# Mid-Year Economic and Fiscal Outlook

## Financial Year 2016 and 2017 Outlook

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**Ministry of Finance, Trade and The Blue Economy, August 2016**

MYEFO looks at the state of the economy for the current year (2016) 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 2017 economic activity and tax revenues. Combined, this allows for the determination of a recommended Government expenditure "envelope" for 2017. 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 |
| MFAD | Macroeconomic Forecasting and Analysis Division |
| FPCD | Financial Planning and Control Division |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GST | Goods and Services Tax |
| IMF | International Monetary Fund |
| ICT | Information Communications Technology |
| LMG | Locally Manufactured Goods |
| LPG | Liquid Petroleum Gas |
| LPO | Local Purchase Order |
| PIM | Public Investment Management |
| PIT | Personal Income Tax |
| PEMC | Public Enterprise Monitoring Commission |
| PFM | Public Finance Management |
| PPBB | Performance Program Based Budgeting |
| PSIP | Public Sector Investment Program |
| SSF | Social Security Fund |
| SRC | Seychelles Revenue Commission |
| NBS | National Bureau of Statistics |
| NTB | National Tender Board |
| NDEA | National Drug Enforcement Agency |
| MFTBE | Ministry of Finance Trade and Blue Economy |
| ODC | Other Depository Corporations |
| OT | Other Tax |
| SEAS | Seychelles East-Africa Submarine cable |
| SIDS | Small Island Development States |
| 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 2016 giving a brief outlook for the rest of 2016 and 2017. Secondly, the source and amount of taxes that will be collected by Government in the remainder of 2016 and in 2017 is outlined. The taxes are the main component determining the overall level of Government's spending that will be possible in 2016.

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 2016.

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

# Economic Outlook

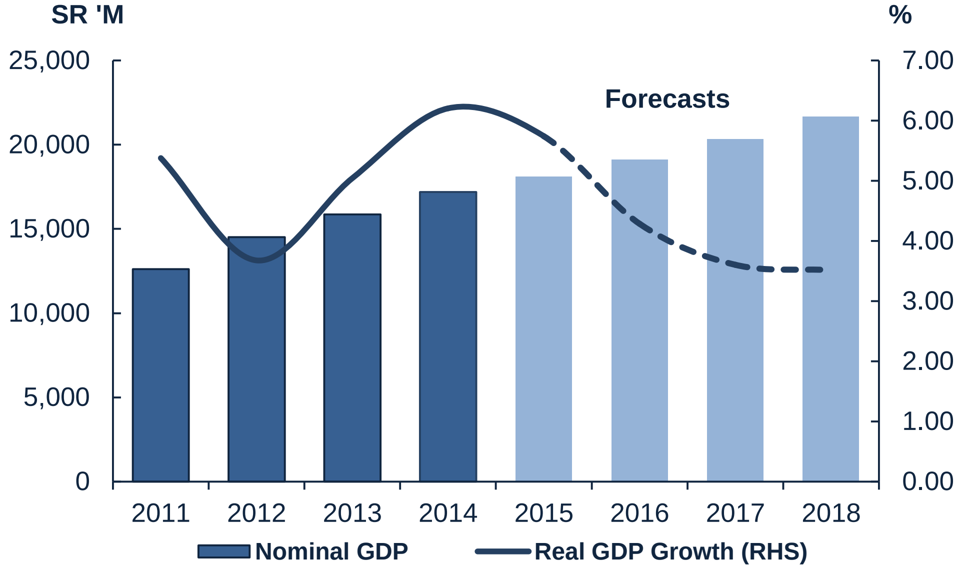
## Overview

Despite the better-than-expected performance in early 2016 for the world economy (such as the recovery in financial and oil markets), UK's referendum to exit the EU poses an important downside risk. As a result, the global economic outlook has been revised downward reflecting the expected macroeconomic consequences of a sizeable increase in uncertainty. Based on the IMF's revised July 2016 WEO forecast, world economic growth is now forecasted at 3.1 per cent for 2016 instead of 3.2 per cent. UK's economy alone have been revised downward by 12 per cent (from 1.9 to 1.7 per cent).

Following strong estimated growth in 2015 of 5.7 per cent, the Seychelles economic growth is projected to decelerate and reach about 4 per cent for 2016 given the increase in global uncertainty as well as some domestic factors, . On the domestic front, the lower projected growth is reflective of the observed slowdown in economic activities for the first half of 2016. There has been a remarkable fall in Manufacturing - with the exception of canned tuna production. Furthermore, the Tourism sector is projected to grow modestly at around 5 per cent compared to the 8 per cent projection last year. With all large projects completed, not much activity is foreseen in the construction sector, except for increased residential construction also aided by an increase in Government housing loan schemes. Activity remains resilient in the 'Information and Communication' sector and continuous growth is anticipated in the 'Financial and Insurance' activities.

There has also been a 6 per cent downward revision in the Nominal GDP level. This is related to a lowering of the inflation forecast, as well as a more stable exchange rate than initially envisaged. The inflation rate has been negative for seven consecutive months in 2016 whereas the SR/USD and SR/EUR exchange rates have depreciated by 1.5 per cent and 4.9 per cent respectively for the first half of the year.

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




Source: NBS and Macroeconomic Forecasting & Analysis Division estimates

These uncertainties has an undoubted impact on macroeconomic forecasting process. Assuming external conditions remain favourable, growth is forecasted at an average of around 3 per cent in the medium term. Average inflation level is forecasted to vary between 2 to 3 per cent. The graph above shows the actual and forecasts for the Nominal and Real GDP for Seychelles economy.

**Tourism activities** continue to grow this year but at a slower pace compared to 2015 which had quite a high base. Arrivals for the first half of the year were up by 9 per cent in comparison to the same period last year. The European market continues its recovery following the 2014 downturn with a 9.6 per cent increase by the end of June. The situation is expected to continue for the rest of the year. This will be supported by extensive marketing by STB, the return of Qatar Airways, launching of Turkish Airlines, Austrian Airlines as well as other code sharing agreements between Air Seychelles and other airlines.

In the **Manufacturing** sector, the manufacturing of beverages have fallen remarkably for the first half of the year compared to the same period in 2015. This is attributed to a cut back in production by the major brewing company which experienced some technical difficulties. With the problem now fixed and product re-branding, production is expected to pick up in the second half of the year. On the other hand, canned tuna production is recovering strongly in 2016 compared to last year. Production for the first half of the year shows double digit growth of 17 per cent. The rate is expected to decline slightly in the last half of the year but will have little impact on the overall growth.

The **Information and Communication** sector remains strong in 2016 with the level of data usage continuously increasing. The introduction of IPTV, mobile banking and e-payments are all contributing towards growth in this sector. The latter, coupled with continuous credit growth, new banks and an increase in bureau de change, has helped to sustain the growth in the **'Financial and Insurance'** sector.

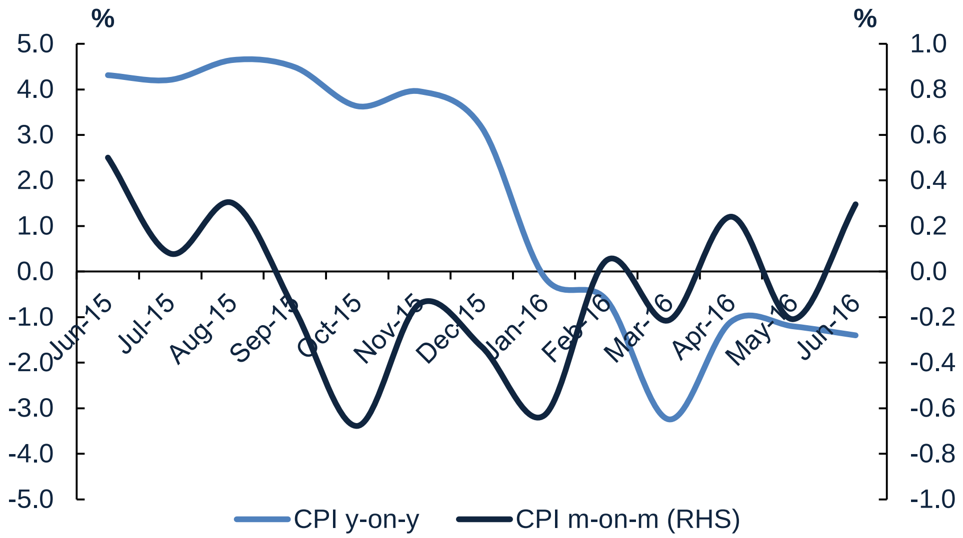
# Monetary Sector

## Inflation

As at end-July 2016, the year-on-year inflation rate, as indicated by the CPI, has fallen by 0.7 per cent, marking the seventh consecutive month of negative growth. The annualised inflation rate stood at 0.9 per cent, also on a downward trend after peaking at 4.0 per cent in December 2015. These movements have been supported by favourable commodity prices externally, which offset the effect of the depreciating, albeit stable, domestic currency.

