

2015 Budget Speech

Staying the Course towards Sustainability

1. Introduction

Mr. Speaker,

Leader of Government Businesses in the National Assembly

Leader of Opposition in the National Assembly

Honorable Members of the National Assembly

Dear Seychellois brothers and Sisters,

In October 2008, our nation embarked on a journey that would change the course of our history. Faced with an economic crisis and difficult choices, the Government under the leadership of President Michel, took the bold decision to adopt a macro-economic reform program which aimed to restore macroeconomic stability and put our country back on a path toward long-term sustainability.

Today, just over six years later, we remain firmly on our path toward greater prosperity and a better future for our people. Our economy is much more resilient and better able to absorb external shocks and domestic pressures, as we observed this year. Nevertheless, we are constantly reminded that circumstances, both external and domestic, can also change frequently and rapidly, which calls for adjustments in policies to keep us on the right track.

The annual budget exercise presents Governments with the opportunity to make these adjustments through review of policies on revenues and spending. Whilst the level of spending for each coming year is a short-term

decision, this has to be firmly anchored into the country's broader, longer-term socio-economic objectives and strategy. As such, in formulating policies, one needs to look beyond the annual budgets to ensure that these policies keep us on course to achieving our longer-term objectives of sustainable growth.

Mr. Speaker, last year I presented an expansionary budget based on affordability and a generally favorable outlook. However, growth outcomes in both the global and domestic economies this year have been less favorable than expected, which have impacted negatively on key domestic variables like fiscal revenues and exchange rates. As a result, this calls for a budget in 2015 that requires additional effort on the revenue side if we are to continue to pursue our social program in a manner that would preserve our socio-economic gains and allow us to attain our long-term sustainability objectives. In light of this, the theme chosen for the 2015 Budget is: “***Staying the Course toward Sustainability***”.

2. Overview of the Economy in 2014

Mr. Speaker, economic growth in 2014 has been slower than projected. In the global economy, whilst unemployment and debt burdens from the global crises of the last 6 years have shown signs of easing, growth outlook remains weak. IMF has reduced its forecast of World economic growth to 3.3 per cent. Growth outlook remains weak in Germany, UK and USA; in France growth is projected to stagnate, and in Italy to fall. The recent Ebola outbreak has added to the uncertainty of the global economic outlook.

Growth in the Seychelles economy has also slowed down this year and is projected to fall to 2.8 percent, less than forecast, and slower than the revised estimate of 5.3 percent last year. This slowdown is attributable primarily to the prolonged economic downturn in Europe which impacted negatively on our tourism sector and slower performance of the domestic manufacturing sector. Nevertheless, stronger-than-expected domestic demand has helped contain the adverse effects of the slower tourism and manufacturing output.

Mr. Speaker, in the first nine months of 2014 the tourism sector struggled, with arrivals falling by 0.9 percent. However, it has picked up since and is now projected to end the year at around the same level as in 2013. CBS projects revenue to fall by about 5 percent this year. Besides the pressure on the foreign exchange market due to lower foreign currency inflows, the slowdown in tourism has also negatively impacted on growth of other sectors given their strong linkages with tourism.

The slowdown in manufacturing output this year owed to two main factors. First, canned tuna, Seychelles' largest manufacturing activity, recorded a drop of 14 percent over the first nine months compared to the same period in 2013. Second, Seychelles Breweries, our second main manufacturing operation, closed down for several weeks for plant and machinery replacement which resulted in a drop in output in the first half of the year.

The slowdown in tourism and manufacturing was partly compensated for by a growth of 8.8 percent in the wholesale and retail sector. The communications sector also grew in 2014 as the benefits of the fibre-optic

cable filtered through higher activity levels, notably data usage. The financial sector also observed a growth in output, supported by modernization and innovations.

Agricultural output grew by 9 percent in the first half of 2014. The livestock sector continued to face the challenges of competition against imports. However, encouragingly there are signs that some producers are increasingly able to compete against those imports. The fisheries sector recorded a strong growth in catch this year of around 8 percent.

Mr. Speaker, the weaker-than-forecasted tourism receipts combined with stronger-than-expected domestic demand increased pressure in the foreign exchange market in 2014. This resulted in a temporary foreign exchange backlog, which peaked at US\$15 million in August causing the Seychelles rupee to depreciate against most major currencies. By early December, the rupee had weakened by around 15 percent against the US dollar compared end-2013. Following tightening of policies, particularly monetary policy, the backlog was cleared in October and interest rates—which increased as monetary policy was tightened—have started to fall.

Whilst the rupee is likely to remain at around the same level in the very short term, an improvement in macro-economic fundamentals going forward could see it appreciate in 2015. The 12-month inflation rate is forecasted to average 2.3 per cent in 2014 compared to 4.3 percent last year. Credit to the private sector is expected to grow by over 10 percent.

Despite the policy challenges faced this year gross official reserves of the Central Bank are forecasted to reach US\$464 million by end-2014,

equivalent to around 4.1 months of import coverage. This is an increase from US\$425 million or 3.7 months of import in 2013 and it displays the continued commitment of the Central Bank to build up an adequate reserve buffer, which is crucial to cushioning Seychelles against future external shocks and to allow us to meet our external debt service obligations.

To note, since 2008 Seychelles has been paying all its multilateral debt commitments (interest and principal) as well as the interest component of its bilateral debt, including to Paris Club creditors. Beginning 2014, we have been paying our debt fully i.e. both interest and principal, to ALL creditors, meaning that we are up to date with our debt obligations.

3. Budgetary Performance in 2014

The primary fiscal balance for 2014 has been revised to SR800 million or 4.4 percent of GDP compared to the budgeted 3.7 percent. This more favorable outcome reflected higher than expected fiscal revenue.

The revised projection for total revenue, excluding grants, is SR5.9 billion. This is a 7.6 percent increase compared to 2013. We expect to collect R5.2 billion in taxes, mainly due to stronger than forecasted VAT and trades tax revenues, which combined, are projected to be about 35 percent higher than last year. This will offset lower business tax collection.

This outcome I have just described regarding performance of the main tax revenues this year reflects a stronger performance in consumption-related taxes against lower receipts from domestic activity, notably business tax. This is consistent with developments in the real and external sectors that I described previously, whereby growth in domestic output fell this year,

which explains the lower business tax collection, whilst demand for imports increased which raised VAT and trades tax collection .Consequently this exerted pressure on the exchange rate.

Total primary expenditure (which excludes interest) is forecasted at SR5.6 billion in 2014, an increase of SR86 million compared to the original budget. This is primarily on account of additional expenditure approved through the supplementary budget, including wages, goods and services, and other payments like the capital injection in Air Seychelles of US\$5 million. The capital budget, in contrast, is projected to be SR181 million below budget due to lower than expected foreign grants and loans. This is partly compensated for by higher domestically-financed spending, projected at SR551 million compared to the budgeted SR448 million, which reaffirms Government's commitment to continue to improve the quality of spending through more capital investment.

Interest payments are projected at SR384 million, primarily due to lower than expected treasury bill rates last year and in early 2014, and a lower government borrowing requirement. By end-2014 we also expect our debt-to-GDP ratio to fall to 62 percent, which keeps us on track towards fiscal sustainability. Government will continue to invest in maintenance of existing and, development of, new infrastructure. However, to preserve our sustainability objectives we will do so within our annual debt ceiling.

