

Budget Address
By the Minister for Finance
Danny Faure
December 11th 2008

Mr Speaker
Leader of the Opposition
Leader of Government Business
Honourable Members of the National Assembly
Seychellois Brothers and Sisters

NOUVO MODEL POUR MEYER LAVI

1. Introduction and Pre-amble

Mr Speaker, it is a pleasure once again to present to this Assembly and the people of Seychelles our address for this year.

In contrast to past budget addresses, this year much has already been announced and implemented, prior to this address, that impacts on our economic and financial landscape for 2009.

Seychelles has experienced considerable changes during 2008 we have lived through a period of great instability in regard to prices, notably that of fuel, food and many other commodities.

We have seen the entire world financial systems go through what many describe as the worst since the great depression of the 1930's. Some economies have almost collapsed, others have been bailed out, many have struggled to survive and

continue to face the harsh realities of the current world economic environment.

Mr. Speaker, in Seychelles, we have had our fair share of economic problems. We import most of our requirements and there is little we can do to reduce the impact of increased prices of imports other than smart sourcing and using whatever volume leverage we have.

This year, on one commodity alone and this being fuel, the Government and SEPEC have borrowed over \$80m just to meet domestic energy needs. We have met most of our obligations despite our limited receipts and this has depleted our reserves to the point where borrowing has become unsustainable and to the point where our credit rating internationally has been adversely affected.

Needless to say, such worldwide recession cannot pass by without some impact on little Seychelles, which is so dependent on the rest of the world, especially Europe, not only for imports but for its tourism, fishing and financial services.

Mr. Speaker, it is my prediction that 2009, especially the first half, will continue to be a difficult environment in which to operate. It is expected that the world tourism industry will contract further and even this year our final number of visitor arrivals is expected to be slightly lower than that of last year.

The euro zone, from where a large percentage of our visitors originate is also going through a difficult economic period and when this happens, long distance travel is often one of the first item to experience cutbacks.

Mr. Speaker, the Seychelles cannot ignore these realities. We have to address our specific situation and firstly assess what our constraints are, how we are likely to be affected given these international developments and then find solutions taking into account our people's expectations, that of our partners and of course fundamentally what we believe in as our core principles that have guided us as a State.

Mr. Speaker, Government has always put Seychellois at the centre of development and that is something that is enshrined in our Constitution. We are not about to abandon these policies of taking care of the less fortunate and most vulnerable in society and aiming for the best distribution of national wealth so as to allow the highest, affordable living standard for all of our people.

It is against this background that Government recently decided to re-visit many of its economic policies, with the aim of putting in place a new economic model that will enable us to re-launch ourselves into the future.

In order to move forward in the right direction we found that we needed to address a number of issues including the exchange rate which had come under extreme pressure with consequent foreign exchange shortages, the growing stock of debt and arrears and our credibility on the international front which was being eroded.

Mr. Speaker, one cannot say of course that as a country we have not had successes. We cannot overlook the level of success we have obtained in areas of health, education and social welfare.

Seychelles has one of the highest literacy rates in this part of the world, our infra-structure is sound, our people overall enjoy a good living standards and we continue to strive to further improve our quality of life.

There comes a point however, when one has to explore new paths in order to avoid obstacles and difficulties which may hamper our journey to further success whilst remaining conscious of our underlying principles and objectives. Such an approach is that any responsible Government, just as any responsible business would take decisions at any given moment when faced with changing economic conditions.

This is why we approached and undertook extensive discussions with international agencies such as the IMF, World Bank and the African Development Bank, in order to assist Seychelles in charting the way forward in this highly complex and dynamic environment we face today.

Mr. Speaker, today, we have commenced an extensive economic reform process that has been endorsed by the IMF and we have adopted policies which have been acclaimed not just by the IMF and these international institutions but also by many of our economic partners and by most of our international creditors. In fact, I am proud to say that our new economic policies have received an unprecedented level of support internationally.

It does not mean, however, Mr. Speaker that we as Government do not recognise the pressures that some of these new measures in particular are presenting to the people of

Seychelles. As I said before, many of these economic measures are tough.

As part of these measures, in October and November we announced changes to some of our existing taxes and we introduced some new taxes, we have removed subsidies and we have floated our exchange rate.

