



SEYCHELLES BUDGET 2014

BEYOND REFORMS:
ACCELERATED GROWTH FOR SHARED PROSPERITY



finance

trade and
investment



Beyond Reforms: Accelerating Growth for Shared Prosperity

Having recovered from the economic and financial crises of 2008 to record five successive years of growth, the time has come for the Government to share the benefits of this growth with its people. As Seychelles is now poised to move beyond the era of reforms, our policies have to be geared to accelerate growth further and create more prosperity. As a responsible Government we also need to ensure that the benefits of this greater prosperity continue to be shared equally and fairly with our people.

We forecast growth in the Seychelles economy to increase marginally to 3.6% in 2014 and accelerate to 4% in 2015.

Budget Objectives:

Government has undertaken a comprehensive review of the wage level and structure in Government for the following reasons:

- to pass on the benefits of the reforms to public servants
- to ensure that public service salaries remain competitive and that the Government continues to attract quality staff

Government has frozen non-priority expenditures for the first half of 2014 to 2013's levels while an exercise is performed to rationalize the budget and promote more savings within Ministries and agencies through the identification of possible wastage.

Government in the meantime will continue to invest to improve the welfare of the people and to support growth.

Budget overview—comparison

	Budget 2013 (Revised)		Budget 2014	
	SR' million	% of GDP	SR' million	% of GDP
Total Revenue & Grants	5,978.50	39.10%	6,199.90	37.50%
Tax Revenue	4,714.20	30.80%	5,050.80	30.60%
Non Tax Revenue	842.1	5.50%	665.7	4.00%
Grants	422.2	2.80%	483.5	2.90%
Total Expenditure and Net Lending	5,834.40	38.20%	6,044.70	36.60%
Current Primary expenditure	3,900.00	25.50%	4,189.80	25.40%
Capital Expenditure	1,184.50	7.70%	1,157.50	7.00%
Net Lending	47.9	0.30%	86.8	0.50%
Contingency	57.5	0.40%	45	0.30%
Debt Interests	644.5	4.20%	565.6	3.40%
Primary Balance¹	788.6	5.20%	720.9	4.40%
Overall Balance	144.1	0.90%	155.3	0.90%
Nominal GDP	15,288.20		16,514.60	

¹Primary Balance includes a back-to-back loan from the European Investment Bank for the Public Utilities Corporation. Excluding this loan, the primary fiscal surplus would be SR822.9 million or 5% of GDP.

Budget overview—other key economic indicators

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Prel.	2015 Proj.	2016 Proj.
National income and prices							
Nominal GDP (millions of Seychelles rupees)	11,746	13,119	14,147	15,288	16,515	17,831	19,253
Nominal GDP growth	1.8	11.7	7.8	8.1	8.0	8.0	8.0
Real GDP growth	5.6	5	2.9	3.5	3.6	4.0	4.0
GDP deflator growth	-3.7	6.4	4.8	4.4	4.4	3.3	3.3
CPI (annual average)	-2	2.6	7.1	4.6	4.4	4.4	4.4
CPI (end-of-period)	0.0	5.5	5.8	4.5	4.3	3.0	3.0
External sector (In US\$m)							
Gross official reserves (end of year, US\$m)	254	277	307	400	436	436	436
In months of imports, c.i.f.	2.6	2.8	3	3.7	3.9	3.7	3.6
Current account balance (as a % of GDP)	-22.2	-27.0	-27.1	-22.6	-19.6	-17.8	-16.6
Total external debt outstanding							
Total debt outstanding (m)	9,686	9,432	9,410	10,321	10,313	9,900	9,422
per cent of GDP	82	72	67	69	62	56	49
Domestic (m)	4,148	3,630	3,508	4,645	4,198	3,919	3,669
External (SR m)	5,538	5,802	5,902	5,676	6,115	5,981	5,753
External (USD m)	456	461	476	472	498	487	468

Renewable Energy Schemes

In our efforts to become an environmentally-friendly country, the Government has been working on various schemes to promote the use of renewable energy by households.

In 2014 Government will invest a total of **SR4.0 million** to support small businesses and households through a number of renewable energy schemes as follows:

- **SR3 million** annually over the next three years toward the Photovoltaic Rebate Scheme, the main objective of which is to reduce our country's dependence on imported fossil fuel through the use of grid-connected PV solar energy systems. The Scheme will focus mainly on households and small businesses.
- **SR1 million** toward an interest rate subsidy under the Seychelles Energy Efficiency and Renewable Energy Programme (SEEREP) at all commercial Banks. The SEEREP scheme will provide loans up to SR100,000 at the concessionary interest rate of 5% for households to adopt more energy efficient equipment, including home appliances, photovoltaic solar panels, solar water heaters and other forms of efficient energy technology.