4. Financial Sector Development

Two new banks, Bank of Ceylon and Bank al Habib, began operations in Seychelles in 2014.

Mr. Speaker, besides price stability, another key objective of the Central Bank is to ensure the soundness of the financial system. On November 11, CBS took control of BMI Offshore Bank (BMIO) after the bank lost its correspondent banking relationship and was unable to secure a new one. CBS has since been reviewing the bank's risk profile which has allowed some transfers to be made subject to meeting KYC requirements. The CBS is exploring its options for the way forward for BMIO.

Also in relation to bank soundness, following a few difficult years for the Development Bank of Seychelles (DBS), this year the bank made remarkable strides in reducing its non-performing loans ratio, which fell from 36 percent at the start of 2014 to around 10 percent by end-September. Recognizing the notable progress that DBS has made in strengthening its prudential standards, the Association of African Development Finance Institutions this year raised DBS' rating to **B**. DBS joined the Association in 2010 with a **D+** rating. These are remarkable achievements which have improved DBS' credibility locally and internationally, and for which the bank need to be commended.

Activities on the Seychelles Securities Exchange increased this year. After SACOS became the first company to list on the Exchange last year three more companies were listed in 2014, including the first ever Initial Public Offering (IPO) in Seychelles. This IPO raised over US\$700,000 of which

approximately 65 percent came from Seychelles residents, which demonstrates increased confidence by Seychellois to invest in domestic enterprises.

Mr. Speaker, the tougher stance of the OECD on offshore financial centres does not appear to have had a significant negative impact on Seychelles in 2014. A reflection of this is that the Financial Services Authority (FSA) paid SR70 million in dividends to Government during the first three quarters of this year and is expected to pay an additional SR18 million in the fourth quarter. In 2013 revenue amounted to SR131 million and the Authority expects it to exceed SR100 million, in 2015. Meanwhile, the FSA has strengthened its regulatory framework to be more closely aligned with international standards.

On the policy front, my Ministry recently initiated consultations with key stakeholders to develop a Financial Strategy for Seychelles, including the international financial services sector. As part of this strategy, the CBS has begun certain initiatives on key domestic aspects of the financial sector which will be implemented through the recently developed financial Sector development implementation plan (FSDIP). This plan which has been approved by Government covers the period 2014-17. We also made progress in assessing the feasibility of introducing Islamic finance in Seychelles, for which recommendations will be submitted to Government in early 2015.

5. Economic outlook for 2015 and the medium-term

Mr. Speaker, while uncertainty has dampened domestic growth expectations next year, the tourism sector is expected to recover as a result of increased marketing and continued diversification. Moreover, the recovery in other sectors, including manufacturing, that have been observed in the latter part of this year is expected to continue in 2015.

Mr. Speaker, the contribution to GDP of our blue economy is set to increase with several initiatives, supported by the Government, but driven by private investment. Fish processing by local operators is set to increase beginning 2015 following completion of ten units for processing of demersal fish at Providence this year. Other small parcels of land have been released at the Providence fishing port to other local investors for fish processing.

Government also this year approved several projects for processing of tuna and tuna-like species on Ile du Port primarily by Seychellois investors. Moreover, Seychelles-based operators are increasing investment in new semi-industrial fishing vessels, with 10 new vessels already confirmed to become operational soon for which financing have been secured. This will add to the 15 currently operating.

Mr. Speaker, our waters also hold potential for petroleum. The search for oil and gas in our waters continues and will soon be extended to our shared extended continental shelf. Presently, there are three companies actively conducting exploratory works, covering a total area of 35,639 square kilometers. In total these three companies have invested US\$57 million on their activities in Seychelles. One of them has budgeted an extra US\$19

million for 2015 in preparation for its well drilling commitment. Government has received two more applications for an area totaling just of 20,000 square kilometers and negotiations with the applicants will begin shortly.

Mr. Speaker, the expected acceleration of growth in the real economy will continue to be supported by prudent fiscal and monetary policies that aim for single digit inflation, improved external sector balance, and further reduction in public debt. In 2015 real GDP growth is projected at around 3 per cent with inflation expected to average around 5 percent. The growth forecast for next year is slightly below our average projection of 3.4 percent over the next five years, which reflects the continuation of lethargic growth in global output which is expected to be at 3.8 per cent.

6. The Medium Term Fiscal Framework

Mr. Speaker, formulation of the 2015 budget is based for the first time on a medium term fiscal framework (MTFF), which covers the period 2015-19. This framework anchors Seychelles' fiscal strategy and the medium-term national development strategy (MTNDS) which covers the same period and which was recently approved by Government. The MTFF defines the country's available resource envelope and the sustainable expenditure levels. It also includes financing options for the medium-term based on clearly set targets, including debt and fiscal surplus, which are influenced by revenue and expenditure policies. This allows for more consistent and informed decisions on the potential fiscal impacts on allocation and financing of the country's national development programmes.

Our MTFE considers two scenarios. The first is a baseline scenario which assumes no new policy measures. Under this no-policy scenario, Seychelles' fiscal framework is not sustainable over the medium-term. Therefore we need to consider an alternative scenario which is based on new policies. Under this scenario, which incorporates new policy measures that I will announce today and based on the budget being presented, the debt/GDP ratio would attain 49 percent in 2018. This will take us within the sustainability threshold of below 50 percent of GDP. To remind ourselves, Mr. Speaker, this target has been firmly embedded in our macro-economic framework since inception of our reform program in 2008 and it is important that we maintain this discipline.

Mr. Speaker, negotiations on the proposed debt swap for climatic adaptation initiative with the Paris Club has reached an advanced stage. Three countries have confirmed their participation in the scheme and discussions are ongoing with others. Seychelles has been invited to submit the proposal to Paris Club members for approval in February 2015. If approved, this could save us between US\$15 million to US\$25 million in debt service in the medium term (2015-22), depending on the concessionality of the funds attracted to buy back Paris Club debt.

7. The 2015 Budget

Mr. Speaker, to attain the sustainable medium-term fiscal targets set out in our MTFE the 2015 budget targets a primary fiscal surplus of SR720 million. Total revenue excluding grants is projected at SR6.2 billion. Taking into account the primary fiscal target and the revenue projection, this allows for a budget appropriation in 2015 of SR5.937 billion.

7.1. Principal Objectives of 2015 Budget

Mr. Speaker, the principal objective of the 2015 budget is to consolidate our efforts toward macro-economic stability through sustainable expenditure levels. The new policies that are being proposed will allow for an improvement in the quality of spending, notably through higher capital expenditure, without compromising our sustainability objectives.

7.2. Revenue

Mr. Speaker, we project total revenue to rise from SR6.4 billion in 2014 to SR6.6 billion next year. Of this, SR6.2 billion will be fiscal revenue (tax and non-tax) which will be SR295 million above the 2014 revised projections. The projected increase in fiscal revenue will reflect primarily policy changes. Grants are forecasted at SR427 million.