We are also in the process of re-deploying our people from the public service to the private sector so we can make a concerted effort to address the growing number of expatriates working in the private sector in positions that are capable of being filled by Seychellois.

2. Budgetary Performance 2008

Mr. Speaker, the year 2008 has been a very challenging year on the fiscal side.

Our Ministries and Departments were under immense pressures to operate within their budget allocation, especially in the face of continuously rising fuel and commodity prices during the year.

Mr. Speaker, before I begin to outline the budgetary 2008 performance, I would like to inform the Assembly that this year's budget presentation is different compared to previous years. This year the Government budget has been consolidated with the Social Security Fund budget.

Despite all the external negative factors affecting our economic environment, this year 2008, Mr. Speaker, the forecast primary budget surplus will be around SR 560 million which represents

7.1% of GDP, exceeding our original budget estimate for 2008 by almost SR 84 million or 1.1% above our expectations.

The government is expecting to complete the year with a total revenue collection of SR 2.8 billion, exceeding the original projection by almost SR 327 million or a 13% increase. This increase has been mainly as a result of higher than expected revenues collected from business tax, trade tax and other government fees charges and non-tax revenues.

It has been a buoyant year for businesses during the year. As a result, total revenue collected from business tax will surpass original budget expectation by almost SR 158 million or 44%. This increase in business tax collected comes mainly from banks, construction companies, tourism establishments and telecommunications operators.

Total trade tax that will be collected will surpass our projected target by around SR 64 million or 18%. This is mainly due to trade tax collected from petroleum which is around SR 38 million or 24% above the 2008 target and additional levies which are expected to be almost SR 36 million above the 2008 projection.

Mr. Speaker, all of this is in line with our fiscal policies to increase revenue and achieve our targeted surplus.

There has also been an increase of around SR 35 million or 38% in fees and charges. This has been mainly as a result of collection from immigration fees and property transfer fees.

Non-tax revenues have been well above expectation, mainly because of the Statutory Transfers from CBS which is around SR 105 million or 150% above projected target.

In regards to total expenditure (excluding public debt interest) government is anticipating to complete the year with almost SR 2.3 billion which is SR 242 million or 12% above the original estimate.

Mr. Speaker, it is noted that despite the rising operational costs faced by our Ministries and Government Departments, this year we have managed to exercise tighter control on our expenditures and the overspending this year is well below the level of overspending experienced last year. This shows the Government's commitments to continue tightening fiscal policy, which will be a key element in the Government reform program.

It is to be noted that the main overspending that has occurred is in respect of a number of social programs of government.

Total Government wages and salaries will be around SR 22.2 million or 3% above the 2008 estimate. This is mainly because of the additional funds allocated to cover for the recently announced voluntary departure scheme.

A total amount of SR 41.4 million or 10% above the 2008 budget will be spent on Goods and Services by Ministries and Departments this year. In the main, these additional funds having to be provided to enable Ministries and Departments to continue to maintain an efficient service to the public in the face of price increases which have been experienced.

Additional funding of SR 72.2 million, which is 60% above the 2008 estimate has been allocated to educational and social programs. It is noted that in that amount SR56.2m or 78% of this additional budget has gone towards our overseas training fund, our social safety net, sub-venture to fishermen and the Major Games Trust Fund.

Government also provided SR 100.8 million as advances to ex-SMB companies to help them, where possible, to provide subsidized prices for their products for the benefit of all consumers.

In line with policy changes in regards to subvention whereby government has spent SR275m in 2008, we will now target our assistance to that portion of the population that is most in need. The mechanism adopted by Government to achieve this objective is the new Welfare Agency.

3. International Outlook

On the international front, the year 2008 has been a very turbulent one.

The effects of the financial crisis which started in 2007 along with the increases in fuel and commodity prices have lasted throughout most of this year. Whilst the price of oil has dropped since its peak of US\$147 a barrel in July 2008, the financial turmoil persists. As such, analysts are projecting that the world economy will grow but at a much slower pace of 3.25 percent this year compared to 5.0 percent in 2007.

