# Mid-Year Economic and Fiscal Outlook

## Financial Year 2023 and 2024 Outlook

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**Ministry of Finance, National Planning and Trade, August 2023**

MYEFO looks at the state of the economy for the current year (2023) 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 2023 economic activity and tax revenues. Combined, this allows for the determination of a recommended Government expenditure "envelope" for 2023. MYEFO is compiled by the Ministry of Finance, with inputs from the Macro-Economic Framework Working Group (MFWG).

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# Acronyms and Abbreviations

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

# About the Document

## Introduction

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

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

The information in the report is to take into account, to the fullest extent possible, all Government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook.

This document provides a snapshot of the economy as after the first half of 2023 giving a brief outlook for the rest of 2023 and 2024. Secondly, the source and amount of taxes that will be collected by Government in the remainder of 2023 and in 2024 is outlined. The taxes are the main component determining the overall level of Government's spending that will be possible in 2023.

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 2023.

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

# Economic Outlook

## Overview

*International Developments*

Global growth estimates as of mid-year ranges from 2.1 per cent to 3.0 per cent for 2023 according to the publications of major international financial institutions and economic organisations, such as the IMF (Table 1). Overall, these forecasts depict a slight slowdown compared to estimated 2022 growth of 3.2 per cent on average, and is mainly due to persistent inflationary pressure and continued monetary tightening by central banks.

While the recovery of some sectors, such as services, is near completion in advanced economies, others, such as manufacturing, are showing signs of weakness. Additionally, downside risks remain with regards to the war in Ukraine, extreme weather events, slow recovery in China, and the risk of sovereign debt distress in more countries.

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

| | World GDP Growth (%) | |
|---|---|---|
| | **2023** | **2024** |
| IMF | 3.0 | 3.0 |
| Fitch Ratings | 2.4 | 2.1 |
| GPMN | 2.8 | 2.4 |
| Standard & Poor's | 2.9 | 2.9 |
| WB | 2.1 | 2.4 |
| **Average:** | **2.6** | **2.6** |
| **Seychelles:** | **4.2** | **3.9** |

Source: IMF/Fitch Ratings/GPMN/S&P/WB[1]

*Domestic Developments*

*NBS GDP series change*

At the end of June 2023, the NBS published the 'Annual National Accounts (ANA) 2021: Special Ad-hoc Release', which includes a revised ANA series for 2014 to 2021. The revision was made to reflect updated methodologies and samples. The new series results in significantly higher growth rates between 2015 and 2018, though more recent growth is generally in line with the initial series. However, GDP levels are now substantially higher for the entire time period, with the new series being 17 and 12 per cent higher on average, at constant and current prices, respectively. The following tables compare the GDP growth rates and the GDP levels between both series for 2020 and 2021.

**Table 2: GDP growth comparisons 2020 and 2021 (%)**

| | 2020 | | 2021 | |
|---|---|---|---|---|
| | Real | Nominal | Real | Nominal |
| NBS ANA (initial) | -8.6 | -9.7 | 2.4 | 4.4 |
| **NBS ANA (revised)** | **-8.5** | **-7.3** | **2.5** | **4.3** |

Source: NBS, MFAD estimates

[1] Fitch Ratings Global Economic Outlook June 2023; GPMN Global Projections July 2023; IMF World Economic Outlook Update July 2023; Macroeconomic Forecasting and Analysis Division; World Bank Global Economic Prospects July 2023;

**Table 3. GDP level comparisons for 2020 and 2021 (SR'm)**

| | 2020 | | 2021 | |
|---|---|---|---|---|
| | Real | Nominal | Real | Nominal |
| NBS ANA (initial) | 19,782 | 20,849 | 20,248 | 21,771 |
| **NBS ANA (revised)** | **23,810** | **24,294** | **24,410** | **25,347** |

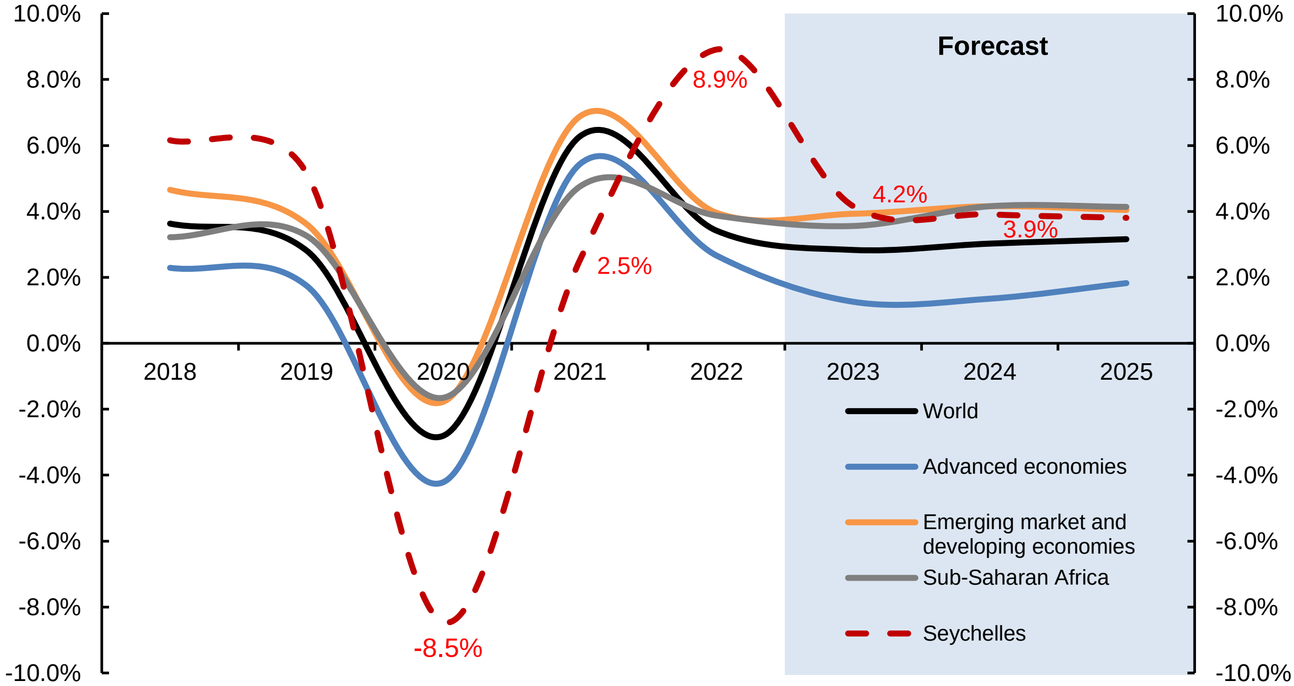
Source: NBS, MFAD estimates

*2023 and medium-term forecast*

Seychelles' real GDP growth for 2023 has been revised downwards to 4.2 per cent, from the Budget forecast of 5.4 per cent, or a 1.2 percentage point decrease. This change is mainly due to a lower tourism arrivals forecast for 2023 of 5 per cent, compared to more optimistic assumptions made initially for Budget 2023. An expected slowdown in demand from main European markets as a result of global factors is the main contributing factor towards this. Additionally, the forecasts for some sectors have been affected by the recent ANA series revision (as outlined above) leading to base effects.

Despite the downward revision, economic growth for Seychelles is expected to remain above the world average, moving steadily ahead from the pandemic induced downturn. This is being supported by the recovery of the tourism sector, which makes up a significant proportion of total GDP. Arrivals by the end of July 2023 were 7 per cent greater than the same period in 2022, indicating that the industry remains healthy and is continuing to grow towards pre-pandemic numbers, though this growth is now expected to be slower than the Budget 2023 forecast. Additionally, the Information and Communication Technology sector continues to perform well, and is estimated to again reach double-digit growth in 2023, with similarly solid figures expected over the medium-term. Though the agriculture and the financial sector have experienced contractions in output over the first quarter of the year, the fisheries sector has seen significant growth. Overall, the GDP forecast for 2023 and the medium term, though lower than Budget 2023 estimate, indicates driven and steady growth.

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




Source: IMF World Economic Outlook Update July 2023.

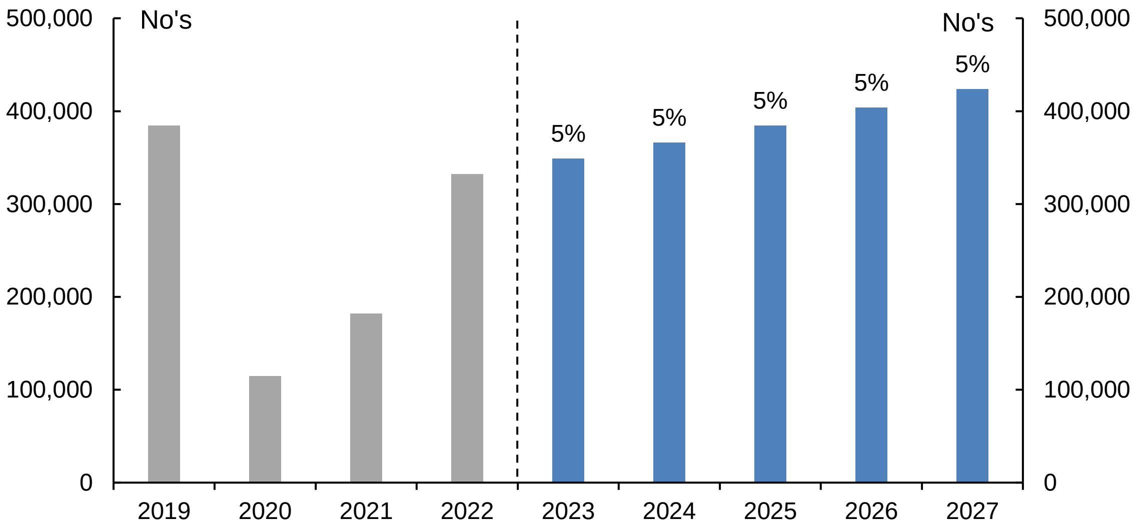
The medium-term economic outlook remains sturdy, as real GDP growth over the period 2024 to 2026 is projected to average of roughly 3.8 per cent. This is mainly driven by the continued post-pandemic recovery in tourism arrivals and its positive economic impact on associated sectors.

### *Tourism*

An estimated 235 million tourists travelled internationally for the first quarter of 2023, which is more than double compared to what was recorded for the same period in 2022[2]. The outlook for Seychelles remains rather positive with year-to-date tourism arrivals reaching around 52 per cent of 2019 pre-pandemic levels. Looking back at 2022, arrivals grew by about 82 per cent over 2021, mainly due to continued recovery from the shock of COVID-19, and considering that there were restrictions and lockdown for the first three months of 2021. As at July 2023, visitor arrivals stood at 201,028 or 7 per cent higher than what was recorded in the same period in 2022. Europe remains the largest market with 72 per cent of arrivals, and with strong performance recorded for Russia, Italy and Germany.

Given this, the total arrivals for 2023 is forecasted at 348,671, which represents a year-on-year growth of about 5 per cent. This is around 10 per cent lower than the initial Budget estimate of 387,918 visitors. This downward revision was mainly due to indicators showing a stabilisation of the tourism industry after quick recovery in 2022 (82 per cent year-on-year) i.e. while 2022 benefitted from pent-up demand following the pandemic lockdowns in 2020 and 2021 that forced travellers to postpone their visits, travel in 2023 is expected to return to trend and, whereby growth will be slow and steady. Additionally, there are global factors, such as high inflation, high interest rates, and the on-going Russian-Ukraine war, which affects affordability and therefore tourists' willingness to travel thus further justifying the more conservative forecast. Over the medium term, tourism is expected to grow at an average of 5 per cent, with arrivals reaching pre-pandemic levels in 2025, as depicted on the graph overleaf.

**Figure 2: Medium term tourist arrivals estimates**




Source: Macroeconomic Forecasting & Analysis Division estimates.
Note - Percentages indicate growth rates.

### *Manufacturing*

Mixed paths are forecasted for the manufacturing industries in 2022 with average real GDP growth estimates sitting steadily at 2.1 per cent.