7.3. Expenditure

Total expenditure including net lending is budgeted at SR6.5 billion for 2015, an increase of SR552 million or 9 percent over 2014. Our principal spending objective for 2015 is to manage expenditure prudently while increasing emphasis on capital projects which are budgeted at SR1.2 billion compared to the revised projection of SR965 million for 2014.

We will continue to ensure that our health, educational and housing sectors receive adequate budgets to implement our social programs while further improving our infrastructure, notably our transportation networks, utilities, and social infrastructure. Mr. Speaker, our people needs to see that the investment in public services translates into more effective service delivery. Special attention will be given to reduce the backlog of capital projects

through timely project implementation to further improve the living conditions of our people in our communities.

7.3.1. Wages and Salaries

Mr. Speaker, a sum of SR1.137 billion—equivalent to 5.8 percent of GDP—is proposed for “Wages and Salaries” in 2015. Whilst this represents a decrease of SR71 million, it is explained primarily by the reclassification of certain budget dependent agencies to the “Transfers to the Public Sector” category in line with the Government’s revised classification policy. Without this classification “Wages and Salaries” would rise by SR205 million.

7.3.1.1. Recruitment and Schemes of Service

Mr. Speaker, Government remains committed to continue to improve the salary of civil servants and where it can afford, recruit more staff so that it can deliver on its mandates more effectively. However, it is critical that the wage bill always remains at a sustainable level. An exercise was carried out in first half of this year to identify priority areas where recruitment was needed and for which funding was made available. This same exercise will be the basis for new recruitments in 2015. Like the private sector, Government needs to increase productivity through the use of information technology, increasing multi-tasking and enhancing synergy. Furthermore, any salary increases or new schemes of service must be properly planned and phased into the budget accordingly. In 2015, four schemes of service will be implemented as follows:

- The Teacher schemes of service, which will be implemented in two phases; an increase in teachers’ base pay effective January 1, and

an adjustment in the teachers' inducement allowance beginning from July 1. This is in recognition of our teachers' contributions toward education of our children, to help teacher recruitment and retention, and improve overall performance. This scheme will cost SR24 million.

- The inducement allowances for the Police force which will be increased effective July 1. This will cost SR6.1 million and comes as recognition of the role of our police force in combating crime and improving national security.
- New schemes of service for the Department of Culture and for District Administrators, costing SR1.7 million and SR1.3 million respectively, which will also become effective in July 2015.

7.3.2. Goods and Services

Mr. Speaker, SR989 million is proposed for "Goods and Services" next year. This is a 23 percent reduction compared to 2014, which is also due largely to the revised classification. The 2015 budget sees a proportionate increase in the allocation of 'Transfers to Public Sector', mostly due to the combined reductions in "Wages and Salaries" and "Goods and Services".

The largest budgetary allocation remains for Health, Education and the Order and Security sectors. In 2015, emphasis again will be on maintaining existing levels of public services and allowing Government to cater for increased activities of agencies delivering socio-economic objectives.

Mr. Speaker, this Government will continue to support our youth and invest in the development of our sportsmen and women. To underline this, SR25

million is budgeted for the preparation and participation in the upcoming Indian Ocean Island Games.

Government will increase its contribution towards tourism marketing significantly next year, to SR80 million from SR61 million in 2014. This is an increase of 31 percent. To ensure that the additional funds are spent effectively, Government will set performance-based targets for the Tourism Marketing Fund.

In keeping with its objective of being a facilitator in the economy, Government will continue to outsource non-core activities to provide the private sector with more opportunities. For 2015, Government will extend existing contracts for outsourcing of key services such as cleaning of districts, and schools as well as security services. This will allow Government time to review and modernize these contracts.

Mr. Speaker, in 2015 Government will spend the following amounts on outsource: SR111 million for cleaning services of districts, garbage collection, beach cleaning beautification and landscaping works through the Landscape and Waste Management Agency (LWMA); SR20 million for cleaning of schools, security, and school meals; R13 million for security services of community centers, day care and district administration offices; and R6.1 million for cleaning and maintenance of the various playing fields and infrastructure in the different districts on Mahé, Praslin and La Digue, as well for the cleaning of the community centers.

In line with the reforms being undertaken within the public sector, we will re-align services provided by certain Government institutions in 2015. The

Employment Tribunal (previously with the Ministry of Labour & Human Resources Development) and the Family Tribunal (previously with the Ministry of Social Affairs, Community Development & Sports) will be transferred to the Judiciary. This, along with increases in operational requirements, will require a budget of SR27 million or SR6.3 million more than in 2014.

7.3.3. Public Sector Investment Programme

The investment plan of the Government over the period 2015-18 is projected at SR3.94 billion. Of this, SR1.2 billion will be spent in 2015. The highest share of investment next year—SR329 million—will go to the Housing and Community Development sectors, reflecting Government's commitment to continue to provide affordable housing and community services for our people.

Housing projects include: SR50 million for the Ex-Desaubin housing development in Takamaka; SR77.8 million for Ile Perseverance housing and infrastructure development; SR37 million for Corgat Estate Phase 3; SR9.0 million for the start of construction of 36 units of flats on the ex-Dominic Savio school site in Mont-Buxton; and SR32 million for other social housing projects in various districts. For community development this includes; SR30 million for small district projects; SR4.9 million for day care centres in Anse Etoile, Anse Aux Pins, Grand Anse Praslin and Sans Soucis; and SR2.5 million for the Montagne Posée feeder road.

Mr. Speaker, in 2015 two new Education projects will also be launched, namely the re-construction of the La Rosière School and the Seychelles

Horticultural Training Centre, to be co-financed by the Kuwait Fund and the Government of Seychelles. The two schools will cost SR78 million and SR62 million respectively of which Government will allocate SR18.3 million in the 2015 budget. Redevelopment of the Cascade primary school will also continue in 2015 with SR9.0 million allocated for the year. This is fully funded by the Seychelles Government. The Glacis Primary School, another key education sector project and which is being financed by the Republic of China, is slated for completion in 2015.

Two important health projects were completed this year, i.e. the new hemodialysis unit, and renovation of the operating theatre block of the Seychelles Hospital. These cost Government SR35 million and SR12 million respectively. In 2015, we will further improve our health facilities with SR18 million for the renovation and upgrading of other facilities at the Seychelles hospital, and SR8 million for community health centres, including improvement of the English River clinic and upgrading the North East Point Hospital.

The Government is stepping up its efforts to improve road infrastructure. Our transportation system will benefit from an increased allocation in 2015, with a total of SR68 million in the PSIP and SR22 million in the recurrent budget, which includes the following projects:

- Construction of new roads SR27.3 million in various districts
- Road maintenance and purchase of bitumen SR11.3 million
- Acquisition of machinery and equipment SR8.6 million
- Victoria Traffic Management SR8.0 million

- Road upgrading (feeder road, road widening) SR7.8 million
- Other Infrastructures like crash barriers, bus shelters SR3.6 million

An extra SR 20 million will be spent on infrastructure works like major storm water outlets, river channel, de-silting, and drainage works, including in Pointe Larue and on La Digue.