The collapse of the US subprime mortgage market entered a new phase in the third quarter of 2008 which has led to an

even further loss of investor confidence in global institutions and markets. The consequence of such has resulted in series of bankruptcies, forced mergers and public interventions in regard to some of the world's largest banks and businesses.

Government's of the US, UK, Japan, Australia and members of the European Union have endeavoured to intervene in their economies by injecting trillions of US dollars into their economies in order to stabilize their financial and business sectors and bolster confidence. However, the situation globally remains highly volatile and unsettled.

4. Sectoral Overview

Mr. Speaker, before I start to speak on the performance of the various sectors of our economy, allow me to inform my Seychellois brothers and sisters of the various investments which Government has undertaken within the country.

Government has invested several billions of Rupees in a number of infrastructure programs and developments that we see in the districts around the country. Over the past 30 years total expenditure on capital projects has totalled R6.2billion or the equivalent of US\$1.1 billion on average.

The reality today is that the development that Government has taken for its people has touched each and every one of us without exception.

Our responsibility today is how we maintain these programs and developments.

a. Health

Mr. Speaker, in this budget we will continue to retain health care as one of our priorities. The budget for health services for 2009 is SR 249.2m.

Over the past years we have invested millions of Rupees in our health system. Today Government's strategy is to increase the quality of the health service whilst ensuring that the resources that are being invested are being used in the most effective and efficient way, having the right infrastructure and equipment and appropriately trained personnel.

It is important for our people to realise that Government spent SR32m this year on procurement of medicines and the budget for medicines in 2009 is R38m.

Mr. Speaker, our people should be made aware that to treat a patient suffering from diabetes costs R450 per month. Haemodialysis treatment costs R3,846 per month per patient and for a patient that Government sends to India for heart treatment the cost is between US\$6,000 and US\$15,000.

Mr. Speaker, I would like to tell my Seychellois brothers and sisters that this budget for 2009 makes provision for the continuous provision of free health care. However, it is important that we become more responsible with regards to our own health and we appreciate what we have and what we are being given.

b. Education

Education remains a priority in our social and economic development program. The opportunity for all Seychellois children to have an education is there. More than before, parents must become involved with the education of their children.

Mr. Speaker, it is important to realise that free education in Seychelles has a cost. The World Bank carried out a study on the cost of education in Seychelles and this study revealed some interesting figures:

- primary education per child is SR9,000 per year;
- tuition at the Seychelles Tourism Academy cost SR30,000 per student per year;
- tuition at SIT costs SR10,000 per student per year; and
- tuition at NIE costs over SR32,000 per student per year.

Mr. Speaker, once again Government has made provision in its budget 2009 to cover free education and next year we have allocated SR229m to the Ministry of Education.

We would like to call upon all of our students to take their studies seriously and not waste the opportunities that they have. The country depends on you.

c. Housing

Construction of houses in line with our housing program remains a priority for Government. As we have explained,

within the context of our current economic reform framework, there is a necessity to re-visit the housing programme to ensure sustainability of our housing program.

Government will endeavour to complete all on-going housing projects including the housing project on Perseverance Island. To facilitate this, all other development projects for other Ministries will need to be re-prioritised

d. Community Development

To have a solid community it is important that first we have solid family structures at the base.

Government has made a budget provision of SR47.6m in 2009 to finance programs that will be aimed at consolidating harmony in our districts.

The District Administration office will remain the focal point where inhabitants of a district will be able to obtain information on services being provided made available by Government.

Mr. Speaker, with this new economic reform there is a necessity for our population to unite and look for new ways to do things that bring benefit to the community.

The time has come for us to rediscover the spirit of voluntarism which has been the real essence and spirit of community building in the past.

e. Agriculture

Mr. Speaker, the Agricultural sector will always play an important role, especially to safeguard our food security.

To facilitate this, Government is committed to continue assisting farmers with the necessary means to facilitate an increase in agricultural out-puts, and to ensure there is a regular supply to the market at affordable prices.

As such, Mr. Speaker, as has been announced, Government is in the process of transferring the assets of the Animal Feed Factory to the Farmers Co-operative from January 2009.

Along with the assets of the Factory, Government will also provide an initial stock of raw materials and has made arrangements with the commercial banks to support the Animal Feed Factory with a facility of USD\$ 500,000 to assist with ongoing imports of animal feed.