The **manufacturing of fishery products sector**, which consists mostly of canned tuna production, has been revised downwards by 1.7 percentage points in terms of sector growth. IOT continues to face various cost and operational challenges, which hinder the company's ability to produce output at full potential. Consequently, the company has revised their 2023 production targets downwards. This is consistent with quarter 1 production statistics which show a double-digit contraction of output. Canned tuna production is expected to pick up over the rest of the year; however, 2023 output growth projections remain conservative at 1.3 per cent. The 'manufacturing of fishery products' sector growth forecast is 2 per cent for 2024.

[2] United Nations World Tourism Outlook

The 2023 growth projection for the **manufacturing of beverages and tobacco sector** has been revised upwards to 4 per cent, 1 percentage point above the previous forecast. This is linked to efforts by manufacturers to diversify and extend the product range on offer, capturing more market share. This is also reflected in quarter 1 production indicators which show an average of 14 per cent year-on-year increase in beverage production, despite brief contraction of cigarette production. Steady growth is expected to continue for this sector in 2024 at 3 per cent.

Steady production growth of concrete and rock products maintains the **manufacturing of other sector** 2023 growth projection at 2 per cent. Quarter 1 statistics indicate an average of 9 per cent increase in production of blocks, rock aggregate and crusher dust. This trend is expected to continue over the rest of the year while the sector's 2024 growth forecast remains steady at 3 per cent.

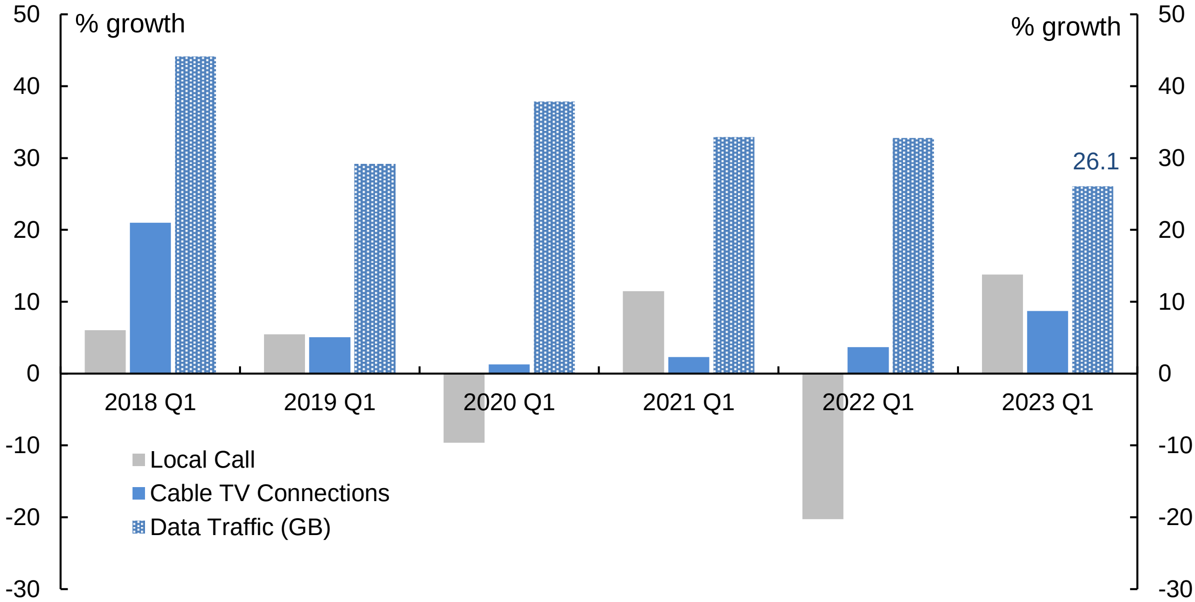
### *Construction*

The **construction sector** remains sturdy with 3 per cent growth expected for 2023. The upturn in activity of this industry remains strong as major projects, particularly tourism establishment developments, continue to progress (also reflected in recent higher VAT refunds to this sector – see VAT section). This is further backed by the aforementioned growth in production of concrete and rock products. The industry is expected to continue this trajectory and grow by 4 per cent in 2024.

### *Information and Communication Technology*

The **ICT sector** has been achieving double-digit growth over recent years. Production statistics for the first quarter of 2023 indicate strong performance overall, with data traffic, the main proxy for this sector, growing by 26 per cent compared to the same quarter last year. The sector enjoys strong demand for new technology and ICT solutions in the aftermath of the pandemic; further supported by the tourism recovery. The overall forecasted growth is therefore 15 per cent for 2023, and 10 per cent for 2024.  Outer years remains steady at an average growth of 5 per cent.

**Figure 3: ICT sector performance (Q1 comparison)**




Source: Department of Information Communications Technology.

*Agriculture and Fisheries*

The Quarterly National Account (QNA) for the first quarter indicates a slowdown of 9 per cent in the **agricultural sector** compared to the first quarter of last year. Production statistics for the same period point to contractions in chicken, pig and cattle slaughter, while egg production remains flat. Agriculture production has therefore been reduced to 2 per cent for 2023. However, the outlook for 2024, and the medium term, remains positive given supportive policies geared at lowering the cost of production, such as the importation of animal feed by STC which is scheduled to start in August 2023.

In contrast, the QNA indicates a robust growth of 97 per cent for the **fisheries sector** for the first quarter, supported by a 91 per cent increase in semi-industrial fish catch. However, given that artisanal data is currently unavailable for Quarter 1, and considering that this portion makes up 70 per cent of the total, the forecast for 2023 has been increased to a modest 3 per cent. Medium-term forecasts remain the same.

*Finance and Insurance Activities*

**Finance and insurance activities sector** contracted by 9 per cent in the first quarter of the year according to the QNA. While the income of banks grew at the start of the year, non-depository financial intermediaries did not perform was well given volatility in the earnings on one large institution. The forecast for 2023 has been kept at a conservative 2 per cent, while the medium-term forecast remains the same.

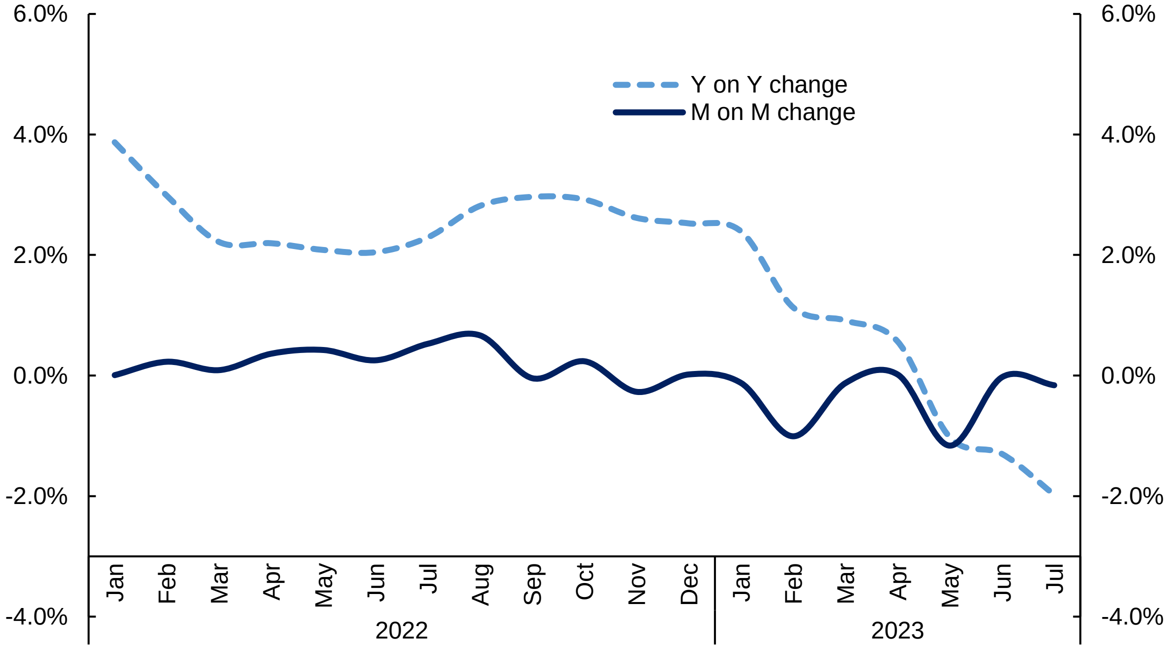
# Monetary Sector

## Inflation

Domestic prices, as measured through the Consumer Price Index (CPI), have declined thus far in 2023 relative to 2022. The year-on-year inflation rate in July 2023 was at *negative* 2.0 per cent compared to 2.3 per cent in July 2022. This was due to several factors namely, the reduction in international food and fuel prices, lower freight costs, and the effects of the stronger domestic currency, all of which contributed towards a decrease in import prices. In general, declines were observed in the average prices of food items, housing, utilities, transportation, and other goods and services.

In terms of the outlook for the rest of the year, global inflation is forecasted to fall as a result of tight monetary policy conditions externally and the effects of the decline in international food and fuel prices. Importantly, the impact of monetary policy tightening by key central banks is expected to reduce the pace of global inflation. Nevertheless, international food prices are subject to upside risks, especially following Russia's exit from the Black Sea grain initiative[3], which could impact global food supply. Other potential risks include export restrictions on crucial commodities by different countries, extreme weather incidents, and other adverse supply shocks that could materialise. As for international fuel prices, they are expected to be lower in the second half of the year when compared to 2022, consistent with global inventory levels and weaker global demand. However, an uptick in prices is anticipated going into 2024, given the oil production cuts by the Organisation of the Petroleum Exporting Countries and partner countries (OPEC+) which may result in reduced global oil inventories.

**Figure 4: Year-on-year and month-on-month change in the Consumer Price Index**




Source: National Bureau of Statistics.

The positive performance of the tourism industry led to an increase in foreign exchange inflows. This helped to offset the rise in demand which led to the strengthening of the domestic currency in the first four months of the year. However, the Seychelles rupee has been weakening against the USD as of May 2023, consistent with the seasonal increase in demand.

[3] https://www.un.org/en/black-sea-grain-initiative

In the upcoming months, the supply of foreign exchange is expected to be sustained in line with the positive tourism sector outlook in addition to the contribution of other sectors of the economy. Notwithstanding such, higher demand for foreign currency is projected due to the continued expansion in domestic credit and the seasonal increase in demand leading up to the end-of-year festivities. As such, if the demand for foreign exchange exceeds supply, the domestic currency may weaken further. Nevertheless, the dynamics in the foreign exchange market remains contingent on international developments and their implications on the domestic economy.

Overall, the Central Bank has maintained an accommodative stance for the first three quarters of 2023 to support domestic economic activity. As customary, the Central Bank remains vigilant to domestic and international developments and will adjust its policy stance should the need arise.

## Interest Rates

The monetary policy stance has remained accommodative since the second quarter of 2020. In its December 2022 meeting, the Board decided to maintain the Monetary Policy Rate (MPR) at 2.0 per cent for the first quarter of 2023. This policy decision took into consideration the need to continue supporting the domestic economy, given its vulnerability to external shocks. In line with the unchanged MPR, the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) were kept at 0.5 per cent and 3.5 per cent, respectively. At the March 2023 meeting, in spite of the pick-up in domestic economic activity, supported by the positive performance of the tourism industry and an expansion in credit accessed by various sectors, the stance remained unchanged given the vulnerability of the local economy to shocks in the external environment. The downside risks included the further tightening of global monetary conditions to tame inflation, potential increases in international food prices, escalation of the conflict in Ukraine and emergence of international banking sector risks.

More recently, at its meeting in June 2023, the Board maintained the MPR at 2.0 per cent for the third quarter. This took into consideration the persistently high level of uncertainty in the external environment and the fact that the domestic economy remains significantly vulnerable. Mindful of these economic realities, the Board decided that it was imperative for the Bank to continue supporting the local economy.