Mr. Speaker, the démarche toward modernization of our port infrastructure is gaining momentum. Earlier this year, we saw the opening of a new 120-metre fishing quay funded by the European Union which cost US\$3.7 million, and commencement of works on a new US\$18 million, 425-metre fishing quay, which is a public-private partnership between Government and private investors. We have made advances toward mobilizing funding for the Victoria commercial port extension and rehabilitation project. The feasibility study is expected to start shortly and should be completed by end-2015, following which potential investors will be invited to participate in funding.

In support of artisanal fishermen, plans for basic facilities for most fishing districts have been prepared and those executed include Roche Caimen and Anse Aux Pins. Construction of such facilities will continue at Glacis, Beau Vallon, Bel Ombre, Anse Royale, Casade, Anse Boileau, and Praslin.

In the utility sector, Government will sign two new loans in 2015. The first is a US\$21 million loan for the raising of La Gogue dam and improvement to the north Mahé potable water system, and the second a US\$35 million loan to finance the 33kv line for South Mahé. Also in 2015, PUC will benefit from

a further €7 million from the European Investment Bank and the Agence Française de Développement for the water and sanitation project.

8. Public Finance Management and Reform of Budgetary Framework

Mr. Speaker, modernizing our public finance management (PFM) framework remains a cornerstone of our structural reform agenda. Government's work on its PFM reforms builds on the Ministry of Finance's efforts to strengthen the country's capacity to better manage its public finances for a more efficient and effective allocation of our resources.

8.1. Programme Performance Based Budgeting (PPBB)

The budget documents for 2015 include an annex for two sets of PPBB statements for the Ministry of Education and the Ministry of Natural Resources as well as their portfolio agencies. The documents provide the budget statements which report expenditure by programmes while taking into account the performance of these programmes given the budget allocation.

These are the first pilot portfolios of the PPBB and are being run for the first time with the 2015 budget, in parallel with our traditional budget for these two ministries. This exercise is now being extended to the three more ministries, namely the Ministry of Finance, Trade and Investment, the Ministry of Land Use and Habitat and the Home Affairs Department and their agencies, whose budgets will also be presented in the PPBB format in 2016. The budgets of the rest of Government will be presented in this format in the 2017 budget.

8.2. Other PFM Reforms

Mr. Speaker, two other important PFM initiatives to be pursued in 2015 relate to Project Implementation Management and Cash Management System. There are currently certain deficiencies in the coordination and management of capital projects. To overcome this, we will introduce a new framework to improve the quality of capital spending and to have a well structured system of managing capital projects. At the same time, we will strengthen cash management and banking arrangements for a more effective cash flow planning system across line ministries.

9. Other Key Structural Reforms related to Public Finance

9.1. Pension Fund and Social Security Fund (SSF) reforms

Work has been ongoing on a plan to further modernize the Seychelles Pension Fund (SPF). In 2014, Government approved several new reform measures recommended by the Fund's Board of Trustees. One is a new benefit formula to calculate pension payments, including incapacity pension and pension of children of surviving spouses. This formula is based on a percentage of the retirement pension and is a more transparent methodology providing a stronger link between benefit and contribution.

To ensure that there is no negative impact on retirees, the new benefit formula will be introduced from January 2015 for all pensioners, except those whose pension under this new formula would be less than the current one. For this group of pensioners, the current formula will continue to be applied until end-2017 when the possibility of a retiree getting a lower pension will no longer arise.

Mr. Speaker, as part of measures to improve the financial viability of the SPF, Government has decided to transfer all SSF assets to the SPF. This will allow the SPF to have additional assets to improve its financial sustainability. Total assets of the SSF amount to SR335 million and will be transferred in the first quarter of 2015. The SPF will also in 2015 prepare a new strategy, including investment guidelines, aimed at further maximizing its returns and diversifying its investment portfolio.

9.2. Continuing Reform of Social Welfare System

Mr. Speaker, one of the benefits that the Government, through the Agency for Social Protection (ASP) provides is limited free public transport to students and unlimited free public transportation to pensioners and the disabled. In 2015, the ASP in collaboration with SPTC will introduce a new card system for pensioners to allow better control and monitoring of their travel.

Mr. Speaker, as of January 2015, Government will cut the number of days for refunds of sick to employers from 30 days to 15 days. It will also abolish refunds for Government agencies and parastatals. The Ministry for Labour and Human Resource Development will work with the private sector to advise on successful practices for minimizing sick leave and measures aimed at improving productivity. Moreover, the Ministry of Health will adopt a new policy to prevent prescription of excessive leave by medical practitioners.

Mr. Speaker, benefits and approved programs of the ASP amounted to SR517 million in 2014 and it is projected to rise to SR557 million next year,

an 8 percent increase. Welfare assistance is thus rising faster than inflation, GDP, fiscal revenue, and overall budget spending. This is not sustainable and calls for further reforms in the way welfare assistance is provided. Without measures to contain this excessive growth, welfare assistance will overtime outgrow revenue and will require a greater percentage of expenditures on welfare at the expense of sacrificing other critical expenditures like infrastructure. Thus, while Government remains committed to providing welfare assistance to the more vulnerable Seychellois it will need to explore alternatives to the current system to make welfare assistance more sustainable.

10. Public Enterprise Reforms

Mr. Speaker, during 2014 we successfully completed the privatization of SACOS, through which Government raised SR29 million for its 15 percent stake. Privatization of the remaining 40 percent shares in the Seychelles Commercial Bank (SCB) which started in 2013 and which was planned for completion this year was delayed due to complications with the bank's IT platform which has delayed finalization of financial accounts. Completion is now expected in the first half of 2015. Also, the planned sale of Government's shares—through Nouvobanq—of the BMI Offshore bank failed to materialize for reasons that I have explained earlier.

To improve transparency and governance of parastatals, this year we strengthened their procurement policies by getting these endorsed by the Procurement Oversight Unit and the National Tender Board. Whilst in recent times we have put significant emphasis in reforming financial and governance structures of parastatals, major shortcomings also exist in

budget dependent entities. We will turn our focus in this area beginning 2015 and the Government Audit Committee will guide entities on good practices and monitor compliance of their financial reporting.

11. Other Initiatives to promote Transparency

The Extractive Industries Transparency Initiative (EITI) board admitted Seychelles as a Candidate country. In line with EITI requirements Seychelles will publish its first EITI report by February 2016. A multi-stakeholder Group has been established to oversee implementation of EITI.

12. Financial Sector Strategy and Policies for 2015

Mr. Speaker, the financial sector is a critical element in a country's economic architecture as it provides financing for development. Unfortunately in Seychelles financial institutions remain overly risk averse. Implementation of the FSDIP which I spoke about earlier is expected to enhance the sector's contribution to our country's socio-economic development.

Mr. Speaker, Government considers the international financial services sector as one with still significant potential and whose development needs to be supported further. The recently adopted tougher standards by the OECD's Global Forum have added to the challenges of this sector. Nevertheless, our Government remains committed to continue supporting this sector within the framework of internationally acceptable standards.

The most immediate priority for the financial sector is to restore Seychelles as a country Compliant with OECD standards on exchange of information and transparency on tax matters. This year we invested significant efforts in

addressing issues identified in the 2013 Phase 2 Peer Review by the Global Forum which resulted in Seychelles' non-compliance status. The FSA has stepped up its efforts to ensure compliance with the new standards and policies, including on-site inspections and sanctioning where non-compliance was observed. We consider that the actions taken already will go a long way to restoring our compliance status.