Electricity and Water Tariffs

In November, the Public Utilities Corporation (PUC) began the process of **rebalancing the domestic utility prices.**

Utility prices of households will **gradually rise over the next eight years** so that the price paid by the consumer will at least cover the cost of production.

However, through a **Government subsidy**, households consuming less than **400 kilowatts** of electricity per month will not see an increase in tariffs in electricity tariffs this year.

For 2014, this support from Government to the most energy-efficient homes will cost **SR12 million.**

Water bills of consumers using less than **10 cubic metres of water** will also **not** see an increase in the water for the first two years because of Government's decision to **reduce the environment levy** on all water bills from **SR25 to SR10** over that period.



A Smart Subsidy for First Time Home Buyers

Government will launch a new housing finance subsidy scheme for first time homebuyers from January 2014. For this, Government has budgeted SR21 million.

Through this scheme first time buyers **earning under SR20,000** per month will qualify for a Government subsidy in the form of a cash grant that will go toward the applicant's down payment. To qualify for the subsidy, applicants will need to have a minimum of **10% as personal contribution** toward the cost of the property. The level of subsidy will vary according to salaries of applicants as follows:

Income (after PIT)	Maximum Subsidy (in SR)
Up to 5,999	200,000
6,000 to 6,999	180,000
7,000 – 7,999	160,000
8,000 – 8,999	140,000
9,000 – 9,999	120,000
10,000 – 10,999	100,000
11,000 – 11,999	95,000
12,000 – 12,999	90,000
13,000 – 13,999	85,000
14,000 – 14,999	80,000
15,000 – 15,999	75,000
16,000 – 16,999	70,000
17,000 – 17,999	65,000
18,000 – 18,999	60,000
19,000 – 19,999	50,000
20,000 and above	0



Increase in Wages & Salaries

The Seychellois people have gone through great pains to sustain the economic reforms. Whilst there have been salary increases in recent years, these have lagged behind inflation.

Government has therefore decided to give a substantial national salary increase in 2014. The increases will ensure a proportionate increase in the salaries of all individuals across government.

A sum of **SR1.261 billion** has been set aside for wages and salaries for 2014.

The increases in public service salaries and constitutional appointees will cost government an additional **SR131 million**.

Minimum Wage

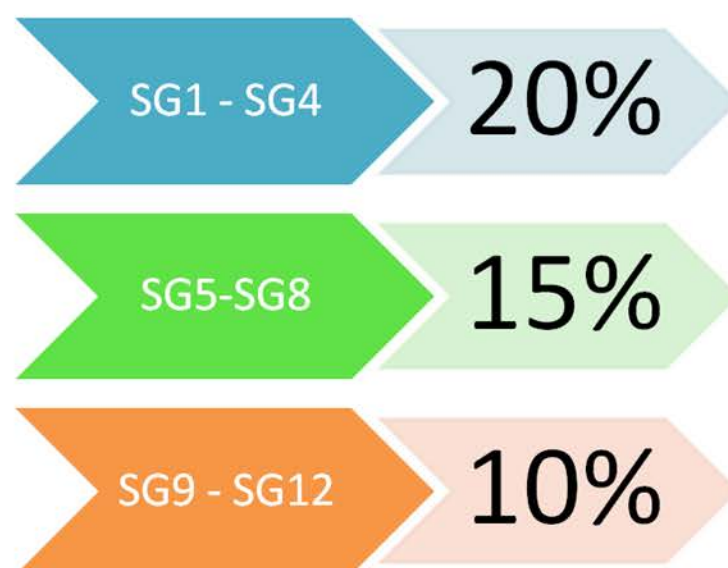
The minimum wage for all workers other than casual workers will increase by 20% from **SR3,375 to SR4,050** (based on a 35 hour work week) or from **SR22.25 to SR 26.70** per hour as from 2014.

The rate for **casual workers** will be raised from **SR25.65 per hour to SR30.78** in January 2014. **Home carers** will also receive an increase of 20%.



Public Service Salary Increase

Increases in the public service will be as follows:



A New Salary Table

A new Public Service Salary Table will be established to replace the current Salary Grid for the public service as a whole. The table will consist of 20 salary bands, each comprising 15 steps, making a total of 300 steps.