However, an uptick in inflationary pressures is forecasted in the short to medium term primarily due to rising global commodity prices and domestic demand pressure. The latter is as a result of increased earnings following announced fiscal policy measures on Personal Income tax. Subject to the level of fiscal consolidation, this is expected to lead to increased household consumption and potentially, household credit thereby fuelling aggregate demand. Higher foreign exchange demand, a seasonal weakening of the domestic currency and credit growth outside deposit-taking institutions are also additional risks to inflation. Nonetheless, the Bank remains vigilant and continues to actively monitor developments locally and internationally that may affect price stability, and remains ready to adjust policies should the need arise.

**Figure 2: CPI year-on-year and month-on-month between June 2015 and June 2016**




Source: NBS

## Interest Rates

The year thus far has observed some mixed movements in interest rates. The savings rate remained broadly unchanged at 2.90 per cent since the end of 2015 and fell to 2.87 per cent in July 2016. On the other hand, the lending rate has dropped by 30 basis points since the start of the year. Credit extended to the private sector currently stands at 6.6 per cent, moderated somewhat in relation to the double digit growth recorded over the same period in 2015. Higher Treasury bill rates have been useful in mopping up excess liquidity from the system with depositors opting to invest in said securities rather than the lower deposit rates offered by banks.

These changes have come despite the fact that the Bank has maintained a tight policy stance since the start of 2016 in view of short to medium term inflationary risks.

# External Sector

On the external side the country's balance of payments with the rest of the world is expected to improve in comparison to 2015. At year's end, the current account deficit is forecasted to narrow to 15 per cent of GDP or USD 223m compared to USD 253m or 18 per cent of GDP the year before. The projected improvement in the balance of payments is mainly attributed to the positive impact of increased exports on the country's trade balance.

## Imports

An increase in the total value of goods imports is anticipated in 2016 primarily as a result of favourably low global commodity prices and relatively stable exchange rate. In addition, increased disposable income due to the positive impact of government reforms namely the rise in minimum wage and elderly pension as well as the thirteenth month salary. The higher goods imports is further exacerbated by the rise Foreign Direct Investment (FDI) inflows which positively impacted on FDI-related imports.

## Exports

A recovery in goods export is projected for 2016 following a decline the year before. The driving factor being a foreseen rebound in canned tuna exports in value terms after the drop which was recorded in 2015.

## Services

The country's net exports of services is expected to maintain an increasing trend. Building on the positive performance of 2015, tourist arrivals is expected to increase this year albeit at a lower rate. In the aftermath of Brexit and with the European economies weak economic recovery, tourism earnings in dollar terms is not expected to record significant growth.

## Capital and Financial Accounts

The capital and financial accounts balance is a useful indicator of a country's ability to either finance or explain current account transactions.

Consistent with the trend in recent years it is estimated that capital transfers will continue to decline in 2016. With Seychelles having attained high income status according to World Bank's classification its eligibility to access concessionary credits as well as grants has gradually declined over the years.

FDI is projected to increase in 2016 to stand at USD 165m or approximately 56 per cent above that of the previous year. FDI flows in the offshore sector is the main reason behind the increase.

## External Reserves

The country's external reserves stood at USD 534m at the beginning of September 2016 which is equivalent to 4.6 months of imports. The country's external reserves is expected to drop to USD 503m or 4.3 months of imports at the end of the year. The decline in external reserves can be explained by increased debt repayments in the fourth quarter.

# Fiscal Outlook

The Government of Seychelles remains committed to achieving fiscal sustainability in the medium term, with sovereign debt reduction as the main anchor for fiscal policy since the commencement of the IMF reform programme in 2008. The Government has prioritised the implementation of some social reforms to address concerns of growing income inequality. As a result, the Government has decided to push back the target of reaching 50 per cent of Debt to GDP from 2018 to 2020. This will provide additional fiscal space to allow the implementation of such reforms such as a progressive Income tax system in 2017.

The primary balance for 2016 has been lowered to about SR 574m – a decrease of about of 25 per cent (equivalent to SR 193m). This represents a downward revision in the primary surplus target to 3 per cent of GDP from the previous budgeted 3.8 per cent (Table 1 below). Despite the SR 417m increase in the total revenue estimate, primary expenditure has increased by 1.5 times that amount or SR 611m, and has effectively pushed the primary balance downwards. Dividend income, as well as tax revenue have been the main providers of this additional fiscal space in the Budget envelope, whereas significant increases in Government transfers is causing this strong pressure on expenditure.

In 2017, the surplus target is forecasted to fall by 1 percentage point to reach 2 per cent of GDP as a result of lower expected revenue collections. This will be discussed further in the following sections.

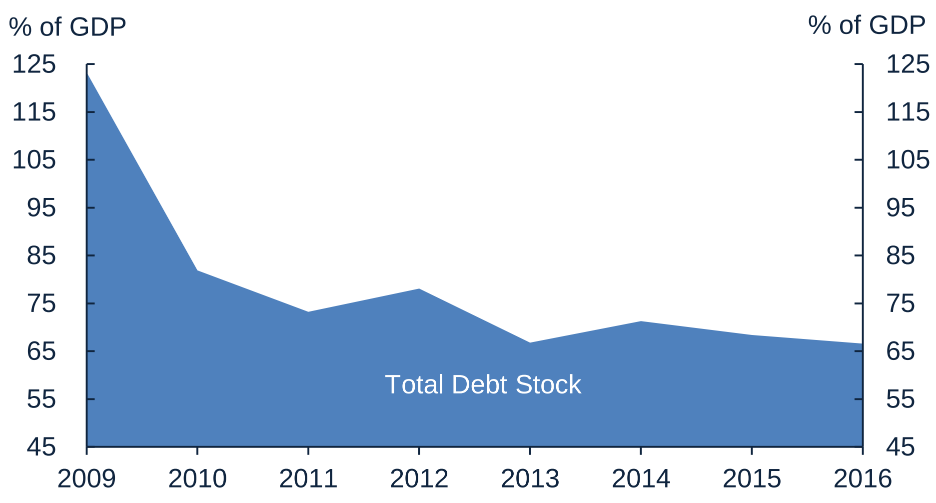
Total Debt is expected to fall to 68 per cent of GDP by the end of 2017 (  Figure 3 below).

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

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Revenue & Grants | 6,361,777 | 7,279,404 | 7,696,803 | 7,551,447 |
| Primary Expenditure | 5,595,774 | 6,512,054 | 7,122,777 | 7,146,425 |
| **PRIMARY BALANCE:** | **766,003** | **767,350** | **574,027** | **405,022** |
| **% of GDP:** | **4.2** | **3.8** | **3.0** | **2.0** |

Source: Ministry of Finance estimates

**Figure 3: Total Debt to GDP**




Source: Ministry of Finance, Debt Division estimates

## Revenue & Grants

Total Government revenue is estimated to increase by about SR 417m, to reach SR 7.7bn (Table 2 below) in 2016. This represents a positive adjustment of about 6 per cent to the overall Budget envelope for 2016. About three fifths of this increase is attributed to a positive shift in the Non-tax revenue estimate driven by higher dividend payments, whilst tax revenue, the largest component of the envelope at about 80 per cent, accounts for just under half of this increase. A fall of about SR 15m is expected for Grant income.

**Table 2: Breakdown of Medium Term Revenue (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Tax Revenue | 5,557,794 | 5,940,423 | 6,128,624 | 6,228,507 |
| Non-Tax Revenue | 659,611 | 870,325 | 1,114,231 | 1,018,791 |
| Grants | 144,372 | 468,657 | 453,948 | 304,148 |
| **TOTAL: REVENUE & GRANTS** | **6,361,777** | **7,279,404** | **7,696,803** | **7,551,447** |
| **% of GDP:** | **35.1** | **35.6** | **40.2** | **37.1** |

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

A contraction in total Government revenue is projected for 2017, as a result of an expected slowdown in tax revenue receipts, as well as a fall in Non-tax (to normal levels) and Grants components.