Seychelles has strengthened cooperation with our international partners, particularly with the OECD and the Global Forum on tax transparency and Exchange of Information. Government has approved for Seychelles to adhere to the requirements of the Foreign Account Tax Compliant Act (FATCA) approved by the US Congress in 2010 through a Model 1 (B) Intergovernmental Agreement. We have indicated our readiness to sign the IGA before end-2014 so as to begin exchanges in 2015 and we await the response of the US authorities. I call on all financial institutions to take the necessary steps to ensure compliance with the FATCA requirements.

In 2013, G20 countries endorsed Automatic Exchange of Information (AEOI) as a new international tax standard. Seychelles has committed itself to implement the AEOI, including joining the early adopters group who will begin information exchange in 2017. Moreover, we have agreed to sign the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. As a pre-requisite to signing this Convention we have submit to the National Assembly a proposed amendment to the Seychelles Revenue Commission Act which clarifies certain aspects of information exchange to bring it in line with the Convention. We expect to sign the Convention in

early 2015 after which Seychelles will lodge its request for a Supplementary Report with a view to restoring our compliance status by mid-2015.

Mr. Speaker, I want to stress that whilst Seychelles needs to, and will be, part of these information exchange initiatives, in amending our frameworks Government as much as possible will do so in a way that would maintain our competitiveness and preserve our rights as a sovereign nation.

Last year I announced plans to introduce financial leasing and hire-purchase. The legal frameworks for these products are now in place and outstanding regulations for hire-purchase will be published shortly.

To enhance our competitive advantage in the non-bank financial services arena, we will by the middle of next year, introduce a modern piece of legislation covering International Business Companies as well as a new law to replace the Companies (Special Licences) Act. New provisions will be made to existing laws to introduce private trust companies.

Mr. Speaker, the proposed new legislation to strengthen supervision of gambling activities will be presented to the National Assembly shortly. This bill provides for monitoring and licensing of gambling to be transferred from the Seychelles Licensing Authority (SLA) to the FSA. Regulation of game of chance and betting will remain under the SLA. A 9-month period will be given to existing licensees to implement changes prescribed in the new law to level the playing field and ensure fair competition among all operators.

13. Trade Issues, Policies and Trades Tax Reductions for 2015

13.1. Accession to World Trade Organization (WTO)

Mr. Speaker, following 19 years of negotiations Seychelles' accession into the WTO was finally approved last week by the Organization's General Council. This will make Seychelles the 161st member. The Accession Protocol will be submitted for Government endorsement before the end of this year and to the National Assembly in early 2015 for ratification. Seychelles would become a full WTO member 30 days thereafter.

Mr. Speaker, WTO membership will benefit Seychelles in many ways. Among other things, it will:

- Improve access to member states' markets which will help increase and diversify our export capacity under the "Most Favored Nation" principle;
- Strengthen our internal policies, laws and regulations to make them more transparent and predictable;
- Enhance our technical capacity and institutions that have a direct or indirect link with trade;
- Liberalize further our trade regime to assist in promoting social welfare in terms of cost of living and to allow goods to enter our country at affordable prices;
- Assist in the development of our economy through sustainable trade which will facilitate creation of employment for our people; and
- Provide Seychelles with recourse to a credible and efficient international dispute settlement mechanism which will assist in addressing potential conflicts that our exporters may face.

13.2. Tax Implications of our International Trade Commitments in 2015

13.2.1. WTO Commitments

Mr. Speaker, upon entry into the WTO, Seychelles will be required to implement its commitments towards the organization in terms of customs duty reductions on several items. Given that ratification is expected in the first quarter of 2015, implementation of commitments on a range of products will begin as from 1st January. From 100 percent, trades tax on bread and mixture snacks will be reduced to 50 percent, and on a number of others, including certain ceramic articles, glassware of kind used for indoor decoration or similar purposes, it will fall to 25 percent. Full details will be provided shortly.

For our more sensitive economic sectors, Government has negotiated for certain protection levels and policy space. This includes a transition period of 8 years for poultry to allow domestic operators sufficient time to compete more effectively against imports when the transition periods end. During the first three years the current level of protection of 45 percent will remain after which it will gradually reduce annually over the following three years until it reaches 25 percent at the end of eight years.

13.2.2. SADC Protocol on Trade

Mr. Speaker, to enhance regional trade and derive maximum benefit from regional integration, Seychelles signed up to the COMESA Free Trade Agreement (FTA) in 2009. We will now join the SADC FTA in 2015 which will allow our producers to expand their export base to those countries. This

will also provide access by our producers and consumers to quality and affordable products originating from SADC countries through removal of trades tax on certain products beginning January 2015. Details will be provided in the coming days.

We will also be applying a phased-down period for customs duty reduction on several other products originating from the region. Under the SADC FTA Seychelles will be allowed to maintain a sensitive list which excludes certain products deemed sensitive either for revenue or socio-economic reasons from the duty reduction. However, our exporters will benefit with duty free access in the members' market for those products subject to meeting the rules of origin.

13.2.3. Trade Agreement with European Union (EU)

Mr. Speaker, in the context of Seychelles' trade agreement with the EU which we started to implement in January 2013, we will implement further reductions in trades tax on a range of products originating from the Union. This list covers finished products on which trades tax will fall from 22.5 percent to 20 percent, and intermediate products on which taxes will fall from 7.5 percent to 5 percent. This list will also be published shortly.

13.2.4. Government-initiated Trades Tax Reductions

Mr. Speaker, Government will also reduce trades tax on a number of other items to assist the tourism and construction industries. However, since the reduction will apply across the board it will also benefit consumers. This list will also be published shortly. Also as part of Government's wish to encourage more use of environmentally friendly vehicles, trades tax will be

lowered further on electric vehicles, including golf carts, from 15 percent to 5 percent beginning 2015.

13.3. Trade Facilitation

As part of Government's efforts to further modernize our trade regime we recently reviewed certain policies.

First, we have streamlined the export permit requirement so that only restricted goods now require an export permit. Second, we have begun implementing the WTO's GATT Valuation Agreement which shifts the onus to establish the true and accurate value of goods on Customs Administration. Third, to streamline the trade regime we removed the requirement for traders to hold a separate import license. Persons holding a trade license can now import any item without the need to have a separate import license.

Mr. Speaker, SRC has made further progress in improving detection of tax evasion and smuggling. We are at an advanced stage of acquiring new technology to assist in improving detection, notably a pallet scanner for the sea port, in the context of our broader Customs modernization project. Partial funding for the scanner has been secured from the EU. Additional funding for the scanner and other elements of this modernization project will be raised from measures such as revision of the entry processing fees that are applied to the bill of entry. Acquisition of the scanner will allow for a significant increase in the amount of cargo scanned and speed up customs clearance. Besides the scanner, this project entails other key elements such as trade facilitation enhancement measures, border security, etc.

SRC will implement several other initiatives to strengthen Customs Management in 2015. These will be announced separately in early next year.

14. Other Tax Policy Issues and Adjustments for 2015

14.1. Value Added Tax (VAT)

Mr. Speaker, several policy changes will be implemented with regards to VAT in 2015.