As for the importation of poultry and pork, effective January 1st 2009 Government will impose a levy to protect the local industry, the funds collected from the levy will be transferred to a Fund to provide assistance to the agricultural sector.

The objective of this levy has come at a time when Seychelles needs to first of all maintain its food security and secondly, encourage local agricultural production.

f. Fishing

The fisheries sector will continue to play an important role in our economic plan and in terms of ensuring food security. Even though the amount of fish caught has decreased as compared to 2007 we expect this trend to be reversed in 2009 to return to at least 2007 figures.

Government is currently evaluating all existing agreements to ensure that it maximises its return on the exploitation of its fisheries resources and where incentives have been given to our local fishermen, reviewing the incentives to determine if they are sufficient to stimulate our local industry yet at the same time avoid abuses.

Artisanal fishermen will continue to receive support from Government to ensure that supply of fish to the local market is maintained at reasonable prices.

Budget 2009 makes provision for an amount of SR17m to be allocated to the fuel rebate scheme for our local fishermen.

Our priority with regard to capital projects for the fisheries sector will be the development of Zone 6 at Providence and the Bel Ombre fisheries facilities. Financing of the two projects will be by way of a US\$10m Japanese Government grant combined with SR15m in funding from the Government of Seychelles.

g. Tourism

Tourism continues to be the pillar of our economy. Budget 2009 makes a provision to allocate SR35m to STB.

As I mentioned earlier, the global recession, especially in our main source market is already showing signs of having a negative impact on our visitor target arrivals for 2008.

Government recognises that at this stage of our development, stakeholders in the tourism sector must play a bigger role in policy formulation, promotion and general development of the sector. In line with this, proposals will be presented to the National Assembly to amend the Tourism Board Act

The new Tourism Board, which will be appointed in 2009, will have an important responsibility. Of the Seven members of the new Tourism Board, four will come from the private sector.

Out of the four members that will represent the private sector on the New Tourism Board, one will be given the responsibility to head up the Tourism Academy and another one will chair the board of the Tourism Marketing Fund.

Mr. Speaker, as Government has previously announced, once the Tourism Marketing Fund becomes operational, Government will contribute USD1.5 million to it, an amount which has already been set aside.

h. Energy

SEYPEC continues to ensure the security of supply of Seychelles' energy needs by meeting the national petroleum demand. SEYPEC engages directly and indirectly in petroleum related activities that adds value

to its business, maximize employment to capable Seychellois and brings economic benefits to Seychelles.

In its domestic operations, 2008 has been a demanding one as the very high price of fuel in the first nine months of the year resulted in heavy forex borrowing and the resultant devaluation of the rupee has resulted in over SR100M loss over and above other losses of more than SR75M.

In its international operations, bunkering brought substantial revenue in the first eight months of the year but the last quarter has been difficult as sales were at lower prices than the purchase price of products.

In its tanker operation, SEYPEC took delivery of its fifth tanker in March this year and revenue and profit from the tankers have been very good. The profits have been used to finance purchase of products for the local market and other investments. SEYPEC feels that it has now reached the capacity to take over technical management of its fleet and in November this year took the bold step of creating its own management company for technical management of its fleet, which was previously being undertaken by Columbia Shipmanagement Ltd. The new shipmanagement company is called "Victoria Navigation" (VICNAV) and its current head office is located in Cyprus. It is a subsidiary of SEYPEC who owns the majority shares in the new company. This move is in line with SEYPEC's long term strategy to build a team of competent maritime personnel to engage in the transportation of petroleum

products and chemicals, thus creating another pillar for our economy.

As for oil exploration, much progress has also been made in 2008. In early November the National Assembly approved the Petroleum Income Tax Bill and by the end of the same month, Government and SEYPEC signed a Petroleum Agreement with EAX and Avana for an area of 15,000sq.km. EAX had previously completed the Technical Evaluation of some 40,000sq km of the EEZ and had been encouraged by the results of this evaluation to apply for a Petroleum Agreement. SEYPEC has also acquired a 10% share of Black Marlin Energy, the Parent Company of EAX.

i. Financial Services

Our Financial Services Sector that is administered under Seychelles International Business Authority has been in place now since the mid 1990's and during this relatively short period Seychelles has emerged as a very competitive offshore financial services jurisdiction.

