie St Anne and Anse Boileau.

Steps have been taken in some of the major MDAs to improve on project delivery such as appointment of new staff members and regular follow up meetings to monitor progress of projects. Lack of qualified and adequate staffing remains one of the pertinent factors however affecting project management across MDAs. In addition, delays in obtaining the pre-requisites of the approved projects affects the pace of project execution.

A number of ongoing projects are expected to be completed in the second half of the year. This includes Nageon estate re-development to deliver 12 units of which 11 units have already been completed, 36 units Ile Perseverance housing project, construction of road at La Batie and feeder road Talbot Cascade.

Net Lending

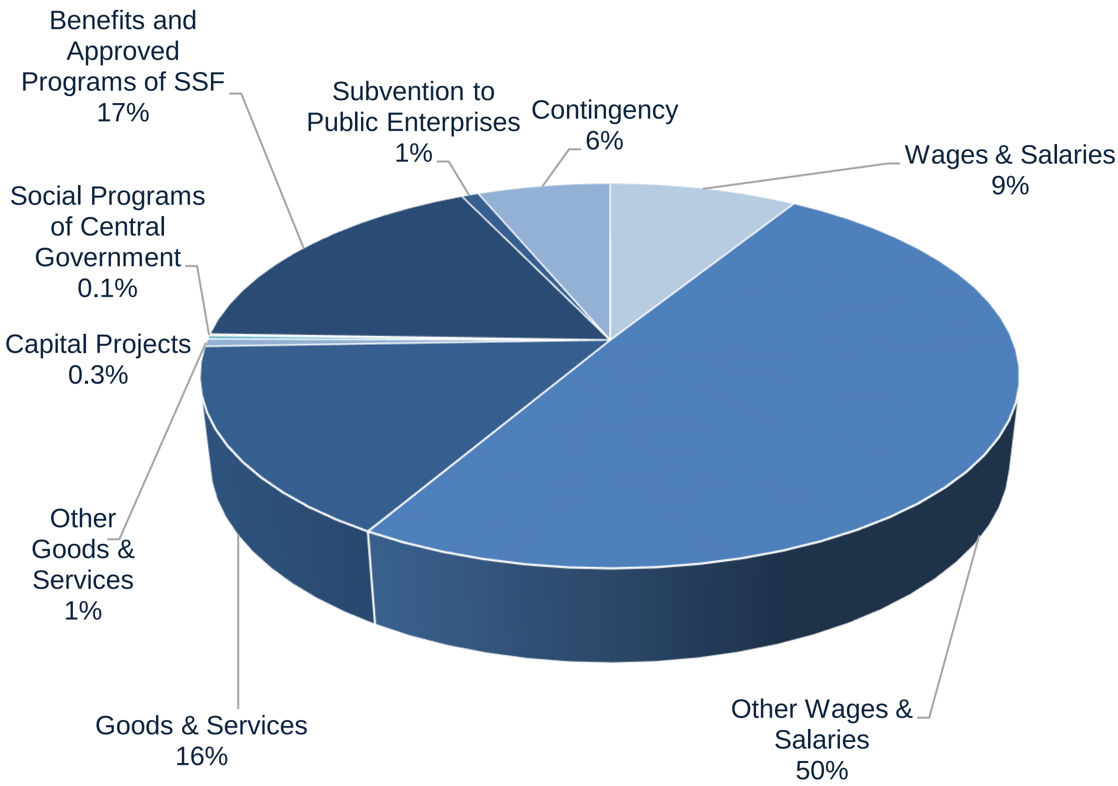
A total amount of SR 143m was made as provisions of the net lending in the budget for 2018 with the bulk of the provisions being in respect of investment projects of the Public Utilities Corporation. The project planned for the year 2018 is on track and there is no revision in the budget for that line.

Mid-Year Expenditure Revision

The proposed supplementary budget sums up to SR 436m. Of this, a total of SR 193m will be financed through Budget Cuts within expenditure lines where savings are expected until the end of the year. In addition, a total amount of SR 47m of the supplementary amount is as a result of transfer of funds between appropriated budget lines. The re- allocation is mainly due to transfer of functions between Government Portfolio or re- allocation of savings within the MDA's budget lines. The Net additional fund being proposed is SR 197m. An amount of SR 233m of the amount proposed is to clear Government MDA's tax arrears, which includes SR 208m for SSF arrears.

The revised primary balance is set at SR 657m or 3 per cent of GDP, 0.5 percentage points above the original estimate of SR 554m.

Figure 7: **Supplementary Budget Allocation**



Source: Financial Planning and Control Division estimates

Wages and Salaries

The main reason for the additional funding within this category is for the Department of Defence Scheme of Service with a shortfall of SR 12.8m related to the scheme of service, SR 6m for the Department of Police to clear the Income Tax arrears. These additional amounts are being funded through budget cuts of various organisations that will be recording a savings at the end of the year within their Wages & Salaries.

Other Wages & Salaries

Within the category of Other Wages and Salaries an additional of SR 216m will be required. This is primarily because of Tax Arrears owed by Government MDAs which amounted to SR 208m.