As of January 1, the threshold for mandatory registration for VAT will be lowered to SR2 million. This will further broaden the tax base and generate additional revenues. We expect an increase of about 70 new VAT-registered businesses from this policy and additional revenue of SR6 million. Since basic commodities and a large range of other goods and services are VAT-exempt, this measure should not impact the cost of living.

To give a boost to sectors like tourism and construction and to improve cash flow management, beginning 2015 the VAT deferred payment facility will be extended to cover all imports to be used for a project during the construction phase. Besides improving cash flow management, this will allow for a lower initial cost of a construction project.

As part of Government's efforts to address cost of living concerns, with effect from January 1 2015, VAT will be exempted on transportation of cargo to all inner islands. Government urges businesses to pass on the benefit of this 15 percent relief to consumers. In 2015, we will also exempt VAT on wheelchairs and certain specialized crematorium equipment.

To make leasing as competitive as bank loans we will also exempt lease payments from VAT in line with best practice.

Mr. Speaker, it has been Government's policy to exempt VAT on residential construction projects. This exemption will, as from 2015, also apply to any extension and renovation of residential dwellings.

Mr. Speaker, whilst we have found it necessary to remove VAT on the items I just mentioned, we also have identified certain goods and services which we consider not to justify VAT exemptions thereon.

Beginning 2015, only insurance of marine cargo and equipment of artisanal fishermen registered with the Seychelles Fishing Authority will be VAT-exempt. VAT will thus continue to apply on all other marine insurance.

Mr. Speaker, the policy of Government is that VAT should be applicable on leasing of all immovable property, other than residential and rights therein. The regulation covering this item will also be amended to ensure full clarity.

14.2. Excise Tax

Mr. Speaker, to deal with the scourge of excessive alcohol and tobacco consumption, the effects that these have on society, and the significant costs to the budget for treatment of alcohol and tobacco-related diseases, Government will, as of January, 2015, increase the rate of excise tax on these products. We will implement a 20 percent increase on all drinks with alcohol contents in excess of 16 percent, and a 50 percent increase on all tobacco products. These increases will apply on both imported and local products. The new excise tax rates all tobacco will apply on all products,

including hand-rolling tobacco which is used to produce cigarettes, cigars and cigarillos. The 50 percent increase in the rate of excise tax on tobacco is in line with new WHO recommendations.

Going forward we will assess the possibility of introducing an excise system which will aim to levy the tax based on alcohol volume. We will also consider a similar methodology for taxation of tobacco.

14.3. Business Tax

Mr. Speaker, Government recognizes that reducing the business tax rate will give more breathing space to businesses. However, under current circumstances a reduction is not possible as it would seriously impact on Government's social programmes. Nevertheless, next year we will review our position on business tax in consultation with the private sector and if feasible begin implementation in 2016. Meanwhile, several new policy changes with regards to the application of the existing rates of business tax will be introduced in 2015.

14.3.1. Taxation of Small and Micro Enterprises

In 2014 Government introduced a simpler methodology of presumptive tax for small businesses based on a simple formula of 1.5 percent of their turnover. This was an alternative to the 15 percent tax on profits that was in place before 2014. However, legally all businesses that had a turnover of less than SR1.0 million were automatically in the presumptive tax system and had to apply to SRC to opt out of this system. To provide greater flexibility, we will amend the legal instruments so that businesses can choose to either be in the presumptive tax system or follow the normal

system. Once a business has opted for one of the two systems it will have to stay for a 3-year period, barring special circumstances.

Noting that the small businesses category includes micro businesses, Government will work on a new structure to reduce their compliance burden. This would also encourage them to remain in the formal economy and honor their tax obligations. The private sector will be consulted and the new structure, if approved by Government, will become effective in 2016.

14.3.2. Withholding Tax

Mr. Speaker, Government will review withholding tax for the following activities beginning April 1, 2015:

- Certain technical service fees of the banking sector, taking into consideration that banks have to hire expert IT services in specialized areas as part of modernization of banking services
- Certain consultancy fees for the construction industry.
- Certain categories of tourism marketing fees.

Review of these categories of withholding tax will follow further analysis and consultation with the relevant stakeholders in those sectors.

14.3.3. Taxation of Yachts and Leisure Boats

Mr. Speaker, there is today widespread abuse and lack of order in yachting and leisure boating. In 2014, through strengthened compliance, SRC collected an extra SR3 million in revenues and SR40 million as deferred payment. From 2015, Government will take a firmer stance on this activity.

We will re-examine and overhaul our approach to the issue of importation, taxation and licensing of yachts and leisure boats. MFTI and SRC will shortly begin discussions with the Department of Transport on this issue.

14.3.4. Incentives for Hosting of International Sporting Event

To provide more incentives for businesses to contribute more toward sports development, Government will introduce a higher deductibility of up to 150 percent for special international Sporting events to be held in Seychelles.

14.3.5. Taxation of Long-Term Capital Assets

We will amend the Business Tax Act to allow businesses with heavy capital investment of long-term nature to depreciate those assets over a longer period than is currently allowed under the law. This is expected to increase the attractiveness of these long term investments.

14.3.6. Review of Taxation of Offshore Banking Business

We will amend the regulation covering taxation of banking activities to make purely offshore transactions taxable on the basis of taxable income rather than on assessable income.

15. Other Revenue Measures

15.1. Transport-related Revenue Measures

Mr. Speaker, between 2008 and 2013 a total of 5,111 new private vehicles were registered with the SLA and a further 1,502 was licensed as of September, 2014. Notwithstanding the positive impact that this has had on the movement of people and a general improvement of the livelihood of our

citizens, the impact on our road infrastructure has been significant. It also has an impact on the environment. Government is to sustain the higher level of investment on road infrastructures more revenues need to be raised and in 2015 Government will increase the rates of several items.

First, the **levy on privately registered motor vehicles** will increase by 50 percent. This will mean increases as follows:

- Motor Cycles: From SR5,000 to SR7,500;
- Vehicles carrying >10 people From SR5,000 to SR7,500
- Vehicles for Transporting of Goods From SR10,000 to SR15,000
- Vehicles of 800-1600cc From SR30,000 to SR45,000
- Vehicles of 1600-2000cc From SR50,000 to SR75,000
- Vehicles Greater than 2000cc From SR100,000 to SR150,000

To ensure the effective administration all motor vehicle levies will, as of January 2015, be made at the SLA after registration of vehicles.

Second, **road tax** will increase in 2015; by SR1.0 per cc to SR2.50 per cc for privately-registered vehicles and trucks above 5 tonnes; and by 50 cents per cc to SR2.0 per cc for all other vehicles.

Third, **vehicle testing fees** will double. These fees have not been increased at all since the new station became operational. In 2015, they will increase as follows:

- Motorbikes: from SR75 to SR150 across Seychelles;
- Car Hire: from SR100 to SR200 on Mahé and from SR75 to SR150 on Praslin and La Digue;

- Light Vehicles: from SR150 to SR300 on Mahé and from SR75 to SR150 to SR150 to SR400 on Praslin and La Digue;
- Medium Vehicles: from SR200 to SR400 across Seychelles; and
- Heavy Vehicles: from SR350 to SR700 across Seychelles

Mr. Speaker, Government also recognizes that the public wants to see tangible results of their contributions such as more road improvements and a more efficient transportation network. In 2015, spending on road infrastructure and other related capital works will increase to SR115 million.