In an effort to remain competitive, jurisdictions such as Seychelles must endeavour to remain at the forefront in regards to internationally recognised products and supporting legislation.

During 2009 there will be a focus on two of our more successful products, that of International Business Companies (IBC's) and our Companies Special License (CSL's).

In 2009 we shall undertake a review of the regulatory Acts that govern the operation of these two products to ensure that they remain at the forefront of competitiveness within the international environment in which they compete.

Apart from the review of IBC's and CSL's, during 2009, SIBA will also be presenting a new product to the Assembly called "Foundations". The inclusion of yet another internationally recognised product will add further diversity to the SIBA product portfolio and assist to secure additional market share.

As an ongoing process, Government will continue in 2009 with its efforts to expand our network of International "Avoidance of Double Taxation" treaties.

j. Employment

Employment creation is inextricably linked with the economic development the country.

With the economic reform we are currently undertaking the Ministry of Employment and Human Resource Development has an important role to ensure that the Employment Act and Regulations are being complied with by all economic operators and that workers are not exploited

In this new phase of our economic development there is a need to emphasis three main issues:

1. Worker productivity;

2. Professional development and
3. Productivity

As Government moves to privatise some of its operations and outsource some of its functions there will be more business opportunities created and in turn there will be more employment opportunities.

The good relationship between Government, SCCI and LUNGOS will allow for a smooth transition for workers moving from the public sector to find employment opportunities in the private sector.

k. Trade and Investment

Government has over the past 12 years implemented a tax regime which provides incentives for investment and employment creation in key economic sectors.

As such, we have managed to revitalise our tourism sector with the Tourism Incentives Act, expanded our fisheries and agricultural sectors under the Fisheries and Agricultural Incentives Act and sustained growth of our off-shore sector with the SITZ Act and other business operations under the guardianship of SIBA.

However, Mr. Speaker, in this era of unprecedented global financial turmoil, we still need to retain the competitive edge in the sectors even where we may have a comparative advantage and also to develop new niche markets where our businesses can prosper.

The taxation review which will be undertaken during the first half of 2009 will also have as one of its objectives, a check to ensure that it fulfilling regional and international agreements and obligations.

It will also review concessions granted to investors to ensure that there is no imbalance between the concessions granted to domestic and foreign investors.

Additionally during 2009 we will move to introduce a Fair Trading Commission to regulate the domestic competition and ensuring a level playing field for all economic operators.

During 2009 we shall also be presenting a new Consumer Protection Act to strengthen consumer rights.

Another important objective in this Budget Strategy is to endeavor to assist the economy to expand and by building and inspiring confidence, particularly in the private sector so that it may increase investment and create additional employment opportunities.

The overall trade strategy will be to give priority and urgent attention to revamp the regulatory environment and make it more conducive for business to operate.

In a nutshell we need to improve the investment climate in Seychelles and hence improve upon our ranking of 104th as per World Bank table of doing business world-wide. We will work with our development partners to achieve that.

Considering that we live in a globalised and increasingly more intricate and inter-connected environment, events that happen in other parts of the world tend to have quite immediate impacts on our lives.

As such, by the beginning of the second quarter of 2009 we will bring a blue print of a strategy to improve the legislative and institutional frameworks in line with our commitments with the EU and COMESA.

Regional trading blocs. (COMESA/SADC)

Seychelles has been active in COMESA and has benefited immensely with technical assistance from the organization.

Areas of technical assistance include Government Procurement, Competition Policy and other trade-related capacity building programs amongst others.

We will accede to the COMESA Free-Trade Area (FTA) in 2009. Anticipated benefits include cheaper imports of food items from the region; access to cheaper raw materials and increased export market, to mention a few.

With our accession to SADC, we envisage increased investment flows from the southern African region, in areas where Seychelles has had longstanding interests including banking, hospitality services, education and health services.

Similarly to COMESA, the technical assistance provided by SADC will also be made available to Seychelles to satisfy the demand as it arises.

World Trade Organization

I am happy to announce that we have re-activated our accession process to the World Trade Organization.