In line with the accommodative stance, market interest rates on facilities denominated in local currency have continued to decline. As at June 2023, the average interest rate on credit denominated in local currency decreased by 11 basis points to stand at 10.04 per cent, relative to 10.14 per cent in the same period last year. As for the average savings rate on local currency deposits, it remained relatively unchanged at 1.50 per cent. In regards to the interest rates on banking facilities denominated in foreign currency, they were higher relative to the same period in 2022. This outcome was consistent with the tighter financial conditions externally. In comparison to June 2022, the average yield on foreign currency savings deposits increased by less than 2.0 basis points to stand at 0.92 per cent in June 2023. Over the same period, the average interest rate charged on foreign currency loans rose from 5.69 per cent to 7.59 per cent in June 2023.

In regards to the yield on Treasury bills (T-bills), in July 2023, it stood at 1.28 per cent on the 91-day bills, 1.56 per cent on the 182-day bills and 2.14 per cent on the 365-day bills. In relation to the outcome for end-2022, this was an increase of 40 basis points and 17 basis points in the yield on the 91-day bills and 182-day bills, correspondingly, whereas on the 365-day bills, the yield declined by 5.0 basis points. As for the return on the 7-day Deposit Auction Arrangement (DAA), it has been gradually rising since the beginning of the year. It stood at 1.15 per cent at the end of July 2023 which was an increase of 67 basis points in comparison to December 2022.

Consistent with government's debt strategy of issuing longer-term maturities, Treasury bonds (T-bonds) were allotted on two separate occasions in the first half of 2023, specifically in March and June. The bonds issued in March 2023 had tenures of 3-years, 5-years and 7-years at an average yield to maturity of 3.50 per cent, 4.80 per cent and 5.90 per cent, correspondingly. As for the bond issued in June 2023, it had a tenure of 10 years, with an average yield to maturity of 7.77 per cent.

In the near term, consistent with the accommodative monetary policy stance, no significant upward reaction is anticipated in the banking sector interest rates on facilities denominated in local currency. However, as mentioned previously, developments in financial markets externally may continue to impact the existing stock of foreign currency-denominated loans with variable rates.

# External Sector

The global economy continued to face multiple challenges in the first half of 2023. Although a key concern for many central banks was the battle against inflation, the downward trend in global food and fuel prices have helped ease average prices of goods and services in most countries. Nonetheless, whilst the price of these commodities has fallen to 2021 levels, they are expected to remain elevated and are subject to many upside risks. Regarding food prices, such includes potential disruptions in production or shipments of food exports, especially from Russia or Ukraine, as well as adverse weather-related risks. As for international fuel prices, they are forecasted to be lower on average in 2023 when compared to 2022, on account of the subdued global economic outlook. However, it is expected that the reduction in supply by OPEC+ coupled with the fall in global oil inventories are likely to put some upward pressures on prices towards the end of 2023 and the beginning of 2024.

In regards to services, despite the slowdown in global economic activity and tighter monetary and financial conditions, particularly in Europe, the tourism industry remained buoyant. Nonetheless, earnings over the first half of 2023 declined in relation to the same period in 2022 in view of the changing composition of visitors as well as a fall in tourists from high yielding countries.

## Imports

The aggregate value of imported goods is forecasted to remain at a similar level to 2022. Although the volume of imported goods is expected to be higher in 2023, the decrease in the international price of fuel and food is anticipated to offset this rise.

## Exports

The total value of exported goods is projected to be lower than in the previous year. One of the main contributing factors is the forecasted decrease in the value of oil re-exports, consistent with the lower price of oil internationally. The other major component of merchandise exports is canned tuna. Although its price is expected to increase, the volume of canned tuna exports is projected to decrease, thereby leading to a fall in the overall exported value.

## Services

The country’s services account is anticipated to remain in surplus and is expected to increase compared to the previous year.

In regards to the export of services, it is projected to rise in line with the forecasted growth in tourism earnings. Of note, despite the reduction in earnings for the first half of 2023, it is expected to improve in the second half of the year. As such, a slight increase in tourism earnings is projected for the year. In addition, the import of services is anticipated to be lower than in 2022. This is in line with a reduction in the level of imports of specialised services following the completion of several major projects. This decline in the import of services is expected to be supported by the fall in transportation costs and other trade-related services.

## Capital and Financial Accounts

The capital and financial accounts provide insight into how a country's current account transactions are financed. Capital transfers continue to primarily consist of bilateral and multilateral donations of capital equipment from partner countries. This value is anticipated to be higher than in 2022 as it is related to new and ongoing projects.

As has traditionally been the case, Foreign Direct Investment (FDI) and transactions under "other investments" remain the main financing sources of the current account. With the ongoing economic recovery, several FDI-related projects resumed in 2022. Along with the continuation of these projects, several new projects also commenced in 2023. This is therefore expected to lead to an increase in FDI inflows in 2023.

## External Reserves

The country's gross international reserves are expected to end the year at USD 716m, equivalent to 3.6 months of imports. This is an increase from the recorded level of USD 639m or 3.4 months of imports cover in 2022. This projected increase is mainly due to multilateral budget support of USD 90m that is expected to be received during the year, in addition to funds that are anticipated from the IMF under the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF).

# Fiscal Outlook

Despite a now lower growth forecast given the slower pace of tourism recovery, the Government remains committed towards maintaining fiscal balance for the year 2023. Compared to the initial Budget, the primary balance was revised from 1.1 per cent to -0.2 per cent of GDP, a 1.3 percentage point decrease. This amounts to a SR 71m deficit in level terms (Table 4 below). As at June 2023, the Debt to GDP ratio is 64 per cent.

The administration remains committed towards healthier fiscal policies and structural reforms with the continuous support of the International Monetary Fund via two new programmes: the 'Extended Fund Facility' (EEF) and 'Resilience and Sustainability Trust' (RST), which were approved in May 2023.

For the mid-year Budget 2023 revision, total Government revenue including grants is estimated at SR 9.9bn, a SR 747m downward revision from the initial Budget. This is driven by lower tax revenue forecasts, which were revised mainly due to lowered expectations following lesser 2022 collections (therefore a lower base for 2023), as well as reduced GDP growth rate.

In terms of Non-tax revenue, the projection for Grants was reduced by SR 35.5m, while Non-tax revenue (excluding grants), on the other hand, was revised upwards by about SR 78m or 7 per cent, mainly due to 'Fees and Charges, Dividends Income and proceeds from sale of assets.

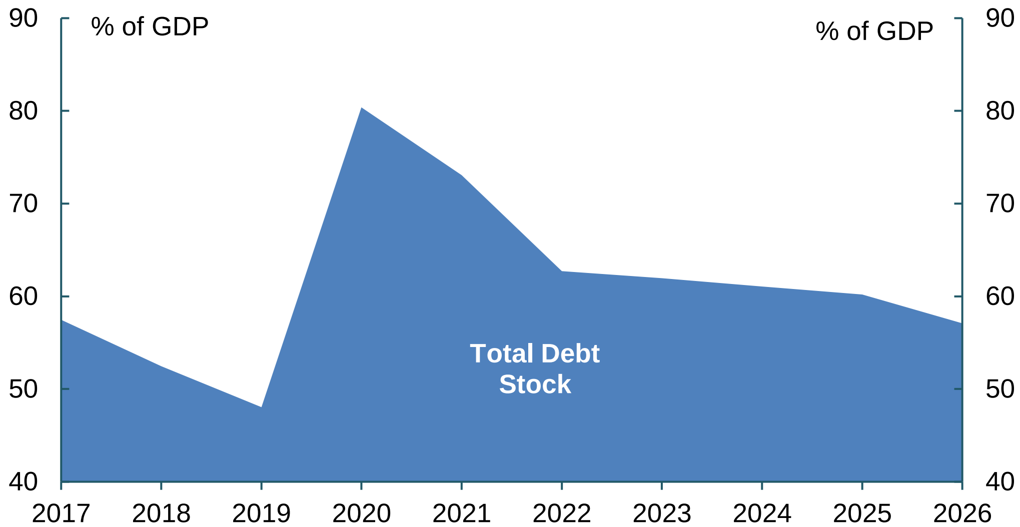
On the expenditure side, primary expenditure now stands at SR 8.5bn, a downward revision of SR 71m in comparison to the initial Budget estimate. This is mainly attributed to a reduction in 'Wages and Salaries' by about SR 173m to account for revised expenditure plans for the second half of the year.

**Table 4: Revised Government Revenue and Expenditure (SR'000s)**

| DESCRIPTION | 2022 | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| Revenue and Grants | 8,800,528 | 10,690,894 | 9,943,769 | 10,637,458 |
| Primary Expenditure | 7,875,200 | 8,611,963 | 8,541,291 | 8,748,014 |
| **Primary Balance** | **188,786** | **330,284** | **-70,978** | **56,080** |
| **% of GDP:** | **0.72** | **1.08** | **-0.24** | **0.18** |

Source: Ministry of Finance estimates.

**Figure 5: Total Debt to GDP**




Source: Ministry of Finance, Debt Office estimates.

## Revenue & Grants

Total expected revenue and grants has been revised downwards by about SR 747m or 7 per cent for the mid-year Budget 2023. This is mainly attributed to a reduction in tax revenue by SR 789m or 8.6 per cent, following a lower 2022 outturn and lower growth assumptions. Grants were also revised downwards by SR 35m or 9 per cent as a consequence of delays in the implementation of projects. A SR 78m upward revision of 'Non-tax' revenue partially compensated for the downward revision, mainly attributed to an increase in dividend income by about SR 28m. Total revenue and grants is budgeted to be at SR 9.9bn for 2023 representing 33.1 per cent of GDP. For 2024, total revenue and grants are projected at about 33.6 per cent of GDP.

**Table 5: Revised Government Revenue (SR'000s)**

| DESCRIPTION | 2022 | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| Tax Revenue | 7,392,917 | 9,209,123 | 8,419,883 | 9,249,554 |
| Non-Tax Revenue | 1,295,578 | 1,079,216 | 1,156,833 | 1,046,953 |
| Grants | 112,033 | 402,555 | 367,053 | 339,245 |
| **TOTAL: REVENUE & GRANTS** | **8,800,528** | **10,690,894** | **9,943,769** | **10,637,458** |
| **% of GDP:** | **33.7** | **34.9** | **33.1** | **33.6** |

Source: Ministry of Finance estimates

## Tax Revenue

In comparison to the initial Budget for 2023, tax revenue has been revised downwards by about SR 789m, equivalent to 8.6 per cent. This is largely as a result of a much lower 2023 base, following the end of year under-performance in 2022, as well as lower GDP growth assumptions than previously envisaged. With regards to the lower base, this was as a result of a 5 per cent, or SR 394m shortfall in total tax receipts by the end of 2022. Business tax accounted for almost 2/3 of the total under-performance (about SR 238m). Foreign exchange fluctuations as a result of the pandemic, inflated Business tax payments in 2021, but this was not fully accounted for in the 2022 estimate. VAT was the second highest under-performer on account of added optimism in recovery assumptions following strong year-to-date growth up to Q3 2022 which did not fully materialise by the end of the year. Much lower stamp duty payments, additional refunds under petroleum excise, as well as stagnant public sector wages, also resulted in a combined SR 90m shortfall from Excise, Other and Income taxes. Despite falling short of the Budget in 2022, tax performance was still stronger by about SR 671m, or 10 per cent, over 2021 indicating continued recovery in tax collections following the pandemic and in line with economic growth.

In terms of the downward contribution of lower macroeconomic growth assumptions, Nominal GDP growth for 2023 is now estimated at about 4.5 per cent, in comparison to the 9.6 per cent initial Budget forecast. Given that the main driver of tax revenue is economic growth, this has a direct downward impact on total possible collections. This 5-percentage point downward revision is on account of slower output from tourism related activities as a result of a less buoyant tourism arrivals estimates. 2022 saw strong growth in arrivals of 82 per cent compared to 2021, and the expectation for 2023 was to reach 2019 levels of about 388,000 visitors. However, the revised projection is of a slowdown in arrivals to 5 per cent given a fall in the 'pent-up' demand to travel following the pandemic, high inflation and rising costs of living in Europe (main market) and some disruption to flight frequencies. Additionally, given stability in FX flows, the CBS is envisaging much lower inflation outlook for 2023, as compared the initial Budget estimate, which also serves to lessen nominal growth.