## Tax Revenue

The total tax revenue estimate for 2016 has been revised to reach SR 6.1bn, which represents an increase of about SR 188m from the initial Budget estimate of SR 5.9bn (equivalent to a 3 per cent increase). This positive outlook is being driven mainly by a significant stamp duty payment, without which would have resulted in a lowering of the Budget estimate given newly introduced revenue losing policies (most notably, the first phases of progressive Income tax reform). Higher-than-expected collections in the first half of the year are also factored into the mid-year Budget revisions.

In 2017, tax revenue is forecasted to remain flat with a slight 1 per cent increase. The high cost of introducing a fully progressive system under Income tax as from January 2017 will almost fully compensate for expected increased collections amongst the remaining tax lines and so keeping collections at about the same level of 2016.

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

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Personal Income Tax | 947,749 | 1,047,001 | 884,474 | 734,387 |
| Trade Tax | 326,272 | 297,941 | 351,510 | 316,854 |
| Excise Tax | 961,921 | 1,018,000 | 1,073,326 | 1,379,093 |
| GST (Goods and Services) | 4,372 | 0 | 651 | 0 |
| Value Added Tax | 1,798,867 | 1,939,046 | 1,952,255 | 2,043,194 |
| Business Tax | 756,966 | 846,177 | 901,235 | 977,735 |
| Corporate Social Responsibility Tax (CSR) | 79,489 | 85,042 | 83,985 | 89,317 |
| Tourism Marketing Tax (TMT) | 45,428 | 64,030 | 55,128 | 65,728 |
| Other Tax | 636,730 | 643,186 | 826,062 | 622,200 |
| **TOTAL: TAX REVENUE** | **5,557,794** | **5,940,423** | **6,128,624** | **6,228,507** |
| **% of GDP:** | **28.7** | **29.0** | **32.0** | **30.6** |

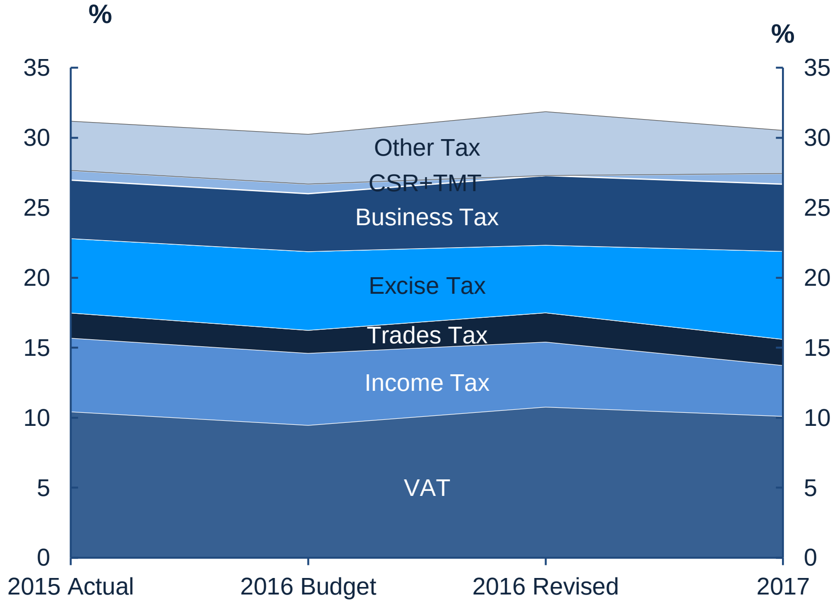
Source: Ministry of Finance and Macroeconomic Forecasting & Analysis Division estimates

As can be seen from **Figure 4** total revenue is now estimated to be equivalent to about 32 per cent of GDP in 2016 (a 2 percentage point increase).

VAT and Excise tax remain large contributors, at about 11 and 5 per cent respectively.

With collections expected to remain flat, the outlook for 2017 tax to GDP is a fall to 30.5 per cent – slightly higher than the 2013 level.

**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.

### *2016 Context and 2017 Projections*

The Income tax estimate has been revised downwards from the initial Budget figure of about SR 1bn to a total of SR 884m for the mid-year Budget 2016 revision. This amounts to a reduction of about SR 163m, equivalent to 16 per cent. The lower outlook is a result of the first phases of the progressive Income tax reform announced in the State of the Nation address (February 2016). The 2017 projection has also been significantly reduced, with the planned introduction of a comprehensive progressive Income tax system in January 2017.

**Table 4: Medium Term Income Tax (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Central Government | 252,570 | 282,670 | 239,593 | 220,887 |
| Other Public Sector | 118,589 | 129,127 | 115,738 | 93,670 |
| Private Sector | 576,126 | 635,204 | 529,143 | 419,830 |
| **PRIMARY BALANCE:** | **947,285** | **1,047,001** | **884,474** | **734,387** |
| **% of GDP:** | **5.2** | **5.1** | **4.6** | **3.6** |

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

As explained earlier, the Income tax reforms in 2016 have been undertaken in two phases, with the focus being on alleviating the tax burden on lower wage earners. These reforms have been estimated to cost about SR 149m:

| ***Phase 1 April 2016 – SR 17m cost*** | ***Phase 2 July 2016 – SR 132m cost*** |
|---|---|
| • Minimum wage exemption policy<br>Minimum wage mitigation policy | • SR8,555.50 exemption<br>SR 8,555.50 mitigation policy |

The individual components of Income tax have therefore been discounted accordingly to reflect the impact of these revenue losing policy changes, with the spread of costs being most significant in the 'Private sector' with a reduction of about SR 90m to its initial estimate. This is followed by the 'Central Government' line which has been lowered by about SR 40m due to policies, and the 'Other Public sectors' at about SR 19m.

In addition to this, with Income tax under-performing by about SR 10m after the first half of the year, a now more conservative stance is being taken with regards to collections for the remainder of 2016. Given this, the total Income tax Budget for 2016 was further reduced by about SR 14m.

With these movements in Income tax, the share to GDP has fallen by 0.5 percentage points to 4.62 per cent of GDP in 2016. A further 1 percentage point drop is expected in 2017 and the ratio will reach 3.6 per cent of GDP – the lowest since 2010.

## Trades Tax

*Background*

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

*2016 Context and 2017 Projections*

Total Trades tax has been revised upwards to SR 351m from the budget forecast of SR 298m. This upward revision of SR 53m was predominantly as a result of classification issues in 'Levy' as well as a surge in alcohol consumption. The 2016 and the medium term revenue breakdown for Trades tax is summarised in Table 5 below.

**Table 5: Medium Term Trades Tax (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| **Trades Tax Direct Imports** | **330,799** | **302,941** | **356,510** | **321,854** |
| Alcohol | 97,078 | 105,465 | 146,692 | 128,692 |
| Petroleum | 0 | 0 | 0 | 0 |
| Textiles and textile articles | 25,727 | 29,171 | 23,965 | 25,487 |
| Motor Vehicles | 57,453 | 65,873 | 40,640 | 0 |
| Tobacco | 1,885 | 1,449 | 1,993 | 2,065 |
| Prepared Food | 18,592 | 18,749 | 18,906 | 20,107 |
| Others | 77,227 | 80,488 | 59,888 | 78,690 |
| Levy | 51,222 | 0 | 62,019 | 64,255 |
| Documentary Charges | 1,615 | 1,745 | 2,407 | 2,559 |
| **Trades Tax Exemptions** | **(4,527)** | **(5,000)** | **(5,000)** | **(5,000)** |
| **TOTAL: TAX REVENUE** | **326,272** | **297,941** | **351,510** | **316,854** |
| **% of GDP:** | **1.8** | **1.6** | **1.9** | **1.6** |

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

It was expected at budget time that 'Levy' would be transferred out of Trades tax and into Other tax. However, the transfer has been delayed and its timing is uncertain. As a result the Levy forecast was revised from zero to SR 62m in Trades tax with a similar reduction in Other tax. Levy has also been classified under Trades tax in 2017 until confirmation is received of its outward transfer.

Alcohol revenue increased sharply by 57 per cent when comparing the first half of the year in 2016 and the same period last year. This large rise in alcohol consumption is likely due to a frequent political rallying prior to parliamentary elections and has led to a 63 per cent over-performance as compared to Budget up to June 2016. As a result, the forecast was increased by SR 41m (39 per cent) for 2016. The forecast was increase by a lower percentage than that of the over-performance as consumption is expected to ease off post-elections. Alcohol revenues are forecast to fall to SR 128m in 2017 as it is not an election year.