On 1 January 2014, salaries of the public service will increase, which will be based on the existing salaries grid. Transition of salaries onto the new salary table will be effected on 1 April 2014.

Increases in Benefits

Increases in government employee benefits will be as follows for 2014:



Total impact: SR25.2 million.

Increases in Student Allowances

An increase of **SR100 per month** on allowances will be given to apprentices and post secondary institution students.



Total impact: **SR4.9 million.**

Graduate housing allowance will increase by **50%** from **SR 2,000 per month** to **SR 3,000 per month**.

Salaries in Public Enterprises

To ensure consistency and fairness between salaries of Government and those of public enterprises, **Government has decided to cap salaries** of all public enterprises by aligning them to the new Salary Table.

Pension Fund Contributions

Contributions toward the Seychelles Pension Fund will increase by 1%, beginning January 2014 in order to sustain the viability of the Fund.

Employers and employees will each contribute an additional 0.5% of employee gross salaries. This will bring total contribution to the SPF to 4%, of which 2% will be made by employers and 2% by employees.



Improving the Investment Climate

To increase efficiency and improve service delivery, the following additional business-related **government services** will be offered online as from next year:

- Application for **construction permits** online;
- Online application of **business licenses**;
- A more **integrated online business registration** process that will allow simultaneous processing of license applications and tax identification numbers (TIN);
- **e-Payment** of registration fees and charges for various Government services;
- **Mobile phone e-Payment**;
- A **collateral registry** to enable the registration of movable assets such as stocks and shares;
- **e-Trade portal**, which is an online platform that contains relevant information on trade, including laws and regulations, standards, procedures, guidance notes, fees, forms, licenses and permits on a product-by-product basis.



Support for Local Investors

Whilst the Government continues to welcome new Foreign Direct Investment, we have recognised the **need to better appreciate and increase our support for local investors**. Although significant efforts have gone into improve local investment, our investors still face major difficulties in certain areas when setting up their businesses.

The Seychelles Investment Board (SIB) will hold a **national forum on investment** in Seychelles during the first half of 2014, where various government agencies will present their policies and procedures and the business community will have the opportunity to share their experiences and propose solutions to the challenges they face.

Stock Exchange

To boost activity on the Securities Exchange, **Trop-X** will launch a board for listed derivatives, debt and specialist securities in addition to the existing equity boards. This will provide companies with new avenues to raise capital and provide more opportunities to diversify risk management policies.

2014 promises further developments, with the prospect of 5 further equity listings in the first quarter giving Seychellois the opportunity to grow and diversify their investment portfolios.



International Financial Services

Government will implement several measures in 2014 to improve **regulation in the international financial services sector**, including:

- the enactment of new laws governing the international financial sector such as IBCs and Trusts laws
- the amendment of other laws including Revenue laws to be consistent with international conventions
- ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters
- become party to the Peer Review Assessing team and the OECD Peer Review Group
- the signing of further TIEAs and DTAs.

SIBA will become the Financial Services Authority (FSA) in 2014 with its mandate to focus solely on compliance. Promotion of the international financial services sector will henceforth move to the Seychelles Investment Board (SIB).

As part of the drive to develop high-calibre products and services for the international financial sector, Government will in early 2014 bring before the National Assembly a proposed amendment to the Financial Institutions Act that will allow for Private/Investment Banking in Seychelles.



Investment in Industrial Fisheries

Today the bulk of our fish catch are processed outside Seychelles. Government therefore wishes to attract more investors, small and large, to process more of our fish within the country to bring more benefits of our marine resources to our people.

Government therefore intends to find solutions to two possible deterrents to investment in industrial fisheries in 2014: the high cost of electricity and the exclusivity agreements currently in place over certain fisheries-related activities in Seychelles.

Islamic Finance

Government has been contemplating introducing Islamic finance as part of our strategy to continue diversifying our financial sector. We are finalizing the framework and assessing the most appropriate model that would adapt best to our economy.



Access to Credit

The Development Bank of Seychelles (DBS) focused its efforts in 2013 towards actively sourcing new possibilities for concessionary funding. New lines of credit will provide further financial assistance to the SME sector at affordable interest rates.

Government has given its approval for DBS to issue new bonds for the sum of **SR100 million**. This will enable the bank to raise more capital from the domestic market to increase its lending.