**Table 6: Mid-year revised Tax revenue (SR'000s)**

| | 2022 | 2023 BUDGET | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| Income Tax | 1,085,994 | 1,223,265 | 1,224,221 | 1,298,490 |
| Custom Duties | 302,408 | 335,769 | 340,510 | 355,436 |
| Excise Tax | 1,415,817 | 1,689,536 | 1,480,500 | 1,546,172 |
| GST (Goods and Services) | 655 | 0 | 624 | 0 |
| Value Added Tax | 2,964,762 | 3,340,944 | 3,128,006 | 3,422,104 |
| Business tax | 1,207,476 | 1,852,141 | 1,552,816 | 1,769,561 |
| Corporate Social Responsibility Tax (CSR) | 10,352 | 0 | 5,547 | 0 |
| Tourism Marketing Tax (TMT) | 82,110 | 74,184 | 88,805 | 93,442 |
| Other Tax | 294,073 | 643,285 | 569,584 | 704,637 |
| Property tax | 29,270 | 50,000 | 29,271 | 59,712 |
| **TOTAL: TAX REVENUE** | **7,392,916** | **9,209,123** | **8,419,883** | **9,249,554** |
| **% of GDP:** | **28.31** | **30.14** | **28.02** | **29.26** |

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

## Income Tax

*Background*

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

*2023 Context and 2024 Projections*

The 2023 revised mid-year Income tax estimate remains very close to the initial Budget with a slight 0.1 per cent, or SR 950k, increase. While the total has remained flat, adjustments have been made to the sub-lines on account of base changes following the lower 2022 end of year outturn, a lower GDP growth outlook and collections performance up to June 2023.

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

| DESCRIPTION | 2022 | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| Central Government | 245,302 | 300,628 | 275,905 | 296,762 |
| Other Public Sector | 98,842 | 97,002 | 161,164 | 171,528 |
| Private Sector | 741,850 | 825,635 | 787,153 | 830,200 |
| **TOTAL: INCOME TAX** | **1,085,994** | **1,223,265** | **1,224,221** | **1,298,490** |
| **% of GDP:** | **3.78** | **4.00** | **4.07** | **4.11** |

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

A lower 2022 base for 'Private sector' and 'Central Government' Income tax by about SR 22m, in addition to slower nominal GDP growth, has necessitated downward adjustments to both lines by about 6 per cent on average (or a combined SR 63m). However, this has been fully offset by a resurgence in Income tax from 'Other

Public sectors'. A stronger outturn in 2022, and buoyant year-to-date collections in the first half of 2023 (about a third higher than the average over the same period throughout 2019-2022) has resulted in a significant upward revision by almost 2/3 or SR 64m. While the April 2023 10 per cent wage increase has undoubtedly boosted collections, the performance of this Income tax segment is even higher, which indicates an upward shift in total wages (possibly employment as well). This is currently being assessed in collaboration with the SRC.

As of June 2023, a total of SR 572m has been collected under Income tax, which equals a growth of about 10.6 per cent when compared to the same period in 2022 which aligns well with the recent wage increase. For 2023, Income tax is estimated at SR 1.2bn or 4.1 per cent of GDP. This ratio is expected to be maintained in 2024.

## Custom Duties

### *Background*

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

### *2023 Context and 2024 Projections*

The mid-year 2023 projection for Custom Duties stands at SR 341m. This is SR 5m above the initial Budget projection, equivalent to a minor 1 per cent increase. CD collection for 2022 surpassed expectations, leading to a SR 14m increase in the 2023 base. However, this was minimal and was countered by lower GDP growth assumptions and the under-performance of the majority of the sub-lines on a year-to-date basis. The latter includes Alcohol, which was revised downward by SR 20m. Nonetheless, the significant over-performance of the Levies sub-line offset the aforementioned shortfalls, therefore supporting the slight upward revision. Levies has been revised upwards by SR 30m, due in most part to corrections made in the classification of the Levy imposed on Seychelles Breweries against imported cans, dramatically increasing tax revenue for this sub-line. The Customs Duties year-to-date tax revenue for 2023 stands at SR 162.6m. Compared to 2022 over the same period, this is an increase of SR 28m or roughly 20 per cent.

Custom Duties tax revenue is forecasted to continue to grow at a lower rate in 2024 to SR 355m, or roughly 4 per cent year-on-year, as recovery from the pandemic continues.

**Table 8: Medium-Term Customs Duties (SR'000s)**

| DESCRIPTION | 2022 Actuals | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| **Custom Duties Direct imports** | **302,656** | **340,769** | **345,510** | **360,436** |
| Alcohol (Beverages Spirits and Vinegar) | 107,300 | 126,326 | 107,435 | 111,903 |
| Petroleum (Mineral Products) | | | | |
| Textiles and textile articles | 7,141 | 7,678 | 7,467 | 7,808 |
| Motor Vehicles (Vehicles, Aircraft, vessels) | | | | |
| Tobacco (Tobacco and Manufactured Tobacco) | 3,248 | 4,141 | 3,181 | 3,314 |
| Prepared Food (Prepared Foodstuffs) | 12,462 | 13,678 | 12,802 | 13,386 |
| Others | 104,417 | 112,415 | 113,097 | 118,257 |
| Levy (Additional Levies) | 39,946 | 42,680 | 72,197 | 75,200 |
| Documentary Charges | 4,325 | 3,852 | 4,522 | 4,728 |
| Livestock Trust Fund | 23,818 | 30,000 | 24,809 | 25,841 |
| **Custom Duties Exemptions** | -248 | -5,000 | -5,000 | -5,000 |
| **TOTAL: CUSTOM DUTIES** | **302,408** | **335,769** | **340,510** | **355,436** |
| **% of GDP:** | **1.05** | **1.10** | **1.13** | **1.12** |

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

### Excise Tax

*Background*

Excise tax is applied to specific imported and locally manufactured goods in order to control consumption due to health or environmental implications. The former reason applies to alcohol, tobacco and sugar while the latter applies to petroleum and motor vehicles. Excise tax on all goods, other than motor vehicles, is specific.

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

*2023 Context and 2024 Projections*

In comparison to the initial Budget, Excise tax was revised downwards by SR 209m or 12 per cent. The main tax line that was revised downwards includes excise on imported Alcohol by SR 76m or 25 per cent. This is mainly due adjustments to cater for the year-to-date poor performance about 27 per cent lower than what was budgeted. A lower revision of SR 81m or 11 per cent was made to Excise on imported, mainly attributed by the lower base revision, lower GDP growth assumption and a reduction in the adjustments made to cater for the removal in fuel concession that will be effective as at September 2023. Locally manufactured Tobacco was revised downwards by about SR 33m or 15 per cent due to GDP growth assumptions and lower base used in the forecast since this line has been on a declining trend year-to-date with collections as at June 2023 being about 10 per cent below that of 2022 and 11 per cent below the Budget. Excise on Motor vehicles was revised downwards by SR 4m or 3 per cent, this is due to the lower recovery assumptions used to compute the forecast for this line since it seems to be picking up with strong year-to-date collections of SR 71m which is 101 per cent higher than what was recorded in the same period in 2022. As at June 2023, Excise on motor vehicles over performed by 10 per cent compared to the initial Budget.

However, these were slightly offset by an upward revision in Excise on sugar tax for Imported beverages by SR 1.9m or 7 per cent, mainly due to a higher base which reflects the year-to-date performance with collections being 1 per cent above Budget.

Excise Tax collections is expected to reach SR 1.5bn by the end of 2023 which is a growth of 5 per cent over 2022 and representing about 4.7 per cent of GDP.

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

| DESCRIPTION | 2022 | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| **Excise-Imports** | **980,989** | **1,189,025** | **1,025,666** | **1,073,547** |
| Alcohol | 230,666 | 310,650 | 233,916 | 243,066 |
| Petroleum | 639,888 | 728,443 | 647,521 | 672,849 |
| Motor Vehicles | 106,623 | 144,967 | 140,983 | 154,260 |
| Tobacco | 3,813 | 4,964 | 3,246 | 3,373 |
| **Excise-Locally Manuf. Goods** | **380,482** | **443,636** | **397,787** | **413,347** |
| Alcohol | 198,055 | 218,720 | 206,291 | 214,360 |
| Tobacco | 182,428 | 224,917 | 191,496 | 198,986 |
| **Sugar Tax** | **54,346** | **56,875** | **57,047** | **59,278** |
| Imported Beverages | 28,689 | 28,129 | 30,115 | 31,293 |
| LMG - Beverages | 25,657 | 28,746 | 26,932 | 27,985 |
| **TOTAL: EXCISE TAX** | **1,415,817** | **1,689,536** | **1,480,500** | **1,546,172** |
| **% of GDP:** | **4.93** | **5.53** | **4.93** | **4.89** |

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

## Value Added Tax

### *Background*

VAT is imposed on the value added of all taxable products that are produced and consumed domestically through VAT registered companies, with the current rate being a flat 15 per cent of taxable goods and services. VAT is charged on all taxable imports but not on exports, also known as the 'destination principle'. Businesses with an annual turnover exceeding SR 2m are required to be VAT registered (compulsory registrations). VAT collections tends to grow in tandem with Nominal GDP and it accounts for approximately 37 per cent of the total tax revenue, making it the single largest tax line.

### *2023 Context and 2024 Projections*

In comparison to the 2023 Budget, VAT has been revised downwards by SR 213m, or 6 per cent. The revision is partly due to lower than expected 2022 collection, which has resulted in a SR 86m reduction in the base on which the 2023 forecast is built. While 2022 growth was a solid 28 per cent compared to 2021, VAT undershot the even stronger recovery expectations that was generated by robust collection by Q3 2022.

Moreover, two additional factors contributed to further downwards revision: firstly, 2023 nominal GDP growth was lowered which required an adjustment of SR 137m, and secondly, VAT performance for the first half of 2023 was below expectations due mostly to credit and refund issues affecting the Tourism and Real Estate sub-lines. The Tourism sub-line experienced a surge in accumulated credits and subsequent refunds attributable to numerous tourism establishments undertaking renovations, therefore leading to reduced taxable supplies while inputs increased and remained high. Compared to 2022, refunds to the Tourism sub-line increased by 43 per cent. As for Real Estate, the large and continuous outflows were due to refunds being funnelled to development companies currently constructing hotels (and hence still attributable to the tourism sector). Compared to 2022, refunds to the Real Estate sub-line increased by 136 per cent. Given expectations that additional refunds will be paid out in the coming months, the forecast for both sub-lines have been reduced by 17 per cent and 52 per cent, respectively.

**Table 10: Medium-Term Value Added Tax (SR'000s)**

| DESCRIPTION | 2022 | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| **VAT- Domestic** | **1,855,012** | **2,158,122** | **1,869,417** | **2,076,294** |
| LMG- Alcohol | 94,992 | 110,881 | 99,327 | 106,167 |
| LMG- Tobacco | 32,987 | 44,391 | 34,492 | 36,938 |
| Construction | 84,997 | 114,665 | 112,084 | 130,221 |
| Services - Tourism | 934,829 | 1,070,622 | 884,610 | 1,001,092 |
| Services - Financial & Insurance activities | 72,530 | 104,124 | 85,847 | 91,402 |
| Services - ICT & Telecommunication | 153,670 | 185,102 | 176,928 | 188,730 |
| Real Estate | 77,797 | 66,357 | 31,729 | 51,156 |
| Wholesale Retail - Others | 180,964 | 220,847 | 196,314 | 206,564 |
| Others | 222,246 | 241,132 | 248,085 | 264,024 |
| **VAT- Imported** | **1,111,868** | **1,187,822** | **1,263,588** | **1,350,810** |
| **VAT-Exemptions** | **-2,118** | **-5,000** | **-5,000** | **-5,000** |
| **TOTAL: VALUE ADDED TAX** | **2,964,762** | **3,340,944** | **3,128,006** | **3,422,104** |
| **% of GDP:** | **10.32** | **10.93** | **10.41** | **10.82** |

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

## Business Tax

### *Background*

The Business tax revenue consists of provisional payments (called Pay As You Go – PAYG) paid by businesses in monthly instalments for the current year. Additionally, the businesses are assessed on their profit of the previous year, which they are required to lodge by 31st March. Based on this assessment, the company either has an additional tax liability (PAYG paid is less than actual tax payable) or is due for a refund (PAYG paid exceeds actual tax payable). Although companies are required to lodge their returns by March, extensions of this lodgement date are provided under the SRC lodgement program.