‘Others’ Trades tax under-performed persistently throughout the first half of 2016 resulting in a revenue shortfall of 26 per cent. Accordingly the forecast was reduced by SR 20.6m to SR 60m. Minor deviations were recorded in other lines with ‘Motor Vehicles’ being revised upwards by SR 1.6m and ‘Textiles’ being reduced by SR 5.2m.

Trades tax on ‘Motor Vehicles’ has been transferred to Excise tax in 2016 and thus the forecast has been revised downwards by SR 25m. The Excise tax forecast was increased by the same amount. The transfer was effected in August 2016.

## 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.

### *2016 Context and 2017 Projections*

Excise tax has been revised upwards by SR 55.3m, or 5.4 per cent, compared to the Budget. This is attributed to the transfer of ‘Motor Vehicles’ Trades tax to Excise tax and also to the strong performances on imports, specifically Alcohol.

**Table 6: Medium Term Excise Tax (SR’000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| **Excise-Imports** | **680,069** | **710,608** | **791,447** | **1,069,316** |
| Alcohol | 133,814 | 130,956 | 181,987 | 197,386 |
| Petroleum | 493,401 | 535,166 | 526,900 | 755,928 |
| Motor Vehicles | 44,409 | 38,413 | 73,754 | 106,886 |
| Tobacco | 8,444 | 6,074 | 8,806 | 9,115 |
| **Excise-Locally Manuf. Goods** | **281,853** | **307,391** | **281,879** | **309,777** |
| Alcohol | 144,046 | 157,345 | 154,215 | 177,624 |
| Tobacco | 137,806 | 150,046 | 127,664 | 132,153 |
| **TOTAL: TAX REVENUE** | **961,921** | **1,018,000** | **1,073,326** | **1,379,093** |
| **% of GDP:** | **5.3** | **5.6** | **5.0** | **6.8** |

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

By the end of the first half of the year, Imported Alcohol over-performed by SR 47m or 90 per cent. This may be partly associated with the parliamentary election activities and may also be a substitution effect due to the fall in local production. Locally Manufactured Alcohol under-performed for the first half of the year by SR 16m following the fall in production by Seybrew which experienced some technical issues with their machinery. However, production is expected to pick up for the rest of the year hence compensating for the under-performance.

Excise on Motor Vehicles has been revised upwards by SR 35m, mainly reflecting the transfer of 'Motor vehicles' Trades tax to Excise tax. This was effected as from August 2016. The upward revision on Imported Tobacco is attributed to the more favourable economic growth compared to the Budget projection.

Finally, there has been a downward revision of SR 22.3m to the taxes on Locally Manufactured Tobacco. The lower forecast for the mid-year revision is due to the fall in revenue collected in the first half of 2016 which can be linked to the contraction in tobacco production as observed in the production statistics published by NBS.

## 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.

### *2016 Context*

Since its replacement by VAT, there are still some arrears being collected under GST. This averages to around SR 90k per month. Up to July, SR 651k had been collected under this line and no major payment is foreseen for the rest of the year.

**Table 7: GST Revenues 2015 and 2016 YTD (SR'000)**

| DESCRIPTION | 2015 | 2016 YTD |
|---|---|---|
| GST-Arrears | 4,268 | 651 |
| **TOTAL: TAX REVENUE** | **4,268** | **651** |
| **% of GDP:** | **0.0002** | **0.00004** |

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.

*2016 Context and 2017 Projections*

Compared to budget, VAT has been revised upwards by SR 13m, or 0.7 per cent.

**Table 8: VAT Revenues 2014 to 2016 (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| VAT- Domestic | 990,387 | 1,089,486 | 1,079,600 | 1,148,145 |
| VAT- Imported | 832,598 | 874,560 | 897,655 | 920,049 |
| VAT-Exemptions | (24,118) | (25,000) | (25,000) | (25,000) |
| **TOTAL: TAX REVENUE** | **1,798,867** | **1,939,046** | **1,952,255** | **2,043,194** |
| **% of GDP:** | **9.9** | **9.5** | **10.8** | **10.0** |

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

The major upward revision is mainly on VAT Imports which has been revised upwards by SR 23m. This is to factor in the over-performance on imports observed for the first half of the year. Other import taxes have similarly over-performed over the same period. The strong performance is coming from importation of alcohol. As stated above, this may be a result of higher alcohol consumption over the election period.

For the first half of the year, Domestic VAT has been more or less in line with budget. Some sectors such as Tourism have seen lower collections compared to last year. This is in line with the fall in tourism earnings as reported by the CBS. However growth in other sectors such as 'Information and Communication' and 'Financial and Insurance' activities have compensated for these under-performances.

## 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.

### *2016 Context and 2017 Projections*

Unlike the situation of Business tax in 2015 of significant refunds, this year Business tax is in the opposite situation with no significant refunds to date. Apart from better business performance, the lower number of refunds can also be a result of the revised methodology for estimating provisional tax which is now more conservative than before. Notable good performances came from banks and a hotel which translated into large positive assessment income which was paid around the second quarter of 2016. To reflect this, a windfall of the year to date actuals was taken which resulted in an extra SR 45m and the mid-year revision of Companies standing at just under SR 703m. Given the volatile nature of Business tax, assessment income will be monitored closely.

The SRC identified about SR 126m from business audits and Customs audit and half of the amount was incorporated in the Business tax forecast. About 80 per cent businesses' have objected to the SRC's claim. It has had slow collections in raising the budgeted amount with only a small percentage collected.

Sole Traders and Withholding tax are kept at the level of 2015 as these two lines have seen a 75 per cent and 30 per cent growth from 2014 to 2015. In fact, Sole Traders are at the highest level it has ever been with the last three year average at SR 22m. Thus we are maintaining a conservative approach to see if it continues peaking or plateaus this year.

Partnerships and Residential Dwelling showed an over-performance of SR 3.6m and SR 2.8m respectively and the forecasts have been adjusted upwards to account for the strong collections. Overall, Business tax in the mid-year Budget represents almost 5 per cent of GDP.

**Table 9: Medium Term breakdown of Business Tax (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Companies | 565,218 | 663,843 | 702,944 | 754,601 |
| Sole Traders | 48,583 | 44,440 | 48,583 | 64,588 |
| Partnerships | 12,699 | 12,136 | 16,975 | 22,928 |
| Trusts | 13 | 16 | 13 | 14 |
| Withholding Tax | 87,286 | 83,847 | 87,286 | 87,286 |
| Others | 413 | 157 | 435 | 463 |
| Residential Dwelling | 42,753 | 41,738 | 44,998 | 47,855 |
| **TOTAL: TAX REVENUE** | **756,966** | **846,177** | **901,235** | **977,735** |
| **% of GDP:** | **4.2** | **4.1** | **5.0** | **4.8** |

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.

*2016 Context and 2017 Projections*

Corporate Social Responsibility tax been revised downwards very slightly for the mid-year Budget 2016 revisions, by about SR 1m, equivalent to a 1 per cent change. It is now estimated to collect just under SR 84m in CSR tax in 2016. This reduction comes as a result of a slightly lower 2015 base than expected (about SR 1m lower).

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

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Corporate Social Responsibility Tax (CSR) | 79,437 | 85,042 | 83,985 | 89,317 |
| **TOTAL: TAX REVENUE** | **79,437** | **85,042** | **83,985** | **89,317** |
| **% of GDP:** | **0.4** | **0.4** | **0.4** | **0.4** |

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

CSR tax has performed very well so far in 2016, with the first half performance deviating from the estimate by less than SR 500k. Such a favourable outturn reflects better compliance in this relatively new tax product.

## Tourism Marketing Tax

*Background*

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

*2016 Context and 2017 Projections*

In the 2016 national budget address, it was announced that casinos and construction class one licence holders would be included to be liable to pay TMT. At Budget time, Tourism Marketing tax for 2016 was estimated at SR 19m higher than 2015 because of the policy announcement. However, the tax line has consistently under-performed every month and was later revised downwards by SR 7m to SR 55m. This is because there was a delay in the amendment of the law so the policy would only be effective in the second half of 2016. MFAD recently learned that the statutory instrument has been drafted and is ready to be signed. Therefore, there is the possibility for Tourism Marketing tax to pick up in the last quarter. It is expected for 2017 to feel the full year effect of the policy change.

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

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Tourism Marketing Tax (TMT) | 45,428 | 64,030 | 55,128 | 65,728 |
| **TOTAL: TAX REVENUE** | **45,428** | **64,030** | **55,128** | **65,728** |
| **% 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).