Under the same category the Constitutional Appointment will need SR 3.1m to cater for the deficit within the National Assembly members' emoluments and income tax arrears within Presidential Emoluments. This shortfall within National Assembly members' emoluments is mainly as a result of the forecasted budget being insufficient to cater for the increase in the number of ex-members pensions.

Goods and Services

A total of SR 63m is required as supplementary to fund shortfalls within critical budget lines of Ministries/ Departments and Agencies. Of this amount, SR 15m will be funded through budget cuts. The main organizations contributing towards the supplementary requirements are:

- Seychelles Tourism Academy: Acquisition of Equipment for school
- Department of Culture: Relocation cost as a result of the fungus issue
- National Sports Council: Preparations for the Indian Ocean Island Games
- Health Care Agency: Mainly to cater for the arrears under Medical supplies, as well as housing budget as the budget has been depleted for the year.
- Landscape & Waste Management: To cater for the ongoing Management of the Landfill with STAR and to cater for one off payments due to delays in the tender process.

Other Goods & Services

The Professional & Consultancy budget will provide a budget cut of SR 5m. This is as a result of savings within certain consultancies.

Capital Expenditure

A total of SR 1.2m is being proposed as supplementary within this expenditure category. These supplementaries will be required primarily for:

- Department of Legal Affairs: Partitioning costs for its new IP office

- Seychelles Tourism Academy: Completion of the first phase of the Hotel School

- National Arts Council: To pay off a loan which was taken for the construction of the Art gallery and Cafeteria

A total of SR 124m is being considered as budget cuts across the various capital projects. The budget cuts were considered given several delays in the execution or materialisation of projects.

Subventions to Public Enterprises

A total of SR 3.5m is required for the acquisition of urgent spares for the Seychelles Public Transport Corporation following the fire incident, which occurred.

Benefits & Approved Programs of SSF

A total supplementary of SR 60m is proposed within the Benefits & Approved programs of Government. This is mainly because of the following items:

- Retirement Benefit: the budgeted amount did not capture the benefits of people who benefited in the old regime.
- Home Care Scheme: The forecasted deficit is to cater for the shortfall based on the number of home carers currently. This has increased from when the budget was prepared.

Contingency

SR 27.3m is required under Contingency Fund. This is to cater for the Fungus Compensation for the Department of Culture and other legal compensation claims.

Debt Outlook

2018 Overall Context

At the end of July 2018, the total government and government guaranteed debt stock amounted to SR 13,155m being equivalent to about 64 per cent of GDP. The domestic debt makes up for the largest share of the total debt stock at SR 7,689m. The external debt stock on the other hand stood at SR 5,466m (i.e. about USD 392m).

Table 25: Total Debt Stock in Millions

DESCRIPTION	Domestic	External		
	SR'm	SR'm	USD	SR'm
Total Debt Stock	7,689.13	5,465.63	392.25	13,154.76
Debt to GDP Ratio (%)	38%		27%	64%

Source: Public Debt Section

2018 External Debt Stock

External Debt by Creditor Category

The total external debt stock accounts for about 27 per cent of the GDP. The total external debt can be broken down into four main groups of creditor categories; Multilateral, Bilateral, Commercial and Private Creditors. Debts owed to multilateral creditors at SR 2,058m accounts for 38 per cent and the largest share of the total external debt stock. The second largest group of debts are owed to Private creditors at SR 1,765m being equivalent to 32 per cent of the total external debt stock. Debts owed to Bilateral creditors made up of Paris Club and Non-Paris Club creditors amounts to SR 1,276m. Debt owed to Commercial Banks accounts for the smallest share (7 per cent) of the total external debt stock at SR 366m.

Table 26: External Debt by Creditor Category in USD'm at July 2018

DESCRIPTION	Debt Stock in SCR	Debt Stock in USD
Multilateral	2,058.36	147.72
Paris Club	685.42	49.19
Non Paris Club	590.52	42.38
Commercial Banks	366.28	26.29
Private	1,765.06	126.67
TOTAL: EXTERNAL DEBT	**5,465.63**	**392.25**

Source: Ministry of Finance- Public Debt Section

External Debt Repayments

Table 27: External Debt Forecast by Month - 2018 in USD'm

EXTERNAL DEBT	Aug	Sep	Oct	Nov	Dec	TOTAL
Total Interest	637,163	277,421	793,765	213,661	782,723	2,704,734
Total Principal	978,708	1,305,249	2,110,316	182,000	2,325,428	6,901,701
TOTAL: EXTERNAL DEBT	**1,615,871**	**1,582,671**	**2,904,082**	**395,661**	**3,108,151**	**9,606,435**

Source: Ministry of Finance - Public Debt Section

2018 Domestic Debt Stock

The total domestic debt accounts for SR 7,689m representing 58 per cent of the total debt stock. Most of the domestic debt in the form of securities and loans. Securities amounted to SR 6,415m (i.e. 83 per cent of the total domestic debt stock) and Loans SR 1,215m (i.e. 16 per cent of the total domestic debt stock). Other debt Liabilities accounts for about 1 per cent of the total domestic debt stock.