### *2023 Context and 2024 Projections*

The Business tax mid-year Budget forecast stands at SR 1.55bn, about 5.2 per cent of GDP. Business tax projections were revised downwards by SR 299m or 16 per cent in comparison to the initial 2023 Budget. The majority of this downward adjustment is largely due to less optimistic expectations following lower Business tax collections recorded over the second half of 2022, resulting in a SR 237.7m lowering of the base of this tax line. Analysis has revealed that 2022 Business tax projections were over-estimated as a result of inflated collections in 2021 based on large foreign exchange gains of the previous year. Moreover, estimates of general business performance during 2022 are lesser than formerly anticipated, further reducing the forecast by SR 63.7m.

From a year-to-date perspective, collections total to SR 756m, about 3 per cent short of the initial Budget forecast. On the other hand, when compared to the same period in 2022, the year-to-date collections are about SR 187m, or 33 per cent. The majority of this increase is attributed to high collections in March 2023, which is likely a result of business tax lodgement exercises considering the March deadline. This suggests that a portion of this performance is timing related, considering that many businesses requested extensions in 2022. Furthermore, the total amount of Business tax refunds year-to-date have halved in comparison to the same time last year, likely owing to fewer declared losses as a result of more stable foreign exchange rates.

**Table 11: Medium-Term Business Tax (SR'000s)**

| DESCRIPTION | 2022 | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| Companies | 1,012,765 | 1,572,380 | 1,332,679 | 1,541,891 |
| Sole Traders | 51,062 | 98,027 | 56,180 | 58,103 |
| Partnerships | 22,381 | 30,339 | 26,668 | 27,581 |
| Trusts | 22 | 22 | 23 | 24 |
| Withholding Tax | 99,645 | 124,671 | 112,963 | 116,829 |
| Others | 0 | 1 | 0 | 0 |
| Residential Dwelling | 21,600 | 26,701 | 24,302 | 25,134 |
| **TOTAL: BUSINESS TAX** | **1,207,476** | **1,852,141** | **1,552,816** | **1,769,561** |
| **% of GDP:** | **4.20** | **6.06** | **5.17** | **5.60** |

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

## Corporate Social Responsibility Tax

*Background*

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

*2023 Context and 2024 Projections*

The mid-year estimate for CSR stands at roughly SR 5.5m. The tax line was abolished in 2021, and it was initially assumed that all pending dues would be settled by the end of 2022. However arrears payments have continued into 2023 to the present date. Based on the revenue figures for 2023, it has been observed that the year-to-date revenue compared to the same period in 2022 fell by 42 per cent, or by SR 2m which indicates a declining trend. Given this trend, it is assumed that arrears will continue into 2024, but at a much lower pace.

**Table 12: Medium-Term Corporate Social Responsibility Tax (SR'000s)**

| DESCRIPTION | 2022 Actual | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| Corporate Social Responsibility Tax (CSR) | 10,352 | - | 5,547 | 2,972 |
| **TOTAL: CSR** | **10,352** | **-** | **5,547** | **2,972** |
| **% of GDP:** | **0.04** | **-** | **0.02** | **0.01** |

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

## Tourism Marketing Tax

*Background*

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

*2023 Context and 2024 Projections*

The mid-year estimate for TMT stands at around SR 89m, representing an increase from the initial Budget estimate of SR 15m or 20 per cent. The upward revision is due to a significantly larger base given the almost 21 per cent over-performance in TMT receipts at the end of 2022. This strong performance is further attributable to a faster tourism recovery in 2022, and solid performance of telecommunication companies that are also subject to TMT. Additionally, by the end of June 2023, the TMT actual tax revenue stood at a total of SR 42m, which exceeds the year-to-date figure for the same period in 2022 by SR 3m or 7.3 per cent, which assuming a continuation of this trend, further supports the upward revision of the mid-year projection.

As we draw closer to a full recovery of arrivals to pre-pandemic levels, the year-on-year gains on TMT revenue are expected to slow in line with arrivals growth.

**Table 13: Medium-Term breakdown of Tourism Marketing Tax (SR'000s)**

| DESCRIPTION | 2022 Actual | Budget 2023 | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| Tourism Marketing Tax (TMT) | 83,806 | 74,184 | 88,805 | 93,442 |
| **TOTAL: TMT** | **83,806** | **74,184** | **88,805** | **93,442** |
| **% of GDP:** | **0.32** | **0.24** | **0.30** | **0.30** |

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

## Other Tax

### *Background*

Other Tax comprises of a set of license fees and smaller tax lines that covers a variety of sectors in the economy. The main constituents are 'Road Tax', 'Telecommunications Licenses', and 'Stamp Duty'. These three components account for approximately 63 per cent of the Other Tax Revenue.

### *2023 Context and 2024 Projections*

Other tax has been revised downwards by SR 74m or 11 per cent compared to the initial Budget. This was mainly due to lower 2022 collection which has resulted in a reduction of the base by SR 107m. However, this was slightly offset by a SR44m adjustments to certain sub-lines to cater for year-to-date over-performance. The main downward revision has been made to the newly introduced Tourism Environmental Sustainability Levy, by SR 76m or 47 per cent due to the changes in policy (applicable rates for different sized establishment categories). The other significant reduction was made under the Telecommunications licenses by SR 5m or 7 per cent attributed to a lower base and a reduced GDP growth assumption. Stamp duty was revised downwards by SR 3.4m, for the same reasons, but this was slightly offset adjustments made to reflect year-to-date over-performance with collections as at June 2023 reaching SR 46m which is 47 per cent above the Budget. Tourism turnover tax was revised upwards by SR 12m due to a higher base as higher collections are expected as more businesses register along the year due to the tax now being applicable to a broader range of tourism establishments.

As of June 2023, a total of SR 199m was collected under Other tax, representing a growth of 31 per cent compared to the same period in 2022. This is expected to continue given the new taxes introduced. A total of SR 569m is expected to be collected for 2023, representing 1.9 per cent of GDP.

**Table 14: Medium-Term breakdown of Other Tax (SR'000s)**

| DESCRIPTION | 2022 | 2023 Budget | 2023 MYEFO | 2024 |
|---|---|---|---|---|
| OT- Ministry of Finance | | | | |
| Trade/Ind Licenses | 11,406 | 12,591 | 11,880 | 12,345 |
| Licenses and Other License Registration | 4,557 | 4,257 | 4,747 | 4,933 |
| Road Tax and Other Licenses | 124,996 | 135,141 | 136,704 | 142,051 |
| Telecommunications Licenses | 62,902 | 73,925 | 68,945 | 74,916 |
| Hotel Licenses | 689 | 401 | 717 | 745 |
| Liquor and Toddy Licenses | 274 | 292 | 285 | 296 |
| Radio Broadcasting Licenses | 1,705 | 1,660 | 1,705 | 1,705 |
| Tourism Environmental Sustainability Levy | | 162,000 | 85,775 | 195,790 |
| Tourism Turnover tax | | 118,000 | 130,000 | 136,500 |
| **SUB TOTAL** | **206,529** | **508,267** | **440,758** | **569,282** |
| OT- MACCE | | | | |
| Environment Trust Fund | 5,443 | 7,737 | 5,669 | 5,891 |
| OT- Department of Legal Affairs | | | | |
| Stamp Duty | 73,127 | 117,218 | 113,808 | 119,750 |
| OT-Department of Transport | | | | |
| Vehicle Testing | 8,975 | 10,062 | 9,349 | 9,714 |
| **TOTAL: TAX REVENUE** | **294,073** | **643,285** | **569,584** | **704,637** |
| **% of GDP:** | **1.02** | **2.11** | **1.90** | **2.23** |

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

### Property Tax

*Background*

Property Tax came into effect in January 2020, and is applicable to non–Seychellois owners of immovable property for residential purpose. The tax rate is 0.25 per cent of the market value of the property. An amendment to tax policy for Property Tax will see an increase of the tax rate from 0.25 per cent to 0.50 per cent of the market value of the property coming into effect 1st January 2024.

*2021 Context and 2022 Projections*

The mid-year estimate for Property tax for the year 2023 is around SR 29m, this differs by a large margin in comparison to the 2023 Budget projection of SR 50m due to a large under-performance of 41 per cent against the 2023 Budget year-to-date, prompting this year's forecast to be projected at a more prudent figure.

However, 2024 collection is expected to increase by 100 per cent against the 2023 forecast, in line with plans to increase Property tax rate from 0.25 per cent to 0.50 per cent, which should effectively double PT revenue.

**Table 15: Medium-Term breakdown of Property Tax (SR'000s)**

| DESCRIPTION | 2022 Actual | 2023 Budget | MYEFO 2023 | 2024 |
|---|---|---|---|---|
| Property Tax | 29,271 | 50,000 | 29,271 | 59,541 |
| **TOTAL: PROPERTY TAX** | 29,271 | 50,000 | 29,271 | 58,541 |
| **% of GDP:** | **0.10** | **0.16** | **0.10** | **0.19** |

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

## Non-Tax Revenue & Grants

*2023 Context and 2024 Projections*

The total non-tax revenue collected during the first half of the year amounted to SR 354.8m, against a budgeted amount of SR 384.96m. The same period last year recorded a total of SR 620m. For the Mid-year budget revision Non-tax revenue has been revised upwards by SR 77.6m, equivalent to 7 per cent.

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

| DESCRIPTION | 2022 Actual | 2023 Budget | 2023 MYEFO |
|---|---|---|---|
| **Non-Tax Revenue** | **1,295,578** | **1,079,216** | **1,156,833** |
| Fees and Charges | 388,976 | 392,117 | 423,854 |
| Dividends Income | 790,472 | 547,103 | 574,759 |
| Proceeds from sale of assets | 80,517 | 91,947 | 114,855 |
| Other Non-Tax | 35,614 | 48,049 | 43,365 |
| **Grants** | **112,033** | **402,555** | **367,053** |
| **TOTAL: NON-TAX REVENUE** | **1,407,612** | **1,481,771** | **1,523,886** |
| **% of GDP:** | **5.4%** | **4.8%** | **5.1%** |

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

## Fees and Charges

For the first half of the year, the total revenue collected within Fees and Charges category amounted to SR 217.38m compared to a Budget of SR 198.92m for the period. This represents an over-performance of fees and charges of SR 18.46m when compared to the budget, an improved collection of SR29 m compared to same period of 2022.

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

| DESCRIPTION | 2022 Actual | 2023 Budget | 2023 MYEFO |
|---|---|---|---|
| First half of the year | 188,793 | 198,916 | 217,378 |
| Second half of the year | 200,183 | 193,201 | 206,476 |
| **TOTAL: FEES & CHARGES** | **388,976** | **392,117** | **423,854** |
| **% of GDP:** | **1.49** | **1.28** | **1.4** |

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

The main revenue lines contributing towards the over-performance are administration fees at SR 5.3m and passport fees SR 4.2m from the Department of Immigration; disembarkation fees from the Department of Transport SR 9.2m and audit fees from the SMSA SR 2.4m.

The 'Fees and charges' line has been revised upwards by SR 31.74m to cater for the improvement in performance.

## Dividend Income

The first half of the year recorded an actual of SR 80.7m in Dividend Income compared against a budget of SR 122.7m. The same period last year recorded actuals of SR 366.9m. The table below shows the dividend income performance for the first six months of 2023.

**Table 18: Dividend Income for the first half of 2023 (SR'000s)**

| DIVIDEND INCOME | Budget | Actual |
|---|---|---|
| SIMBC | 50,000 | |
| Seychelles Petroleum Company | | |
| Land Marine Ltd | 2,800 | |
| Indian Ocean Tuna Limited | 17,536 | 16,550 |
| Seychelles Civil Aviation Authority | 5,667 | |
| Afrexim Bank | 375 | |
| Island Development Company | 8,500 | 9,000 |
| Seychelles Commercial Bank | 1,440 | |
| Financial Servcies Authority | 25,000 | 38,264 |
| Ile Du Port Handling Services | 11,365 | 16,866 |
| **TOTAL: DIVIDEND INCOME** | **122,683** | **80,680** |

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

Dividend income projection for the year has been revised upwards by SR 27.66m. This primarily linked to increase divided from 'Indian Ocean Tuna Limited' and the Island Development Company.