*2016 Context and 2017 Projections*

Other Tax has been revised upwards by SR 183m for the mid-year-year Budget. The initial budget projection for collection in 2016 was SR 643m, compared to the revised SR 826m. This is equivalent to a 28 per cent increase. The 2015 outturn and the medium term revenue for Other Tax is summarized in Table 12 below.

**Table 12: Medium Term Other Tax (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| **OT- Ministry of Finance** | | | | |
| Trade/Ind Licences | 8,337 | 8,350 | 8,158 | 17,152 |
| Licences and Other Licence Registration | 2,703 | 2,562 | 2,609 | 5,503 |
| Road Tax and Other Licences | 88,125 | 90,228 | 96,288 | 100,058 |
| Telecommunications Licences | 85,838 | 80,067 | 88,805 | 84,647 |
| Casino Licences | 3,295 | 3,634 | 2,439 | 6,027 |
| Hotel Licences | 113 | 130 | 197 | 304 |
| Liquor and Toddy Licences | 270 | 253 | 228 | 536 |
| Radio Broadcasting Licences | 1,701 | 2,050 | 2,050 | 2,050 |
| FSA Fees | 158,255 | 156,000 | 162,629 | 167,629 |
| Levy | 0 | 49,553 | 0 | - |
| **SUB TOTAL** | 348,638 | 392,826 | 363,403 | 383,907 |
| **OT- MoENRT** | | | | |
| Annual EU Fishing Licence Fees | 43,308 | 37,232 | 35,689 | 40,231 |
| EU Fishing Licence: Vessel Fee | 37,205 | 28,150 | 37,126 | 44,219 |
| Non-EU Fishing Licence Fees | 59,926 | 46,418 | 61,132 | 51,010 |
| Local Fishing Licence Fees | 656 | 518 | 684 | 709 |
| **SUB TOTAL** | **141,094** | **112,318** | **134,632** | **136,169** |
| **OT- Department of Legal Affairs** | | | | |
| Stamp Duty | 140,472 | 131,169 | 320,404 | 99,225 |
| **OT-Department of Transport** | | | | |
| Vehicle Testing | **6,526** | **6,873** | **7,624** | **7,898** |
| **TOTAL: TAX REVENUE** | **636,730** | **643,186** | **826,062** | **627,200** |
| **% of GDP:** | **3.5** | **3.6** | **4.6** | **3.1** |

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

It was expected that this year Levy would be collected under Other Tax. An amount of SR 49m was budgeted for the year 2016. The necessary legislative amendments has to date not been made, thus this has been revised downwards to nil and Levy reallocated Levy to Trades Tax (refer to Trades Tax section page 11). Furthermore, EU Fishing Vessel Fees has been revised upwards by SR 9m whilst the Non-EU fishing Licence Fees has been revised upwards by SR 15m based on a higher forecast of the number of Non-EU fishing licences registered late last year and higher excess catch fees. This in turn was due to EOY outcome for 2015 which showed stronger than expected performance.

Despite the introduction of a new policy the removal of Stamp Duty on land sales for first time buyers (which was roughly estimated to cost SR 131m in 2016), Stamp Duty has been revised upwards by SR 189m where a payment of USD 16.5m is expected from the sale of Cable and Wireless Seychelles.

'Telecommunication Licenses' has been revised upwards by SR 8m as a telecom operator is expected to make arrear payments from 2015 during 2016. Road tax has been over-performing this year so was revised upwards by SR 6m.

## Non-Tax Revenue & Grants

*2016 Context and 2017 Projections*

The total non-tax revenue collected as at June 2016 summed up to SR 417m. The same period in 2015, recorded actual revenue receipts of SR 249m.

**Table 13: Non-Tax revenue and grants (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| **Non-Tax Revenue** | **659,611** | **870,325** | **1,114,062** | **985,631** |
| Fees and Charges | 321,680 | 386,094 | 469,989 | 439,630 |
| Dividends Income | 228,234 | 325,415 | 445,579 | 332,255 |
| Other Non-Tax | 109,697 | 158,815 | 198,494 | 213,746 |
| **Grants** | 144,372 | 468,657 | 453,948 | 304,148 |
| **TOTAL: NON-TAX REVENUE** | **803,983** | **1,338,981** | **1,568,010** | **1,289,779** |
| **% of GDP:** | **4.1** | **6.5** | **8.2** | **6.3** |

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

### Fees and Charges

During the first six months of the year, the total revenue collection within Fees & Charges summed up to SR 221m. This represents an over-performance of Fees & Charges revenue by SR 29m, when compared to the budgeted amount.

**Table 14: Fees and Charges (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| First half of the year | 157,101 | 193,045 | 221,058 | 206,758 |
| Second half of the year | 164,579 | 193,049 | 248,931 | 232,872 |
| **TOTAL: FEES AND CHARGES** | **321,680** | **386,094** | **469,989** | **439,630** |
| **% of GDP:** | **2.6** | **1.9** | **2.5** | **2.2** |

Source: Financial Planning and Control Division estimates

This over-performance has been primarily as a result of FIU Fees & Fines. The main line item contributing towards the over performance within this category of revenue has been the FIU Fees & Fines

## Dividend Income

The first six months of the year recorded actuals of SR 102m. This is a reduction of SR 61m from the budgeted amount.

**Table 15: Dividend Income for the first half of 2016 (SR'000)**

| DIVIDEND INCOME | Budget | Actual |
|---|---|---|
| SIMBC | 42,900 | 79,200 |
| SNOC(SEPEC) | 50,000 | - |
| Land Marine Ltd | 4,000 | - |
| Seychelles Port Authority | 12,500 | - |
| IOT | 18,330 | - |
| SCAA | 25,000 | 21,600 |
| AFREXIM BANK | 188 | 795 |
| SHELTER AFRIQUE | 1,250 | - |
| IDC | 2,000 | - |
| Seychelles Commercial Bank | 5,040 | - |
| Development Bank of Seychelles | 1,000 | - |
| Housing Finance Company | 500 | - |
| SIMBC | 42,900 | 79,200 |
| SNOC(SEPEC) | 50,000 | - |
| **TOTAL: DIVIDEND INCOME** | **162,708** | **101,595** |

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

## Other Non-Tax

Other non-tax totalled up to SR 94m as at 30 June. This represents an over-performance of SR 14m, or 18 per cent, from the budgeted amount. This positive performance is expected to continue during the second half of the year. As such, the amount forecasted for the 2016 budget has been revised upwards to SR 198m.

The main factors contributing to this positive performance during the first half of the year are 'Coral Fill Royalty' and 'Deep Sea extraction and sales'.

**Table 16: Other Non-Tax (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised |
|---|---|---|---|
| First half of the year | 39,890 | 79,408 | 93,855 |
| Second half of the year | 69,806 | 79,408 | 104,638 |
| **TOTAL: OTHER NON-TAX** | 109,697 | 158,815 | 198,494 |
| **% of GDP:** | **0.6** | **0.8** | **1.0** |

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

## Grants

The total grant receipts initially budgeted for the year 2016 was SR 469m and during the mid-year review was revised downwards to SR 462m. The 2 per cent downwards revision is as a result of lower disbursement anticipated for grant financed capital projects.

**Table 17: Grants Receipts for 2016 (SR'000)**

| GRANT RECEIPTS | 2015 | 2016 Budget | 2016 Revised |
|---|---|---|---|
| **Cash Grant** | 120,667 | 131,877 | 179,033 |
| **Benefit in Kind** | 23,705 | 336,779 | 282,907 |
| Capital | 23,705 | 335,167 | 274,915 |
| Recurrent | - | 1,612 | - |
| Program Grant/Budget Support | - | - | 7,992 |
| **TOTAL: GRANT RECEIPTS** | **144,372** | **468,657** | **461,940** |
| **% of GDP:** | **0.7** | **2.3** | **2.4** |

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

### *Cash Grant*

In 2016, the cash grants forecasted have been revised upwards to SR 171m. This is largely due to new grant agreements coming into force in first half of 2016, especially in relation to climate change related projects in the Environment Sector.

### *Benefit in kind*

Whilst cash grants has been revised upwards, grants to be received in kind has been revised downwards by SR 54m for the second half of the year.

As has been the case in previous years, this has been as a result of capital projects being financed in the form of grants in kind not progressing as per implementation plan .The four main social housing projects contributing to the downward revision in budget are Ex-Desaubin and Ex-Ion, Ex-Kashugy being financed by the Abu Dhabi Government and the re-development of Corgate Estate to be financed by the Chinese Government. Delays in the process for the procurement of Medical and Educational equipment under the Indian Grant has also affected the grants in kind receipts for 2016.