15.2. PET Levy

Beginning January 2015, levy on cans, PET bottles and pre-forms will be payable at the point of entry into Seychelles. This will assist in overcoming leakage that is being experienced in collection of this levy.

15.3. Levy and Annual License Fees for TV Satellite Dishes

To create a more level playing field in television broadcasting, Government will as from January 2015 reduce the license fees and levies on satellite dishes of certain diameters for residential use. First, the annual license fee on dishes for residential use will be abolished. Second, levies on satellite dishes will be reduced as follows: (i) for diameters of up to 1.5 metres the levy will be removed; (ii) on diameters between 1.6 to 2.5 metres the levy will fall from SR5,000 to SR2,500; and (iii) for dishes with diameters between 2.6 to 3.5 metres the levy will fall from SR10,000 to SR5,000.

16. Measures to Boost Tax Compliance in 2015

Mr. Speaker, the current level of tax arrears due by businesses to SRC is SR219 million. The Commission will as of January 2015 implement an arrears recovery plan which proposes, among other things, an amnesty on penalties due on tax arrears. The amnesty will apply on arrears due as of December 31, 2013, as follows:

- 100 percent of penalties to be waived on arrears cleared by May 31, 2015;
- 50 percent of penalties to be waived on arrears cleared by August 31, 2015;
- 25 percent of penalties to be waived on arrears cleared by October 31, 2015.

To complement this recovery plan SRC will be taking a more aggressive stance on debt collection. Seychelles' tax laws provide for several possibilities to recover tax liabilities, however, this has been applied with a degree of leniency. MFTI and SRC will propose to Government additional measures, including restrictions that should be applicable on businesses with poor track record on their tax obligations.

To further facilitate payment of taxes, in 2015 SRC will expand online services to include submission of Business Tax and Presumptive Tax returns. As from the first quarter, taxpayers will be able to register their businesses and update their business status (e.g. if they cease operations) and contact details online. The e-payment facility introduced through Barclays Bank will be extended to other banks.

17. Fighting Counterfeit Products

Additional measures of non-tax nature will be introduced. Government has acquired two sets of counterfeit spirit detection equipment which provide

scientific evidence in detecting fake spirits. These authenticators will enable prosecution of cases of counterfeit spirits.

18. Investment Policies and Business Climate Reforms

Mr. Speaker in 2014, we introduced additional initiatives aimed at improving the business environment frameworks such as more e-government services, including company registration, land searches, license applications, tax payments, GOP applications and building permits. We have identified several areas where policy will be revised in 2015 to further improve consumer welfare and business climate.

To further modernize our investment framework we are carrying out an assessment of the current laws and administrative procedures which are associated with the following Acts and Regulations; Companies Act (1972), Town and Country Planning Act (1972), Civil Code Act (1976), Immigration Decree (1977), Employment Act (1995), and Licensing Act (2010).

SIB recently introduced a virtual “one-stop window” (on-line) to assist investors with the different opportunities available in Seychelles. The aim for next year is to establish a “one stop shop” that will have all relevant government agencies under one roof.

19. Small and Medium Enterprise Sector

Mr. Speaker, to underline the importance that Government places on the development of the SME sector, significant efforts and resources are being invested to strengthen institutional and financial support to the sector.

Following establishment of a dedicated department for Entrepreneurship and Business Innovation under the office of the President, the National Institute for Science, Technology and Innovation was set up this year to help small businesses introduce innovative practices and new technologies. The Industrial Estate Authority was also established to better manage land allocation to businesses. A new building to provide space at more affordable rent for SMEs will open in 2015.

Following our WTO accession, the International Trade Centre—an organization affiliated with the WTO—has offered to support Seychelles' SME sector through a 4-year trade-related technical assistance project. The program would support SMEs in areas like identifying trade and market opportunities, improving SME competitiveness, access to credit, and better connecting SMEs to markets through E-solutions, to strengthen the value chain. It will also cover areas like women and youth entrepreneurship.

The SME financing incentive scheme, which provides access to credit at more affordable conditions, has been a success. Barely one year after its launch over 200 loans worth SR171 million have been approved. In 2015, Government will inject an additional SR3 million toward the scheme and the turnover threshold to qualify for lending will increase to R6 million. This will allow more Seychellois entrepreneurs to launch their small businesses.

The Small Business Financing Agency (SBFA) approved 254 loan applications representing SR34 million in the first ten months of 2014. It disbursed SR44 million and collected SR17 million in loan repayment. Government will continue to provide financial support to SMEs through the

SBFA and in 2015 it will inject a further SR20 million from the budget. An extra SR10 million will be made available from Nouvobanq and SCB.

The SBFA has entered into an agreement with the Seychelles National Youth Council and the Department of Youth to support young entrepreneurs. Government has put SR1.0 million toward this initiative this year and will provide an extra SR1.0 million in 2015.

Mr. Speaker, DBS has been a pioneer in the development of the SME sector in Seychelles. DBS' lending activities in 2014 picked up strongly which allowed the bank to regain its status as the leading SME lending institution in Seychelles. For the first eleven months of this year the bank approved 221 loan requests for a total of SR246 million, including 154 loans worth SR132 million under the SME scheme for diverse sectors including fishing, building and construction, transport, manufacturing & craft, tourism establishments and other services.

ADF lending increased this year after Government raised the loan threshold to SR750,000 and following a SR6 million injection in the scheme. This resulted in 24 loans being approved for diverse agricultural projects totaling SR10 million. DBS also approved two loans worth SR5.8 million under the EU Fund for semi-industrial fishing. Government will continue to support the agricultural and fisheries sectors with an additional SR3 million to replenish the ADF in 2015.

Moreover, in partnership with Government and the UNDP, DBS has so far this year funded 23 projects for over SR900,000 under the newly launched Photovoltaic Systems (PV) Rebate Scheme. This scheme aims at

promoting the use of renewable energy through PV for both the households and business sectors. Government contributed SR3 million toward this scheme in 2014 and a further SR3 million is provided for in 2015. This has complemented the financial support provided through the SEEREP scheme which aims at providing subsidized lending through commercial banks and the Seychelles Credit Union to households for replacement of energy saving appliances and energy-friendly equipment.

Mr. Speaker, another form of financial support that Government provides to the SME sector is the fuel incentive scheme for fishermen. In 2014, SR22 million was spent on this scheme and SR13 million is allocated in 2015 to allow artisanal fishermen to continue to benefit from the fuel subsidy. The lower amount in 2015 reflects a change in policy beginning next year whereby only artisanal fishermen will receive the fuel subsidy through the Seychelles Fishing Authority. Semi-industrial fishing vessels will purchase tax-free fuel from SEYPEC instead of through the incentive scheme.