## Other Non-Tax

Performance from 'Other Non-Tax' revenue was largely at par with the forecasted budget figure. Total 'Other Non-tax' collections amounted to SR 17.7m, compared to a forecast of SR 17.6m for the first half of the year, representing a minor over-performance of less than one per cent.

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

| DESCRIPTION | 2022 Actual | 2023 Budget | 2023 MYEFO |
|---|---|---|---|
| First half of the year | 13,850 | 17,610 | 17,705 |
| Second half of the year | 21,764 | 30,439 | 25,660 |
| **TOTAL: OTHER NON-TAX** | **35,614** | **48,049** | **43,365** |
| **% of GDP:** | **0.14** | **0.16** | **0.14** |

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

## Proceeds from Sales of Assets

Total revenue from proceeds from sales of assets amounted to SR 39.04m in comparison to a budget of SR 45.75m for the first half of the year. This represents an under-performance of SR 6.7m or 15 per cent. The main driver of the under-performance has been lower collections from long-term lease and sale of land bank plots from the Ministry of Land use and Housing which recorded a total of SR 22.6m lower collections as compared to their projected figures and this is due to timing issue

The total collection from proceeds from sale of assets have been revised upward by SR 22.9m from SR 91.4m to SR 114.9m (24.9 per cent).

## Grants

**Table 20: Grants Receipts for 2022 (SR'000s)**

| GRANT RECEIPTS | 2022 Actual | 2023 Budget | 2023 MYEFO |
|---|---|---|---|
| **Cash Grant** | **89,112** | **198,886** | **121,789** |
| **Benefit in Kind** | **22,921** | **203,669** | **245,264** |
| Capital | 0 | 31,089 | 129,199 |
| Recurrent | 22,921 | 172,580 | 116,064 |
| Program Grant/Budget Support | 0 | 0 | 0 |
| **TOTAL: GRANT RECEIPTS** | **112,033** | **402,555** | **367,053** |
| **% of GDP:** | **0.43** | **1.32** | **1.22** |

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

*Cash Grant*

For 2023 Mid-year review, 'Cash grant' has been revised downward by 39 per cent. This is mainly due to delay in the implementation of projects funded under the India small development grants.

### *Grants in kind*

Contrary to 'Cash Grants', the figure for 'Grants in kind' has recorded an upward revision. Despite delays in implementation of certain projects, the budgeted figure was revised upwards by 20.4 per cent. The increase is largely attributed to the inclusion of the 'West Coast road improvement' project from the Department of Transport which was omitted from the original budget figure. Total forecasted expenditure from the project for the year 2023 is estimated at SR 100.3m.

# Expenditure

### *Scope*

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

### *Overview*

Current expenditure totalled to SR 4.18b for the first six months. The main spending components within the Primary Expenditure relate to Wages & Salaries (40 per cent), Goods & Services (40 per cent) and Benefits and Approved Programmes of ASP (15 per cent). The total primary expenditure has been revised downwards by SR 70.7m taking into effect revised expected spending for the second half of the year.

**Table 21: Primary Expenditure (SR'000s)**

| PRIMARY EXPENDITURE | 2022 Actual | 2023 Budget | 2023 MYEFO |
|---|---|---|---|
| Wages and Salaries | 2,793,225 | 3,437,379 | 3,263,926 |
| Goods and Services | 3,123,724 | 3,618,577 | 3,725,358 |
| Social program of Government | 268,198 | 298,200 | 294,200 |
| Transfers to Public Enterprises | 276,885 | 44,930 | 44,930 |
| Benefits and approved programs of ASP | 1,369,720 | 1,202,876 | 1,202,876 |
| Others | 43,448 | 10,000 | 10,000 |
| **TOTAL: PRIMARY EXPENDITURE** | **7,875,200** | **8,611,963** | **8,541,291** |
| **% of GDP:** | **30.16** | **28.19** | **28.4** |

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

## Current Expenditure

The first half of the year recorded a current expenditure of SR 3.02m against a budget of SR 3.18m. This has resulted in an overall surplus of SR 157m. The current expenditure has been revised downwards by SR 66.7m taking into consideration the revised expenditure plans of government for the second half of the year.

**Table 22: Current Expenditure (SR'000s)**

| DESCRIPTION | 2022 Actual | 2023 Budget | 2023 MYEFO |
|---|---|---|---|
| Wages and Salaries | 2,793,225 | 3,437,379 | 3,263,926 |
| Goods and Services | 3,123,724 | 3,618,577 | 3,725,358 |
| **TOTAL: CURRENT EXPENDITURE** | **5,916,950** | **7,055,956** | **6,989,284** |
| **% of GDP:** | **22.66** | **23.09** | **23.3** |

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

*2023 Context*

The 2023 budget is to be revised downwards from SR 7.06bn to SR 7bn. The larger contribution to the decrease is seen to be the disproportionately larger decrease to Wages and Salaries as compared to an increase in Goods and services. The budget for Goods and services is being increased to cater for identified shortfalls in different MDAs whilst the budget for Wages and Salaries is being adjusted downwards in view of identified savings from delays in recruitments.

*Wages and Salaries*

The actual expenditure recorded for the first six months summed up to SR 1.52bn. This is opposed to a budget of SR 1.58bn, resulting in an underspending of SR 64m, or 4 per cent. The underspending is largely as a result of the delays in recruitments resulting from several factors, notably the lengthy and slow recruitment process but mainly due to the lack of supply in the labour market. Some MDA's also experienced staff turnover, whereby it takes several months before a replacement can be identified. Despite these however, the underspending of 4 per cent recorded for the first half of the year is lower to the previous trends of underperformance which were normally above 20 per cent underspending. Nonetheless, similar to previous periods funds allocated towards vacancies not expected to be spent for some MDA's have been considered for budget cuts.

MDAs with the largest saving under wages and salaries for the first six month are mainly; Ministry of Education SR3.5m; Ministry of Internal Affairs SR 5.2m; Ministry of Foreign Affairs & Tourism SR 2.52m; Seychelles Revenue Commission SR 3.5m

During the Mid- Year process, savings within the Wages & Salaries budget have been re-allocated to areas of priority. The Wages and Salaries budget has been revised downwards by SR 173.45m, from SR 3.44bn to SR 3.26bn.

*Goods and Services*

A budget of SR 1.6bn was allocated towards Goods and Services for the first half of the year. The actual expenditure for the same period was recorded at SR 1.51bn resulting in a savings of SR 93.2 m or 6 per cent. Spending within this category has remained fairly stable during the first half of the year as opposed to the trend for previous years.

The following MDAs were the main contributors to the savings under Goods and Services: The Anti-corruption Commission (SR 6.6m) and the Ministry of Education (SR 23.39m). In contrast, a few MDAs recorded negative variance for the first six months of 2023; The Home Care Agency (SR 7.8m) and the Seychelles Land Transport Agency (SR 13m) to cater for settling of outstanding bills as well as to cater for additional costs for procuring bitumen.

In addition, virements were effected from the PSIP allocations to cater for certain additional expenses under goods and services for the Health Care Agency as well as the SLTA. A total of SR 12m was transferred from PSIP allocation to cater for purchases under 'Minor capital expenses' for the HIS project and a total of SR 8.4m was vired from PSIP to goods and services for the purchase of streel lights under SLTA's budget.

The goods and services budget has been increased upwards by SR 106.78 m to cater for the additional requirement from MDAs.

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

For the first half of 2023, a budget of SR 145.2m was allocated towards the Social Programs of Central Government. The actual spending was SR 126.9m, resulting in a savings of SR 18.32m or 13 per cent underspending. Most of the line items under this group reported savings, a large portion of which was under the pension vote which recorded a saving of SR 3.2m as well as Housing Finance Scheme with a saving of SR 4.5m. There was no spending under several schemes for the first six months, these includes; Seychelles Savings Bank New Born Scheme, SEEREP Incentive Scheme, Sports Trust Fund, Women Trust Fund and Innovation Trust Fund.

### *Transfers to Public Enterprises*

A total of SR 19.8m in expenditure has been recorded under Transfers to Public Enterprises as compared to the budget of SR 20.97m. This therefore shows an underspending of SR 1.1m (5 per cent). The forecast for this budget line has remained unchanged from the original forecasted budget at mid-year (SR 44.9m). Public Enterprises receiving transfers in 2023 include the Seychelles Postal Services (SR 6m), the Seychelles Public Transport Corporation (SR 36.9m) and the Guy Morel Institute (SR 2m).

### *Benefits and Approved Programs of SSF*

An amount of SR 577.6 m was recorded as actual under benefits and approved programmes of ASP in comparison to the budget of SR 591.6m. This resulted in a variance of SR 13.9 m or 2 per cent. This represent a reduction of SR 100.34 m compared to the same period in 2022.

Largest savings were recorded under 'Social Safety Net (SR 6.2m), Invalidity Benefits (SR2.2m) and Retirement Benefits (SR 1.6m).

## Capital Expenditure

**Table 23: Capital Expenditure (SR'000s)**

| DESCRIPTION | 2022 Actual | 2023 Budget | 2023 MYEFO |
|---|---|---|---|
| **Capital Expenditure** | 715,871 | 1,557,959 | 1,420,334 |
| Capital Projects | 593,939 | 1,409,298 | 1,254,470 |
| o.w. Grant funded | 112,033 | 402,555 | 367,053 |
| Development Grant | 121,932 | 148,661 | 165,864 |
| **% of GDP:** | **2.74** | **5.10** | **5%** |

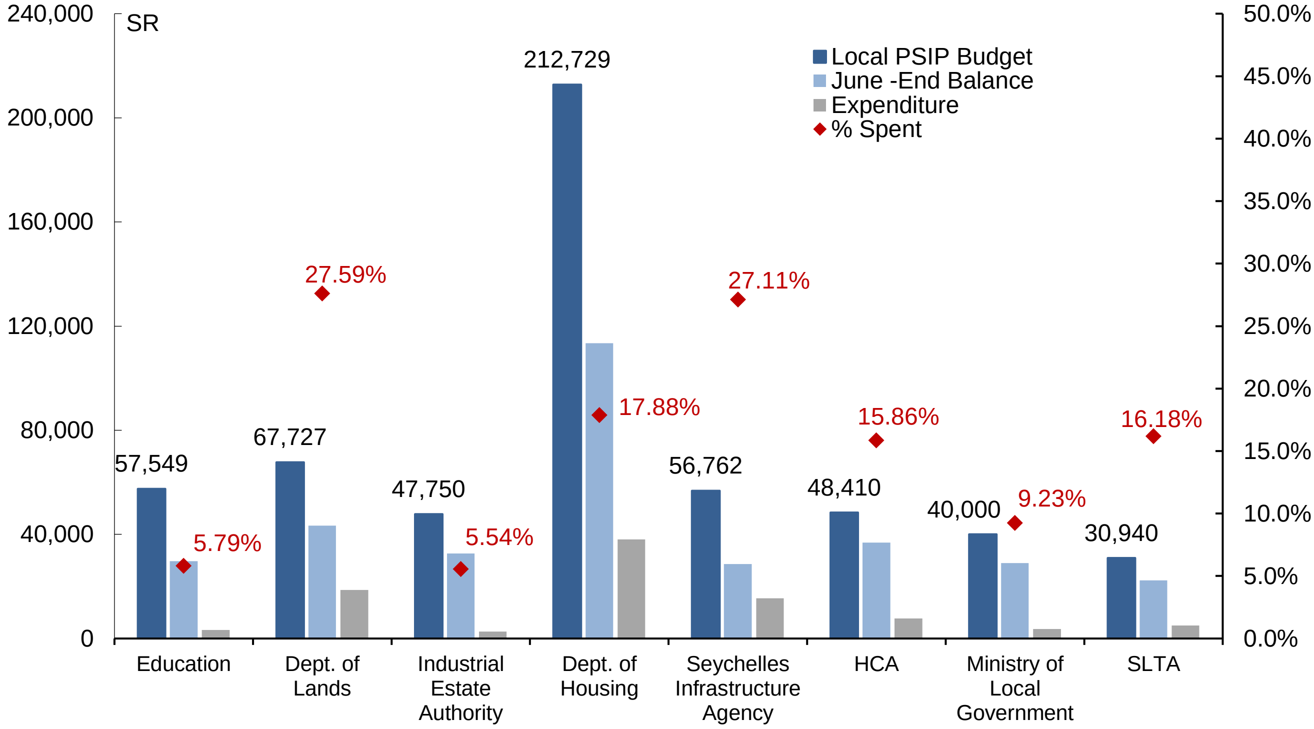
Source: Ministry of Finance- Financial Planning and Control Division estimates

### *Domestic Financing*

A total amount of SR 756.6m was made available for PSIP projects under the local budget for the year 2023. From this, a total of SR 114.31m has been spent representing percentage spending of 15.1 per cent. This compares to spending of SR 60.7m out of a total budget of SR 433.67m representing a percentage expenditure of 14 per cent for the same period in 2022.