The Program grants being catered for in the revised figures relate to the grant from the European Union for the implementation of the Education sector medium strategy and the schools rehabilitation support budget. Both grants were expected to be disbursed in 2017 but was disbursed in 2016 in view of the urgency for implementation of some programmes and projects in the educational sector.

# Expenditure

### *Scope*

This part is dedicated towards the 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 Minister have direct control over.

### *Overview*

The total primary expenditure for 2016 has been revised upwards to SR 7,123m. This is from an initial budgeted amount of SR 6,512m. This increase has been largely due to the need for increased spending within key budget lines, such that there are no disruptions in the operations of Organisations.

**Table 18: Primary Expenditure (SR'000)**

| PRIMARY EXPENDITURE | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Wages and Salaries | 1,161,286 | 1,253,637 | 1,264,248 | 1,324,733 |
| Goods and Services | 1,016,348 | 1,080,249 | 1,169,094 | 1,114,300 |
| Transfers | 2,462,335 | 2,810,302 | 3,251,223 | 3,348,874 |
| Other | 28,760 | 28,208 | 34,587 | 30,304 |
| Capital Expenditure | 801,462 | 1,204,972 | 1,318,937 | 1,110,094 |
| Net Lending | 77,043 | 109,687 | 53,687 | 218,559 |
| Contingency | 48,541 | 25,000 | 31,000 | 25,000 |
| **TOTAL: PRIMARY EXPENDITURE** | **5,595,774** | **6,512,054** | **7,122,777** | **7,171,865** |
| **% of GDP:** | **28.6** | **31.8** | **37.2** | **35.2** |

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

## Current Expenditure

### *Background*

The first six months of the year recorded a current expenditure of SR 1,170m. This was against a budgeted figure of SR 1,167m. This has resulted in an overall deficit of SR 3m.

**Table 19: Current Expenditure (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| Wages and Salaries | 1,161,286 | 1,253,637 | 1,264,248 | 1,324,733 |
| Goods and Services | 1,016,348 | 1,080,249 | 1,169,094 | 1,114,300 |
| **TOTAL: CURRENT EXPENDITURE** | **2,177,634** | **2,333,886** | **2,433,343** | **2,439,033** |
| **% of GDP:** | **11.1** | **11.4** | **12.7** | **12.0** |

Source: Financial Planning and Control Division estimates

### *2015 Context and 2016 Projections*

The importance of certain key positions and budget shortfalls highlighted during the Mid-Year Review exercise, brought about the need to revise the Wages & Salaries budget upwards. The consolidated Goods & Services budget followed a similar upward trend. This was necessary to ensure that Ministries/ Departments are able to comply towards its commitments till the end of the year.

The Wages & Salaries budget is expecting an upward increase of 4.8 per cent in 2017. This is to ensure it incorporates the introduction of $13^{th}$ month salaries for PSC holders. This increase is counterbalanced by a reduction in the 2017 Goods & Services budget. This results in a meagre increase of 0.2 per cent for the consolidated primary expenditure figure in 2017, when compared to the revised 2016 figures.

### *Wages and Salaries*

The actual expenditure recorded for the first six months summed up to SR 657m. This is opposed to a budget of SR 627m, resulting in a negative variance of SR 30m. The negative variance is largely as a result of the lump sum payment of SR 64.4m made at the start of the year in relation to $13^{th}$ month salary dues. Many Ministries/ Departments will be requiring additional funds to cater for certain key deficits within the Wages & Salaries budget. Others, due to delays in identifying suitable candidates to fill certain positions or delays in effecting certain salary amendments, have found overall savings within their budget for the first half of the year. A large part of these savings will be used up during the second half of the year.

### *Goods and Services*

A budget of SR 540m was allocated towards the Goods & Services budget during the first half of the year. The actual expenditure for the same period was recorded at SR 513m, resulting in a savings of SR 27m, or 5 per cent The same period in 2015, recorded a positive variance of 2 per cent The increase in savings in 2016, compared to 2015, is largely as a result of a 6 per cent increase in the incumbent year's budget.

From the trends of previous years, it is often the case that spending is lower during the first half of the year as compared to the second half. This is normally as a result of delays in the execution of certain programmes. The main Ministries/ Departments recording variances within their Goods & Services budget are:

- Department of Defence:
  During the first half of the year, a total deficit of SR 21m was recorded. This has been largely as a result of urgent expenditures which had to be incurred at the start of the year, mainly in terms of acquisitions of equipment and repairs. This was not reflected in the budgeted amount when it was prepared at the start of the year. Virements and additional funds are to assist in clearing this shortfall

- Judiciary:
  A total savings of SR 5m was recorded by the Judiciary during the first six months of the year. This savings has been largely as a result of delays in the implementation of certain of its activities. Control measures being implemented within the Judiciary have also contributed towards the outlined savings.

- Ministry of Home Affairs:
  As of June 2016, the consolidated savings for the Ministry summed up to SR 11m. This has been due to a combination of factors. Several new control measures are being introduced within the Ministry. This has translated into savings for the first half of the year. Delays in the receipt of certain invoices has also contributed towards the savings. However, in such cases, the savings have been committed and will be used during the second half of the year.

- Ministry of Education:
  A total savings of SR 20m was recorded during the first half of the year. This marked positive variance is as a result of delayed spending within certain account codes. Spending will pick up during the second half of the year. Differing patterns of actual spending compared to the projections made at the start of the year has also contributed to the positive variance.

- Ministry of Health:
  From the allocated half-year budget, the Ministry recorded a total savings of SR 11m. A large portion of this savings is as a result of the Ministry not moving to the new office premises. In addition, delays in implementing certain plans set at the start of the year have contributed to this. All savings will be re-directed towards crucial account codes where shortfalls are expected.

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

From the total budget of SR 69.9m, an amount of SR 69.9m was recorded as actuals. This results in a meagre savings of SR 0.07m. The trends recorded during the first half of the year is expected to continue till the end of the year.

### *Transfers to Public Sector of Central Government*

The forecasted budget for this category of expenditure summed up to SR 983m for the first six months of 2016. The same period recorded an actual expenditure of SR 929m, resulting in a savings of SR 54m.

- Financial Intelligence Unit
  From the start of the year, the unit has been facing difficulties in recruiting qualified staff to fill up the vacancies within the Organisation. Delays in the receipt of key invoices during the first half, has also contributed towards its savings. As of June, this savings totalled up to SR 17m.

- Health Care Agency:
  During the first half of the year, the total deficit for the Agency summed up to SR 22m. This is primarily as a result of delays in the receipt of the Indian grant. Due to the urgency of certain drugs, early releases of quarterly budgets and virements had to be effected to cater for these requirements.

- Small Business Finance Agency:
  The deficit of SR 27m is largely as a result of overspending within the Micro Financing code. This code records Government's contribution towards the concessionary loans being provided by the Agency. The demand for these loans has continued to increase. Just for the period January to August, the Agency recorded a total of 602 loans. This is expected to increase in the coming months up until December. Early releases and supplementary funds are required to clear this overspending.

- Agency for National Human Resources Development
  A large portion of the allocated budget relates to Tertiary Education expenses. The savings of SR 28m is largely as a result of delays in receipt of invoices from the Universities. This savings will be used up during the second half of the year.

*Benefits and Approved Programs of SSF*

The spending for the first half of the year summed up to SR 407m. This is an excess spending of SR 31m over its approved budget. The main Programs contributing towards this deficit are Home Carers Scheme and Social Safety Net. The 'Transfer of Retirement Benefits paid by SPF' line also recorded a deficit.

## Capital Expenditure

A total of SR 695m was spent on capital expenditures for 2015 as compared to the budgeted SR 949m. Delays in overall preparation of projects and procurement procedures by the implementing agencies were among the major contributing factor for the lower than budgeted spending.

**Table 20: Capital Expenditure (SR'000)**

| DESCRIPTION | 2015 | 2016 Budget | 2016 Revised | 2017 |
|---|---|---|---|---|
| **Capital Expenditure** | | | | |
| Capital Projects | 695,646 | 1,061,972 | 1,162,937 | 960,094 |
| o.w. Grant funded | 144,372 | 467,045 | 453,948 | 304,148 |
| Development Grant | 89,889 | 123,000 | 123,000 | 130,000 |
| **% of GDP:** | **4.3** | **5.8** | **6.7** | **5.4** |

Source: Financial Planning and Control Division estimates

For the year 2016, the initial budget for capital expenditure stood at SR 1.1bn. This has now been revised upward to SR 1.6bn to meet certain shortfalls identified in funds for projects. A number of large capital projects are currently being implemented from different sources of finance.