Help for SMEs

As a further boost to the SME sector and in line with Government's continued efforts to provide financial assistance with more favorable loan conditions, the Government recently put in place a new SME Incentive Scheme with the commercial banks.

To further underline its commitment toward small businesses and households, the Government will in 2014 inject **SR45 million** towards various Investment Schemes:

- **SR30 million** through the Government budget toward the Small Business Financing Agency (SBFA)
- **A SR10 million** loan from Nouvobanq and Seychelles Commercial Bank to SBFA
- **SR5 million** toward interest rate subsidies to Commercial Banks for the SME Finance Scheme

Help for Agriculture

Government will also inject **SR6 million** towards agriculture in 2014 as follows:

- An injection of **SR3 million** toward the Agricultural Development Fund (ADF); and
- A contribution of **SR3 million** as co-payment toward the newly established Agricultural and Fisheries Disaster Insurance Scheme.

The amendments to the **ADF Agreement** signed in November 2013 will allow registered farmers and producers of agricultural inputs to benefit from an increase in financial assistance to **SR 750,000** from the previous **SR 500,000** threshold.



Inter-Bank Loan Transfers

The cost of borrowing and transferring of loans from one bank to another will be reduced further in 2014. Government will propose regulatory changes to make it easier and less costly to transfer a loan with the same borrower and same collateral from one bank to another.

Government will:

- introduce a **single transfer fee to replace the multitude of fees** that is today payable to discharge and recharge collateral
- **make insurance policies transferable at a minimal cost** for clients transferring a loan from one bank to another.

Financial Leasing & Hire Purchase

Following the recent introduction of financial leasing, which will target mainly businesses, the forthcoming launch of hire purchase in 2014 will facilitate credit for consumable goods such home appliances and other small items.



Business Tax

In 2014 most medium and large sized businesses (except banks, telecommunications companies, insurance companies, breweries and tobacco producers) will pay a **lower rate of business tax** on taxable income compared to what they paid in 2013 i.e. **from 33% to 30%**.

Value Added Tax (VAT)

- The threshold for **mandatory registration of VAT** will be lowered to **SR3 million**.
- We will introduce **VAT refunds** at the airport for non-residents. We will consider extending this to the sea port in July, 2014 if feasible.
- We will **exempt VAT** on an additional list of goods and services, including: **transfer of immovable property, medical supplies and medical services, uniforms for private schools, and burial coffins**.
- We will **credit VAT on Disposal of Assets**. This measure will apply to all VAT-registered businesses that, having previously benefited from fiscal concessions upon the importation of their assets, now wish to dispose of them.
- We will **reduce** the timeframe to process VAT refunds from **45 days to 30 days**.



Trades Tax

Following reductions in Trades Tax on several commodities in September this year, we will lower duties on more imported products in 2014, including:

- fish and crustacean products (fresh, frozen or chilled)
- tomato and chilli sauces
- coconut milk
- retreaded tyres
- certain articles of clothing for occupational use

We will also reduce trades tax on electric and LPG cars, and bicycles, from 25% to 15%. This will harmonize the duties with hybrid cars and assist in promoting use of clean energy.

Depreciation

The number of years for depreciation of motor-vehicles for car hire and taxi operators will be reduced from 15 to 10 years. This will be reviewed further going forward to harmonize with the business tax treatment and facilitate disposal and fleet replacement.



Tax incentives for Heritage & Culture

To encourage businesses to join the Government's drive to preserve Seychellois heritage and culture, **discretionary CSR liabilities can be used to assist owners with the refurbishment and renovation of heritage buildings and historical landmarks.**

Government will in the future also consider providing small grants to assist owners of buildings with heritage value who may not be able to mobilize funds.

The allowable tax deduction for organisations that support local performing artists has also been increased from 100% to 125% and we will extend this advantage to all activities where those artists perform.



Revenue Collection

In order to strengthen revenue collection in 2014, we will:

- Beef up **audit capabilities** further to increase focus on cross matching of data with other agencies to better monitor a particular industry's performance.
- Step up SRC's capacity to deal with **transfer pricing** in order to increase focus on transactions that erode the revenue base.
- Reorganize and strengthen the **Investigation Unit within SRC** to deal more aggressively with fraudsters and serious tax evaders. We will aim for this Unit to increase its capacity to investigate serious non-compliance. We will study models of other jurisdictions and if necessary international experienced agents will be recruited and if needed the law will be re-visited.
- **Tighten control of bonds** and excisable goods produced locally.