Below are the execution rate for the year 2023 as at end of June 2023 for MDAs accounting for the highest shares of the Government's capital budget: Health Care Agency – 15.86 per cent, Department of Education – 5.79 per cent, Seychelles Infrastructure Agency – 27.11 per cent, Seychelles Land Transport Agency – 16.18 per cent, Department of Local Government – 9.23 per cent.

**Figure 6: Capital Budget Execution as at end June 2023 (SR' 000s)**




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

### *Loan Financing*

As at end June 2023 a total amount of SR 41.11m out of an initial loan financing allocation of SR 250.18m has been spent. This represents up to 16.4 per cent of expenditure only. SR 11.43m was spent under the Department of Blue Economy related to blue bond projects.

A number of projects earmarked to be financed through loan financing are expected to incur expenditure during the second half of the year including social housing projects being financed from the Government of Saudi Arabia and the IFMIS project from the Department of Finance.

### *Grant Financing*

A total of SR 402.56m was allocated as grant financing for the year 2023 out of which a total amount of SR 50.62m has been spent as at end June 2023. This represents 12.58 per cent of expenditure. Projects that were earmarked to be financed from grant financing in 2023 include a number of community infrastructure projects, road infrastructure projects, Education infrastructure projects as well as several climate change related projects.

Certain projects earmarked for financing from foreign grant are not expected to materialize during the year including the La Gogue Land bank project (SR 6.65m); Ex Ferrari Housing project (SR 6.16m); BSA community center renovation (SR 1.42m), Coastal Management project Anse la Blague (SR 925k) and the second phase of the Grand Riviere project Anse Royale at an estimated SR 5m.

*Development Grants*

**Table 24: Development Grants (SR'000s)**

| DESCRIPTION | 2023 Budget | 2023 MYEFO | Actual as at June 2023 | Spending |
|---|---|---|---|---|
| Seychelles Public Transport Corporation | 35,859 | 49,660 | 5,622 | 16% |
| *o/w Government Budget* | 14,500 | 13,880 | 5,622 | 39% |
| *o/w Foreign Loan/ Grant* | 21,359 | 35,780 | - | 0% |
| Property Management Corporation | 52,803 | 53,423 | 26,401 | 50% |
| Public Utilities Corporation Local | 60,000 | 60,000 | 15,002 | 25% |
| The Guy Morel Institute | | 2,781 | | |
| **TOTAL:** | **148,661** | **165,864** | **47,025** | **32%** |

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

*Projects completed first half 2023*

Main projects completed during the first half of the year includes several housing infrastructure projects such as '24 residential units English river' with a contractual sum of SR 27.3m; and '22 residential units Kan Gard Plaisance' with a contractual sum of SR 19.6m. Several road infrastructure projects saw completion as well, most notably the projects for the roundabout and road widening at Baie St Anne for the sum of SR 2.1m; as well as the project for the new roundabout at Mont Fleuri for the sum of SR 1.12m.

## Outlook Second half of the year

Overall, the capital spending for the first half of 2023 has been slow which is in keeping with past trends and similarly to past trends, it is expected that spending will start to improve particularly towards the last quarter of the year. Project status from MDAs show that several projects are currently ongoing whilst a considerable number of projects are at various stages of design and procurement.

Some of the larger ongoing projects expected to see completion during the year include:

- Construction of '16x3 bedroom affordable housing units on Ile Perseverance' (SR 11.5m)
- Construction of '16 units affordable housing at Corgate Estate' (SR 11.5m)
- Construction of '25 units Foret Noire Port Glaud' (SR 29.6m)
- Widening of the 'St Louis-Beau Vallon road' (SR 2.08m)
- Construction of 'Footpaths at Bel Ombre' (SR 2.56m)

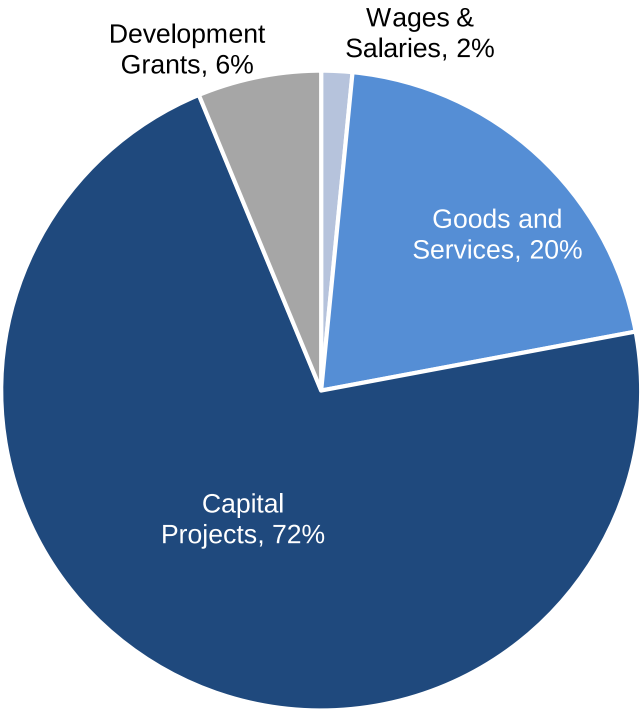
## Net Lending

'Negative expenditures' were recorded under 'Net lending' as at June with higher repayment amounts being recorded for DBS and IDC. A total of SR 33.1m were collected from both entities. Contrarily, a total of SR 38.5 was disbursed to PUC whilst the entity paid back the sum of SR 30m.

# Mid-Year Expenditure Revision

The total proposed supplementary budget for this mid-year revision amounts to SR 275.5m. This will entirely be funded through a budget cut (re-allocation) of SR 621.37m, which means that a net Budget cut of SR 345.86m will be issued for the 2023 appropriation bill.

**Figure 7: Supplementary Budget Allocation**




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

*Wages and Salaries*

As a part of the mid-year review process, savings within the Wages & Salaries budget have been re-allocated to priority areas for which additional funds were required. Total additional funds of SR 4.3m is expected to be offset against total identified budget cuts of SR 125.6m under the various MDAs that will be recording a savings at year end within their wages and salaries. A net total budget cut of SR 121.24m is being proposed under this category.

*Goods and Services*

A net total of SR 26.2m is required as supplementary to fund shortfall within critical budget lines of Ministries, Departments and Agencies. The main organizations contributing to this supplementary are:

- Legislature (SR 3.6m): For acquisition of vehicles and to cater for shortfall for overseas travels
- Truth, Reconciliation & National Unity Commission (SR 2.1m): Additional operating cost for office operation
- Department of Agriculture (SR 15.05m): To cater for the deficit under subsidy payment.
- Anti-Corruption Commission (SR 9.8m): To cater for overseas legal services; as well as airfares and accommodation for overseas witnesses on ongoing cases.
- Seychelles Land Transport Agency (SR 20.35m): For maintenance of road infrastructure.

### *Capital Expenditure*

A total of SR 197.6m is being proposed as additional funding under this category while a cut of SR 324m is being made resulting in a net cut of SR 126.5m. The net supplementary budgets will be allocated mainly towards the following MDAs:

- Department of Transport: SR 111.09m for the project 'West Coast Road improvement'.
- The Seychelles Infrastructure Agency: SR 17.5m for disaster related projects.
- National Sports Council: SR 10m for renovation works to selected Sports Infrastructure.
- Department of Climate Change: SR 14.99m to cater for additional works for the Anse Kerlan / Amitie Coastal road project.

### *Development Grants*

A total of SR 17.2m is being proposed as additional funds to cater for the following:

- Seychelles Public Transport Corporation at SR 14.4m: To cater for payments related to acquisition of buses.
- The Guy Morel Institute at SR2.8m: To cater for renovation works on the Guy Morel Institute building.

### *Net Lending*

- A total cut of SR137.57m is being proposed under Net lending within PUC On lending.

# Debt Outlook

## 2023 Overall Context

As illustrated in Table 25 below, at the end of June 2023 the total Government debt stock stood at SR 17.7bn, representing 63.9 per cent of GDP. The total stock of Domestic debt amounts to SR 9.4bn whilst the external debt stock amounts to about SR 8.2bn, equivalent to 34.2 per cent and 29.7 per cent of GDP respectively. Domestic debt remains the main component of the total debt stock, accounting for 53.5 per cent of the stock.

**Table 25: Provisional Total Debt Stock as at June (Millions)**

| Description | Domestic SR' m | External SR' m | External USD | Total SR' m |
|---|---|---|---|---|
| **Total Debt Stock** | **9,460** | **8,219** | **596** | **17,679** |
| Debt to GDP Ratio | 34.2 | 29.7 | 29.7 | 63.9 |

Source: Debt Management Division.

## 2023 External Debt Stock

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

### External Debt by Creditor Category

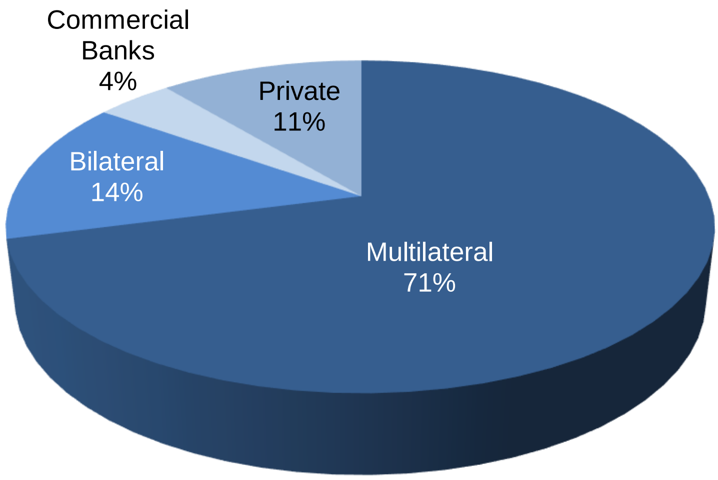
At the end of June 2023, the total stock of external debt amounted to about SR 8.2bn, equivalent to 46.5 per cent of the total debt portfolio. As shown in Table 26, the external debt stock comprises mostly of debt owed to multilateral creditors amounting to SR 5.8bn, or 71 per cent of the total external debt. This is followed by the bilateral and private creditors, which represents 14 per cent and 11 per cent respectively of the total external debt. The smallest portion of the external debt is attributed to the commercial Banks at only 4 per cent.

**Table 26: Provisional External Debt by Creditor Category as at June 2023**

| DESCRIPTION | Debt Stock SR' m | Debt Stock USD' m |
|---|---|---|
| **Multilateral** | **5,829** | **422** |
| **Bilateral of which;** | **1,140** | **83** |
| *Paris Club* | *555* | *40* |
| *Non Paris Club* | *585* | *43* |
| **Commercial Banks** | **344** | **25** |
| **Private** | **906** | **66** |
| **TOTAL EXTERNAL DEBT:** | **8,219** | **596** |

Source: Debt Management Division.

**Figure 8: Provisional External Debt by percentage composition as at June 2023**




Source: Debt Management Division

## External Debt Repayments

The Table below shows the repayment schedule for External Debt during the second half of 2023. The largest payments are expected in July and August, with amounts to USD 13.6m and USD 11.3m, respectively. These payments primarily consist of the July repayment on the Euro Bond and the August repayment on the World Bank Loans.