*Domestic Financing*

Projects requiring additional funds before year end are mostly in the housing and transportation and environment sector. These projects includes certain infrastructure projects from the department of climate change, road improvement projects from the Land Transport Agency, housing and land bank projects from the Ministry of Land Use and Housing.

A number of projects being either part financed or completely financed by 'domestic financing' however are experiencing delays such as certain renovation projects by the Ministry of Health, road infrastructure projects such as phase III road works at Mont Buxton, road improvement work on Praslin and housing projects such as the 'Ex Desaubin' and 'Ex Oliver' housing estates. The 'ex Dominic Savio' housing estate project being financed by 'domestic financing' however which will deliver 36 units is expected to be completed in February of next year.

*Loan Financing*

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

*Grant Financing*

Grant financing for capital projects for the remainder of the year stands at SR 287m for the third quarter and SR 33.1m for the fourth quarter the larger chunk of which is expected as 'in kind'. Civil infrastructure projects being financed by grant financing are mostly in the housing sector. Ministries such as the Ministry of health and the Ministry of Education however are also assisted by grant financing for the acquisition of certain specific equipment. Most notable housing projects such as the 'Ex Desaubin' project partly being financed by grant are experiencing delays in implementation. The ongoing 'Ex-Kashguy' housing estate project however which will deliver 24 units is expected to be completed in November of this year.

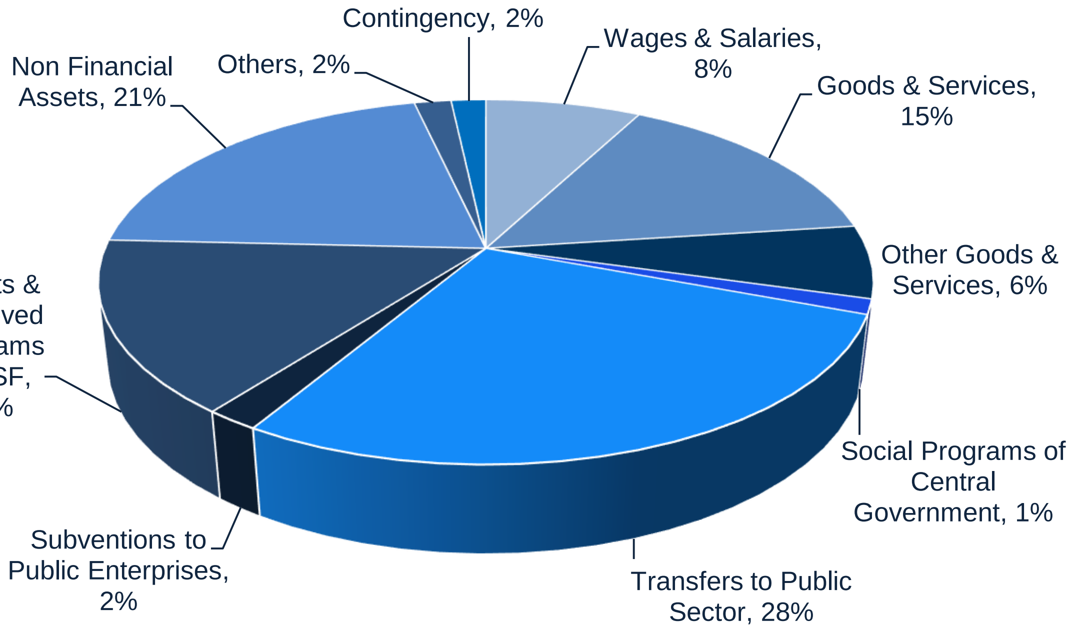
## Net Lending

A total amount of SR 110m was allocated towards Net Lending in the budget. This has been revised downwards to SR 54m. This downward revision is necessary given all funds allocated towards PUC projects financed by on-lending will not be disbursed.

# 2016 Mid-Year Expenditure Revision

Following the review process carried out on the first half of the year and expectations for the rest of the year, a supplementary of SR 347m is being put forward to the National Assembly by the Government. This represents 1.8 per cent of GDP. In addition, savings of SR 59m were identified for budget cuts during the Mid-Year Review Exercise

**Figure 5: Supplementary Budget Allocation**




Source: Financial Planning and Control Division estimates

*Wages & Salaries*

Of the supplementary being proposed, 8 per cent (SR 27m) relates to Wages & Salaries of Ministries/ Departments. These shortfalls were highlighted during the Mid-Year review exercise carried out by the Ministry of Finance, Trade & The Blue Economy

*Goods & Services*

The total amount of SR 54m being proposed for the Goods & Services is to cater for shortfalls being faced within certain account codes. The main Ministries/ Departments are:

- Department of Public Administration: Graduate Housing Allowance
- Ministry of Foreign Affairs & Transport: Creation of new Embassies and Expansion of existing ones
- Ministry of Home Affairs: Hire of vehicles, Repairs and Maintenance of vehicles, Parliamentary elections, Sensitive Security Unit, Creation of Demand Drug Reduction Unit and Compensation to workers.
- Ministry of Education: Housing expenses to staff

### *Other Goods & Services*

An amount of SR 22m is being allocated towards Professional & Consultancy Services

### *Social Programs of Central Government*

A supplementary of SR 5m is being allocated to the following:

- Empowerment & social protection programme
- Seychelles News Agency
- Early Childhood Care & Education Trust Fund
- Residential Care Services

### *Transfers to Public Sector*

The largest portion of the supplementary is being allocated towards the Transfers to Public Sector. Shortfalls in the Wages & Salaries budget of the Entities has been one of the factors. In addition to this, the main requirements to be financed through the supplementary of SR 97m are:

- Seychelles Fishing Authority: Zone 14 project, Upgrading of Ice plants, Fuel incentive scheme for Fishermen, Foreign Consultancy fees, Anse Royale Fish Market, Acquisition of containerized ice plants
- Health Care Agency: Drugs, Laboratory supplies, medical supplies
- Public Health Authority: Dengue and Yellow Fever vaccines
- Seychelles Land Transport Agency: Asphalting works, road maintenance, fuel, Acquisition of paver
- Agency for National Human Resources Development : Tertiary Education

### *Subventions to Public Enterprises*

The allocation to this category sums up to SR 7m. The main public enterprises being financed are:

- SPTC
- Seychelles Postal Services

### *Benefits & Approved Programs of SSF*

The supplementary has catered for funding of SR 53m towards this category of spending. This relates mainly to Home Carers Scheme, Social Welfare and Retirement Benefits

### *Capital Outlays*

The capital budget is being allocated SR 72m of the supplementary budget. The funds will finance shortfall in certain on-going projects being undertaken by key Budget bodies such as Ministry of Land Use & Housing, Seychelles Land Transport Agency, Department of Climate Change, Ministry of Home Affairs and Seychelles Broadcasting Corporation.

### *Others*

An amount of SR 5m is being allocated towards Subscription to International Organisations

### *Contingency*

The Contingency account code has been allocated SR 6m within the Supplementary budget.

# Debt Outlook

## 2016 Overall Context

At the end of June 2016, the total debt stock was SR 12.8bn. The stock was made up of SR 5.7bn for external stock and SR 7.1bn for domestic debt. The debt to GDP ratio was 65 per cent, made up of 29 per cent for external debt and 36 per cent for domestic debt.

**Table 21: Total Debt Stock in Millions**

| DESCRIPTION | Domestic | External | | Total |
|---|---|---|---|---|
| | SR'm | SR'm | USD | SR'm |
| Total Debt Stock | 7,137 | 5,721 | 429 | 12,844 |
| Debt to GDP Ratio (%) | 36 | 29 | | 65 |

Source: Public Debt Section

The debt to GDP is forecasted to be 64 per cent by the end 2016. The debt stock trend indicates a decrease of 0.4 per cent in external debt, while domestic debt has increased by 7.4 per cent. The rise in debt stock was due to an increase in treasury bills intake for monetary policy.

## 2016 External Debt Stock

The stock of external debt stock at the end of June 2016 was SR 5,721m equivalent to USD 429m. The external debt stock accounts for 45 per cent of the total debt stock and 29 per cent of GDP. There are no arrears.

**Table 22: Total External Debt in Millions**

| EXTERNAL DEBT STOCK | 16-Jun | |
|---|---|---|
| | USD | SR |
| **External Debt Stock** | **429** | **5,721** |
| Of which Arrears | 0 | 0 |

Source: Ministry of Finance- Public Debt Section

*External Debt by Creditor Category*

Private creditors has the largest share of external debt equivalent to 39 per cent, Multilaterals 31 per cent, Bilateral Paris Club 11 per cent, Non Paris Club 10 per cent and Commercial Banks 9 per cent. Most of the debt of private creditors are for the External Bond issued in 2010.