Mr. Speaker, in providing subsidies for such schemes Government needs to protect the taxpayers against abuse of public funds. We are very concerned about the reported abuse of the fishermen fuel incentive scheme. Government fully appreciates the hardship of a fisherman's life. But we will not stand aside and allow abuse of the scheme which puts at risk the support to genuine and honest fishermen. My ministry, in collaboration with the Ministry of Natural Resources will review the modality of the scheme and make proposals to Government to improve its management and to strengthen control aimed at eliminating abuse.

20. Subsidizing Public Services to Low Income Groups

Mr. Speaker, Government will continue to allocate resources to protect the vulnerable groups in our society. In 2015, we will maintain support for the following schemes: (i) social safety net, SR65 million; (ii) public transport, SR35 million; (iii) housing finance subsidy, SR20 million; and (iv) dedicated fund for schools, SR3.4 million.

21. Improving Access to Housing Finance

Mr. Speaker, the housing finance subsidy scheme introduced this year has been a major success. So far 142 first time home buyers have benefitted from the subsidy amounting to SR18 million. To ensure that more people continue to benefit, this year the income threshold to qualify for the scheme was raised from SR20,000 to SR25,000 per month and the personal contribution toward the cost of the property reduced from 10 percent to 2.5 percent. As mentioned we have provided an extra SR20 million in 2015.

To complement this, the Housing Finance Company (HFC) reviewed its loan products this year. This has also resulted in an increase in the maximum housing loan threshold from SR500,000 to SR750,000.

One area where homeowners continue to struggle is in obtaining affordable mortgage insurance protection for their homes. Government considers the current levels of mortgage protection insurance policies as unacceptably high. Discussions have begun with insurance companies with a view to reducing the premium on housing insurance policies. Should this fail to materialize through negotiations, Government will consider imposing a cap through regulations as we have done with bank charges on housing loans.

Mr. Speaker it is regrettable that despite the incentive of the housing subsidy, commercial banks' contributions towards housing lending remain dismal, which leaves HFC to bear most of the burden of housing financing. The Ministry of Finance has this year worked closely with the World Bank and MLUH to explore more ways to encourage commercial banks to increase their share of mortgage lending to middle-income borrowers. Recommendations will be put to Government in 2015 for consideration.

22. Increases in Benefits and New Initiatives in 2015

22.1. Benefits

Mr. Speaker, despite our budgetary constraints, our Government continues to find ways to improve the quality of life of our senior citizens and others in need of special benefits. In 2015, we will increase the retirement benefits by SR150 monthly and other benefits provided by the ASP by SR50.

22.2. Laptop subsidy scheme

In the 2014 State of the Nation address, President Michel requested the Ministry of Finance to identify funding to extend support toward the existing laptop subsidy scheme for post secondary students to cover all S5 students. I am pleased to announce that Government will inject SR3.6 million toward this scheme in 2015 to cover about 1,200 students.

22.3. Gratuity for Cleaners Employed by Cleaners' Corporative

Recently Government approved a proposal for cleaners employed by Cleaners' Cooperative to receive the same gratuity payment as Government employees. A total of 219 cleaners will receive SR6,666.67 each in gratuity in 2015. This will cost Government a total of SR1.5 million.

22.4. Pension for Constitutional Posts

Following enactment of the Constitutional Posts (Special Pension Act) 2014 which will come into effect on 1 January, 2015, an allocation of SR7.7 million is proposed in the 2015 budget.

23. Medium-Term National Development Strategy (MTNDS)

Mr. Speaker, in November this year Government approved a new National Medium Term Development Strategy, which covers the period 2015-19. This strategy provides an overarching framework for development in the Seychelles for the next five years and will serve as a tool for macro planning by anchoring other sectoral plans and strategies.

Macro-economic stability remains the cornerstone of Government policy and is as an integral element of this strategy. Diversification of the economy from tourism is also sought in the medium-term with further development of our blue economy, covering the fisheries and underwater resources exploitation, as well as the financial services sector. Economic and social policies aim at promoting an efficient public sector and providing a stimulating environment for private sector development without compromising social concerns and environmental sustainability.

Besides the various sector strategies, the MTNDS integrates results-based budgets (PPBB), the public administration reform led by the Department of Public Administration for results-based personnel performance, and the design and implementation of a national results-based monitoring and evaluation system (M&E). The MTNDS thus also aligns the attainment of

Government socio-economic objectives with the need to enhance its effectiveness, coordination, improved performance and accountability.

The MTNDS is based on a business-as-usual scenario, i.e. it assumes that the current trends in evolution of key macro variables like real GDP growth is maintained. It is also closely linked to other instruments like the MTFF.

As a baseline strategy, the MTNDS will be integrated with the Seychelles Strategic Plan that is being coordinated by the MLUH and supported by the Abu Dhabi Urban Council. The Seychelles Strategic Plan will also include alternative growth scenarios based on higher growth trajectories given certain policy assumptions as well as risks that are reflected in results of sensitivity analyses. The Seychelles Strategic Plan will serve as the reference document to which all sectors, institutions and supporting partners should articulate with, to ensure socially responsible economic and social development while protecting the resource base and the environment.

26. Conclusion

Mr. Speaker, Honorable members of National Assembly, People of Seychelles, in today's budget address you have heard many times, my reference to sustainability. This budget and the accompanying policies will keep us firmly on the path towards long-term sustainable growth.

As we look back on 2014, the year dedicated by the UN to Small Island Development States (SIDS), we should be proud of our achievements as one of the most proactive SIDS, having fought hard on the international scene to make our voices heard for our cause and for the cause of other

small nations. Today, Mr. Speaker, the World knows who Seychelles is. Moreover, it respects and listens to us.

As we approach the dawn of 2015 all Seychellois should be proud for our country to be one of only a handful of developing countries to have broadly attained the 2015 UN Millennium Development Goals. As the world enters into a new era of post-MDGs, and as we join the rest of the world in promoting the UN's post millennium development agenda, the emphasis is firmly focused on sustainable development.

On the home front we have fought hard to overcome a difficult year for our economy. We have succeeded in attaining further socio-economic progress largely because of the strong foundations that we have put in place through our reforms. Sustainable growth can only be achieved through a sound policy foundation. The budget presented today aligns our national economic objectives with those global objectives as they both aim for sustainable development. This budget incorporates these sound foundations and will ensure that we stay the course towards sustainability. I am confident that we will achieve that noble objective for our nation.

Before I end, Mr. Speaker, I would like to thank everyone who has contributed toward the preparation of this budget.

First, I thank President James Michel for all his continued support and guidance in helping my ministry push our policy and reform agenda forward.

I also thank Vice-President Danny Faure and all my colleague ministers for their continued support.

I thank my hardworking team at MFTI for their continued professionalism, dedication and sacrifices for the cause of our country. I also thank all agencies who continue to cooperate with our ministry. My appreciation also goes to all private sector operators, civil society, international organizations, and all other stakeholders for their support in formulating policies for a better Seychelles.

Mr. Speaker, I thank you, all MNAs and all staff of the National Assembly for your collaboration and support throughout this year.

I thank my family for supporting me and for the patience that allow me to continue to serve my country and my people effectively.

Finally, I thank the Seychellois people for their courage. May God bless us all and may he continue to bless our dear and beautiful Seychelles.

Mr. Speaker, I now recommend approval of the 2015 Appropriations Bill to the National Assembly.

Thank you.