**Table 27: External Debt Forecast by Month - 2023 in USD' (000)**

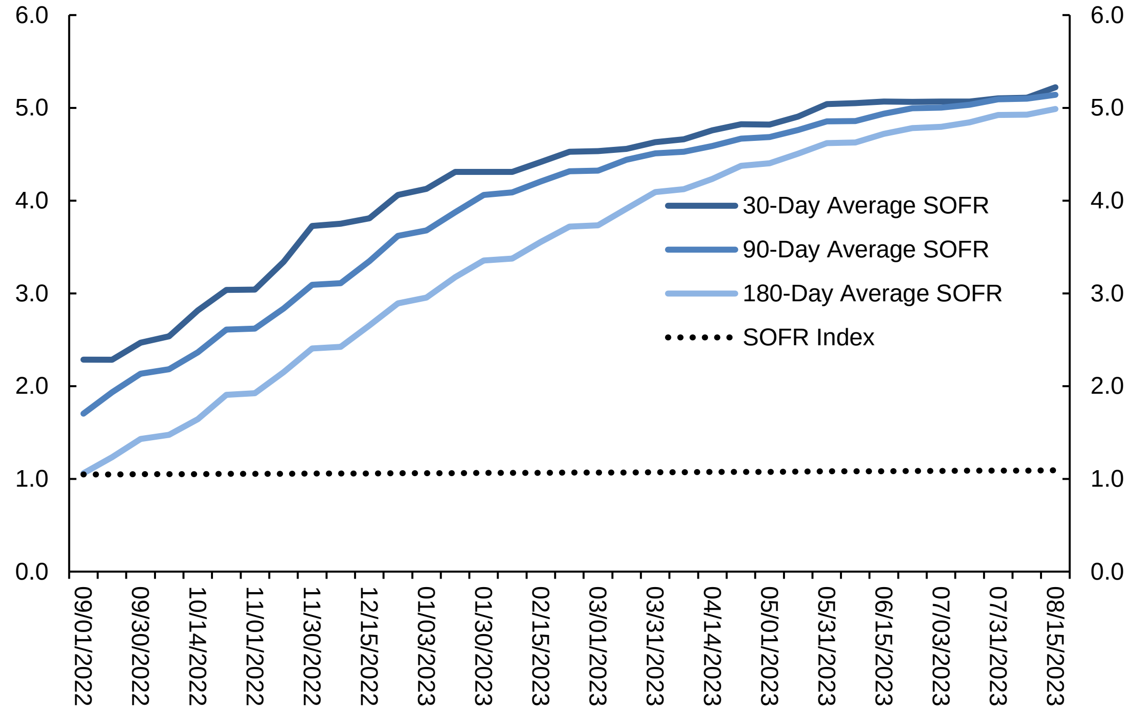
| EXTERNAL DEBT (USD) | Jul | Aug | Sep | Oct | Nov | Dec | TOTAL |
|---|---|---|---|---|---|---|---|
| Total Principal | 9,952 | 9,008 | 2,202 | 555 | 5,172 | 2,589 | 29,478 |
| Total Interest | 3,685 | 2,313 | 979 | 2,835 | 3,121 | 478 | 13,411 |
| **TOTAL: DEBT FORECAST** | **13,637** | **11,321** | **3,181** | **3,390** | **8,293** | **3,067** | **42,888** |

Source: Debt Management Division.

It is worth noting that there has been a noticeable increase in actual and forecasted interest payments observed in 2023. This is attributed to a general spike in the global interest rate. Furthermore, 2023 saw the complete transition from the Libor Rate to the SOFR Rate as the referenced rate in the financial market. This increase had a significant impact on the interest repayments for the year given that 55.6 per cent of our external debt stock comprises of variable interest rate loans. Total interest repayment for 2023 increased by USD 6.2m, or 44.8 per cent, compared to the initial Budget forecast[4]. Figure 8 below illustrates the change in the SOFR rate as from September 2022 to August 2023. The rates have increased from 2.3, 1.7, and 1.1 at the start of September 2022 to 5.2, 5.1, and 5.0 as of mid-August 2023 on the 30 Day, 90 Day, and 180 Days Average SOFR, respectively.

[4] Note that the increase also factors interest repayments on new loans contracted after 2023 budget finalization up to the mid-year review that was not previously accounted for in the forecast.

**Figure 9: SOFR Rate September 2022 – August 2023**




Source: Federal Reserve Bank of New York.

## 2023 Domestic Debt Stock

The table below illustrates the different components of the total domestic debt stock as at the end of the second quarter of 2023. Total domestic debt amounted to SR 9.4bn, representing 53.5 per cent of the debt stock. Government securities makes up the majority of the stock at 86.0 per cent, which mainly consists of T-bonds. Domestic loans represent 9.9 per cent, followed by the 'Other Securities' at 3.2 per cent. This comprises primarily of land acquisitions and the Private Sector Relief Schemes. 'Other Debt Liabilities' represents the remaining 0.9 per cent of the total domestic debt stock.

**Table 28: Changes in Domestic Debt Stock (SR'm)**

| DOMESTIC DEBT | Debt Stock Jun-23 | Proportion (%) |
|---|---|---|
| Government Securities | 8,134 | 86.0 |
| Other Securities | 300 | 3.2 |
| Loans | 937 | 9.9 |
| Other Debt Liabilities | 89 | 0.9 |
| **TOTAL: DOMESTIC DEBT** | **9,460** | **100.0** |

Source: Debt Management Division.

During the first quarter of 2023, the Government of Seychelles issued three T-bonds worth SR 75m at 3-, 5- and 7-years' tenor. The bonds were oversubscribed, whereby SR 113m was allotted in total. Furthermore, at the end of June 2023, a 10-year T-bond worth SR 100m was issued given investors' appetite for longer tenor bonds. The bond was over-subscribed and a total of SR 135m was allotted as shown in Table 29.

**Table 29: 2023 Treasury bond Issuance Summary**

| Quarter | T-Bonds | Issue Limit | Total Subscribed | Coupon Rate (%) |
|---|---|---|---|---|
| Q1 | 3- Year T-Bond | | 7 | 3.2 |
| | 5- Year T-Bond | 75 | 11 | 4.6 |
| | 7-Yearr T-Bond | | 94 | 6.0 |
| Q2 | 10-Year T-Bond | 100 | 134 | 8.3 |
| **Total** | | **175** | **248** | |

Source: Debt Management Division.

## Composition of Domestic Securities

The table below summarizes the composition of the domestic securities. As at June 2023, T-bonds makes up the largest share of securities at 71.3 per cent. This is reflective of Government's strategy to lengthen the maturity of domestic debt profile by issuing bonds, which has longer maturity, on a quarterly basis. The shorter-term securities, T-bills, on the other hand represents approximately 24.6 per cent of the stock of domestic securities. These bills have maturity periods of 91, 182 and 365 days. The 'Others' category comprises of private individuals as well as others. This category stands at 3.6 per cent. The remaining 0.5 per cent is represented by Treasury Deposits as depicted in the table.

**Table 30: Composition of Domestic Securities (SR'm)**

| DOMESTIC DEBT | Debt Stock (SR'm) | Debt Stock (%) |
|---|---|---|
| **Government Securities** | | |
| T-Bills | 2,077 | 24.6 |
| T-Bonds | 6,012 | 71.3 |
| Treasury Deposits | 45 | 0.5 |
| Other | 300 | 3.6 |
| **TOTAL:** | **8,434** | **100.0** |

Source: Debt Management Division.

## Interest Rates on Treasury Bills

Between January and June of 2023, the average interest rates for the 91 Days, 182 Days, and 365 Days T-bills were noticeably higher compared to the same period in 2022. The interest rates for these T-bills were 1.06 per cent, 1.48 per cent, and 2.16 per cent respectively, as indicated in Table 31. This increase in interest rates is primarily due to the significant increase in T-bills gross issuance, as shown in Table 32. Despite the increase compared to same period last year, the interest rate on the domestic market remains favourable.

**Table 31: Interest Rates on Treasury Bills**

| Interest Rates (%) | | | |
|---|---|---|---|
| **Treasury Bills** | **Jan-Jun 2022** | **Jan-Jun 2023** | **% Change** |
| 91 Days | 0.5 | 1.1 | **120.8** |
| 182 Days | 1.0 | 1.5 | **49.5** |
| 365 Days | 1.2 | 2.2 | **84.6** |

Source: Debt Management Division and CBS.

**Table 32: Treasury Bills Issuance Comparison**

| Amount issued SR' m | | | |
|---|---|---|---|
| **Treasury Bills** | **Jan-Jun 2022** | **Jan-Jun 2023** | **% Change** |
| 91 Days | 1 | 74 | 6,663.6 |
| 182 Days | 10 | 202 | 1,921.0 |
| 365 Days | 380 | 263 | -30.9 |
| **TOTAL:** | **391** | **539** | **37.8** |

Source: Debt Management Division and CBS.

As can be seen from the table above, the observed differences across the rates are mainly attributed to the composition of T-bills allocations. There has been a significant increase in the issuance of T-bills for both 91 and 182 days. In 2022, given the lower volume of T-bills issued, the issuances were more concentrated on the 365 days in line with Government's strategy to lengthen the maturity of its domestic debt profile. The increase in issuance volume in 2023 have directly resulted into an increase across all tenors with higher concentration on the longer tenor, i.e. the 182 and 365 days Bills.

# Selected Economic Indicators

| | 2022 | 2023 | 2024 |
|---|---|---|---|
| **National income and prices** | | | |
| Nominal GDP (millions of Seychelles rupees) | 28,734 | 30,046 | 31,614 |
| Real GDP growth | 8.9 | 4.2 | 3.9 |
| GDP deflator growth | 3.2 | 0.9 | 1.7 |
| CPI (annual average) | 2.6 | 0.0 | 2.1 |
| **Government Budget (% GDP)** | | | |
| Total revenue, including grants | 30.6 | 33.1 | 33.6 |
| Total revenue, excluding grants | 30.2 | 31.9 | 32.6 |
| Grants | 0.4 | 1.2 | 1.1 |
| Expenditure and net lending | 32.1 | 36.1 | 35.9 |
| Current expenditure | 29.5 | 31.2 | 30.1 |
| *Of which: interest payments* | 2.1 | 2.8 | 2.4 |
| Capital expenditure | 2.1 | 4.2 | 5.1 |
| Net Lending | -0.1 | 0.0 | 0.1 |
| Primary balance (accrual basis), including grants | 0.7 | -0.2 | 0.2 |
| Primary balance (accrual basis), excluding grants | 0.3 | -1.5 | -0.9 |
| Overall balance (accrual basis), excluding grants | -1.4 | -3.0 | -2.2 |
| Overall balance (cash basis), including grants | -1.4 | -3.0 | -2.2 |
| Domestic bank financing (net) | 1.3 | 1.1 | 0.3 |
| **External sector (% GDP)** | -8.0% | -8.1% | -8.5% |
| Current account balance including official transfers (USD m, unless otherwise indicated) | -136.5 | -150.5 | -174.9 |
| *Imports of goods* | 1,293.7 | 1,293.9 | 1,362.7 |
| *Imports of services* | 994.7 | 987.1 | 1,031.6 |
| *Exports of goods* | 562.9 | 550.6 | 602.4 |
| *Exports of services* | 1,680.7 | 1,688.3 | 1,727.5 |
| Primary Income, net | -75.9 | -91.9 | -93.7 |
| Secondary Income, net | -15.9 | -16.6 | -16.9 |
| Foreign Direct Investment | 189.5 | 198.7 | 206.7 |
| Gross official reserves | 639.1 | 716.0 | 752.5 |
| In months of imports, c.i.f. | 3.4 | 3.6 | 3.7 |
| **Total external debt outstanding (% of GDP)** | | | |
| Total debt outstanding (SR'm) | 18,021 | 18,619 | 19,302 |
| Total debt outstanding % of GDP | 62.7 | 62.0 | 61.1 |
| *Domestic (% of GDP)* | 34.3 | 31.9 | 29.0 |
| *External (% of GDP)* | 28.4 | 30.1 | 32.0 |

Source: Seychelles Macroeconomic Framework Working Group.