**Table 23: External Debt by Creditor Category in USD Millions**

| DESCRIPTION | Capital Balance | Principal Arrears | Interest Arrears | Total Arrears | Debt Stock |
|---|---|---|---|---|---|
| Multi-Lateral | 131 | 0 | 0 | 0 | 131 |
| Paris Club | 46 | 0 | 0 | 0 | 46 |
| Non Paris Club | 44 | 0 | 0 | 0 | 44 |
| Bank | 40 | 0 | 0 | 0 | 40 |
| Private | 169 | 0 | 0 | 0 | 169 |
| **TOTAL: EXTERNAL DEBT** | **429** | **0** | **0** | **0** | **429** |

Source: Ministry of Finance- Public Debt Section

*External Debt Repayments*

External debt repayment forecast for the period July to December 2016 totals up to USD 25m. The majority of repayments will be principal USD 16.4m, while an amount of USD 8.4m will be for interest

**Table 24: External Debt Forecast by Month - 2016 in USD'm**

| EXTERNAL DEBT (USD) | Jul | Aug | Sep | Oct | Nov | Dec | TOTAL |
|---|---|---|---|---|---|---|---|
| Total Interest | 6,226 | 372 | 103 | 844 | 105 | 800 | 8,450 |
| Total Principal | 9,143 | 567 | 445 | 4,673 | 176 | 1,555 | 16,558 |
| **TOTAL: DEBT FORECAST** | **15,369** | **939** | **547** | **5,516** | **281** | **2,355** | **25,008** |

Source: Ministry of Finance - Public Debt Section

## 2016 Domestic Debt Stock

There has been no major change in the domestic debt stock from the first quarter to the second quarter of 2016. While there was a slight increase of 0.62 per cent in domestic securities, there was also a decrease of 2.67 per cent in loans and guarantees.

**Table 25: Changes in Domestic Debt Stock**

| DOMESTIC DEBT | Debt Stock (Millions SR) | | % Change |
|---|---|---|---|
| | 16-Apr | 16-Jun | |
| Securities | 5,732 | 5,767 | 0.62 |
| Domestic Loans/Guarantees | 1,393 | 1,356 | -2.67 |
| **TOTAL: DOMESTIC DEBT** | **7,125** | **7,123** | |

Source: Ministry of Finance- Public Debt Section

### *Domestic Debt by Creditor*

Treasury Bills accounted for the majority of domestic debt stock at 71 per cent, followed by domestic loans at 13 per cent. Total government guaranteed debt was SR 431m, which was 6.1 per cent of the debt stock.

**Table 26: Domestic Debt by Creditor (SR'm)**

| | Debt Stock | |
|---|---|---|
| | (SR'm) | (% Debt Stock) |
| ***Domestic Securities*** | | |
| Treasury Bills | 5,111 | 71.8 |
| Treasury Bonds | 513 | 7.2 |
| Government Stocks | 30 | 0.4 |
| Treasury Deposits | 32 | 0.4 |
| Other securities | 82 | 1.1 |
| ***Domestic Loans*** | 925 | 13 |
| **Domestic Loans Guaranteed** | 431 | 6.1 |
| **TOTAL:** | **7,123** | **100** |

Source: Public Debt Department

### *Interest Rates on Treasury Bills*

There has been an increase in the Treasury Bills interest for all three maturities from the first quarter to the second quarter of 2016. The 91 day Treasury Bills increased by 24.6 per cent, while 182 day and 365 Treasury Bills increased by 41.3 per cent and 17.2 per cent respectively.

**Table 27: Interest Rates on Treasury Bills**

| Treasury Bills | Interest Rates (%) | | %Change |
|---|---|---|---|
| | Apr-16 | Jun-16 | |
| 91 Days | 5.70 | 7.10 | 24.6 |
| 182 Days | 3.68 | 5.20 | 41.3 |
| 365 Days | 6.79 | 7.96 | 17.2 |

Source: Ministry of Finance- Public Debt Section and CBS

# Selected Economic Indicators

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| **National income and prices** | | | | | | |
| Nominal GDP (millions of Seychelles rupees) | 14,519 | 15,864 | 17,199 | 18,102 | 19,138 | 20,354 |
| Real GDP growth | 3.7 | 5.0 | 6.2 | 5.7 | 4.3 | 3.6 |
| GDP deflator growth | 11.1 | 4.0 | 2.1 | -0.5 | 1.4 | 2.6 |
| CPI (annual average) | 7.1 | 4.3 | 1.4 | 4.3 | 2.5 | 2.4 |
| **Government budget (% GDP)** | | | | | | |
| Total revenue, including grants | 41.8 | 38.9 | 37.7 | 35.1 | 40.2 | 37.1 |
| Total revenue, excluding grants | 37.0 | 34.5 | 34.6 | 34.3 | 37.8 | 35.6 |
| Grants | 4.8 | 4.4 | 3.1 | 0.8 | 2.4 | 1.5 |
| Expenditure and net lending | 39.5 | 38.8 | 35.2 | 34.0 | 41.0 | 38.5 |
| Current expenditure | 27.9 | 28.9 | 28.3 | 28.9 | 33.7 | 32.0 |
| *Of which: interest payments* | 3.7 | 5.0 | 2.4 | 3.1 | 3.8 | 3.4 |
| Capital expenditure | 11.1 | 9.5 | 5.8 | 4.4 | 6.9 | 5.4 |
| Net Lending | 0.0 | 0.0 | 0.7 | 0.4 | 0.3 | 0.9 |
| Primary balance | 6.0 | 5.6 | 4.9 | 4.2 | 3.0 | 2.0 |
| Overall balance (accrual basis), including grants | 2.3 | 0.0 | 2.5 | 1.1 | -0.8 | -1.4 |
| Overall balance (accrual basis), excluding grants | -2.5 | -4.4 | -0.6 | 0.3 | -3.2 | -2.9 |
| Overall balance (cash basis), including grants | 2.3 | 0.0 | 2.5 | 1.1 | -0.8 | -1.4 |
| Overall balance (cash basis), excluding grants | -2.5 | -4.4 | -0.6 | 0.3 | -3.2 | -2.9 |
| Domestic bank financing (net) | -4.1 | -1.4 | -5.9 | 0.7 | 0.3 | 0.5 |
| **External sector (% GDP, unless otherwise indicated)** | | | | | | |
| Current account balance including official transfers | -28.4 | -17.7 | -18.9 | -16.1 | -14.5 | -13.9 |
| *Imports of goods* | 93.72 | 80.73 | 76.02 | 67.82 | 68.69 | 70.10 |
| *Imports of services* | 48.18 | 47.19 | 37.91 | 33.04 | 35.73 | 36.21 |
| *Exports of goods* | 21.49 | 19.04 | 35.42 | 36.65 | 36.91 | 38.29 |
| *Exports of services* | 42.16 | 39.80 | 58.67 | 62.33 | 62.31 | 63.15 |
| Primary Income, net | -0.14 | -5.63 | -6.93 | -7.64 | -6.80 | -5.90 |
| Secondary Income, net | 2.18 | 1.05 | 0.20 | -1.96 | -2.14 | -0.83 |
| Foreign Direct Investment | 1.1 | 1.3 | 7.6 | 7.8 | 11.3 | 13.3 |
| Gross official reserves (USDm) | 307.5 | 425.1 | 464.3 | 535.6 | 503.4 | 503.4 |
| In months of imports, c.i.f. | 2.9 | 3.8 | 3.9 | 4.3 | 3.9 | 3.9 |
| **Total external debt outstanding (% of GDP)** | | | | | | |
| Total debt outstanding (SR'm) | 11,340 | 10,590 | 12,270 | 12,384 | 12,745 | 13,064 |
| Total debt outstanding % of GDP | 78.1 | 66.8 | 71.3 | 68.4 | 66.6 | 64.2 |
| *Domestic (% of GDP)* | 36.0 | 30.4 | 33.5 | 36.4 | 29.9 | 37.4 |
| *External (% of GDP)* | 42.1 | 36.3 | 37.9 | 32.0 | 36.7 | 26.8 |
| External (millions of U.S. Dollars) | 470 | 477 | 464 | 440 | 429 | 404 |

Source: Seychelles Macroeconomic Framework Working Group