Table 28: Changes in Domestic Debt Stock

DOMESTIC DEBT	Debt Stock (Millions SR) Jul-2018
Securities	6,414.67
Loans	1,214.44
Other Debt Liabilities	60.03
TOTAL: DOMESTIC DEBT	**7,689.13**

Source: Ministry of Finance- Public Debt Section

Composition of Domestic Securities

Domestic Securities at SR 6,415m accounts for almost half of the total debt Stock. Treasury Bills accounts for the components of the Domestic Securities at SR 5,471m. Treasury Bonds Treasury is the second largest component of the securities at SR 600m. Treasury Deposits accounts for less than 0.3 per cent of the total domestic securities. The "Other" categories are made up of other securities such as promissory notes and Development Bank of Seychelles Bonds.

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

	Debt Stock	
	(SR'm)	(% Total Debt Stock)
Domestic Securities		
Treasury Bills	5,471.04	42
Treasury Bonds	600.00	5
Treasury Deposits	36.42	0.3
Other	307.22	2
TOTAL:	**6,414.67**	**49**

Interest Rates on Treasury Bills

The Interest Rate on treasury bills within the past two months have been on an upward trend for the 91 Days and 182 Days bills whilst on a downward trend on the 365 Days Bills. At the end of August 2018 the interest rate was 5.54 per cent on the 91 Days Bills, 5.81 on the 182 Day Bills and 6.67 per cent on the 365 Day Bills.

Table 30: Interest Rates on Treasury Bills

Treasury Bills	Interest Rates (%)		%Change
	Jul-18	Aug-18	
91 Days	5.30	5.54	5
182 Days	5.72	5.81	2
365 Days	6.98	6.67	-4

Source: Ministry of Finance- Public Debt Section and CBS

Selected Economic Indicators

	2014	2015	2016	2017	2018	2019
National income and prices						
Nominal GDP (millions of Seychelles rupees)	17,199	18,102	19,033	20,444	21,914	23,378
Real GDP growth	6.21	5.74	4.48	5.28	3.60	3.28
GDP deflator growth	2.08	-0.47	-0.89	2.13	3.50	3.30
CPI (annual average)	1.39	4.04	-0.73	2.86	4.39	3.59
Government budget (% GDP)						
Total revenue, including grants	37.7	35.1	38.3	36.4	40.1	37.6
Total revenue, excluding grants	34.6	34.3	37.1	35.6	39.0	36.1
Grants	3.1	0.8	1.3	0.8	1.1	1.4
Expenditure and net lending	35.2	34.0	38.5	36.5	40.4	38.1
Current expenditure	28.3	28.9	33.5	32.7	34.7	31.0
Of which: interest payments	2.4	3.1	3.8	3.1	3.2	3.0
Capital expenditure	5.8	4.4	4.6	3.0	4.1	5.1
Net Lending	0.7	0.4	0.2	0.0	0.6	1.1
Primary balance	4.9	4.2	3.5	3.0	3.0	2.5
Overall balance (accrual basis), including grants	2.5	1.1	-0.2	-0.05	-0.3	-0.5
Overall balance (accrual basis), excluding grants	-0.6	0.3	-1.5	-0.9	-1.4	-2.0
Overall balance (cash basis), including grants	2.5	1.1	-0.2	-0.05	-0.3	-0.5
Overall balance (cash basis), excluding grants	-0.6	0.3	-1.5	-0.9	-1.4	-2.0
Domestic bank financing (net)	-5.9	0.7	-2	-2.0	0.3	0.5
External sector (% GDP, unless otherwise indicated)	**-21.4**	**-18.6**	**-20.3**	**-20.0**	**-19.5**	**-20.6**
Current account balance including official transfers	-310	-257	-286	-295	-305	-338
Imports of goods	1 081	922	991	1155	1200	1231
Imports of services	504	498	507	552	547	573
Exports of goods	539	449	459	565	558	592
Exports of services	834	848	894	920	1021	1007
Primary Income, net	-102	-105	-131	-135	-116	-96
Secondary Income, net	3	-27	-10	-16	-22	-37
Foreign Direct Investment	108	106	86	104	43	155
Gross official reserves (USDm)	464	536	523	545	531	533
In months of imports, c.i.f.	3.9	4.2	4.1	3.7	3.8	3.7
Total external debt outstanding (% of GDP)	**38.1**	**35.7**	**33.3**	**30.44**	**29.21**	**27.12**
Total debt outstanding (SR'm)	12,393		13,355	13,747	13,682	13,507
Total debt outstanding % of GDP	72.1	71	70.2	67.24	62.43	57.78
Domestic (% of GDP)	33.9	35.3	36.9	36.80	33.23	30.66
External (% of GDP)	38.1	35.7	33.3	30.44	29.21	27.12
External (millions of U.S. Dollars)	514.3	485.3	475.1	415.5	409.2	385.9

Source: Seychelles Macroeconomic Framework Working Group