In the coming days we will be submitting our Memorandum on Foreign Trade Policy to the WTO Secretariat. The Memorandum comprises a comprehensive description of our economic situation, economic policy measures, and the legislative framework currently in effect.

It is on the basis of this Memorandum that Seychelles will conduct its negotiations.

We may have to amend laws to bring them in line with the requirements of the multilateral trading system and defend laws and policies which we feel are crucial to maintain the social cohesion of our small island state.

A Working Group to provide overall guidance on negotiating positions for WTO accession has been formed. It comprises of Government officials, the private sector, civil society, representatives of the National Assembly and Youth Assembly, basically including all facets of our society.

We are also putting a mechanism into place where the general public will be consulted on a regular basis.

5. Policy and Current Issues

a. Convertibility of the SR

Mr. Speaker, the main objective of our economic reform program is to achieve total convertibility of the Seychelles Rupee.

Total convertibility refers to the freedom to convert the domestic currency into other internationally accepted currencies and vice versa.

Generally, a currency is considered to be convertible when the concerned country formally accepts the obligations of Article VIII, Section 2, 3 and 4 of the Articles of Agreement of the IMF. These sections deal with payments and currency transactions of member countries. The aim is to avoid discriminatory currency practices and ensure convertibility of foreign-held balances

Up to 31 October 2008 Seychelles' foreign exchange policy has been such that the Rupee was pegged to a basket of the main trading currencies. The value of the Rupee to other foreign currencies was internally determined by the Central Bank with the last target rate set at R8 to the US dollar.

Furthermore, administrative controls were imposed on all foreign exchange transactions, with the view at the time, to maintain price stability in the country.

Given current developments in the global economic and financial arena, Seychelles has had to adapt its policies to reflect these changes and thus adopt a more flexible exchange rate policy.

The main objective of floating the local currency on the exchange market is to achieve convertibility of the Seychelles Rupee by unifying the parallel and official rates through the recently introduced market-determined exchange rate regime.

Through the reform of the exchange rate system we will over a reasonable time period eliminate foreign exchange shortages and restore confidence in the Seychelles Rupee as legal tender. Consequently, this will promote external competitiveness and growth which is necessary in order to boost our external reserves and consolidate our Balance of Payments.

b. Foreign Exchange Developments

Although it is only a few weeks since the new exchange rate regime has been introduced, the Rupee has already found some degree of stability, albeit at a higher rate of exchange and appears has found at least a short-term equilibrium rate.

We are however not being complacent and we are well aware that sustained stability and a longer equilibrium will depend on several factors, including the strength of our monetary and fiscal policies, and the global economic

situation which affects the performance of the main trading currencies.

To maintain stability and lead the Seychelles rupee to its long-term equilibrium the Central Bank will continue to develop its indirect policy instruments to create a more conducive environment, including the further development of the foreign exchange market.

In that respect, the CBS will facilitate the creation of an Interbank Market for foreign exchange, whereby commercial banks will be able to quote their rates for spot transactions amongst themselves. This will encourage commercial banks to deepen their mutual trading activities and in so doing, would provide the platform for enhanced market development and stability in financial transactions and prices.

Mr. Speaker, recently a lot has been said about an amount of US\$2.5 billion that according to the IMF is allegedly held by Seychellois in overseas bank accounts.

The Ministry of Finance contacted the IMF for further clarification on this issue.

Mr. Speaker, according to the IMF, they have received their information from the Bank for International Settlement based in Basel, Switzerland which has said that this figure of US\$2.4 billion comprises net deposits of individuals and companies (not being banks) and includes funds held by companies registered in the Seychelles offshore sector.

These deposits could also include funds held by tourism establishments operating in Seychelles and any entity that in one way or another has Seychelles as their registered base.

Mr. Speaker, such information indicates that our offshore industry is indeed thriving and that businesses of significant means are availing themselves of Seychelles as a commercial base.

c. Monetary Reform

We firmly believe that with the policies that are now in place, it will be only a matter of time for the Seychelles rupee to achieve full convertibility.

But full convertibility is only the initial objective. The people of Seychelles will, through full convertibility, be able to reap the rewards of this stringent economic reform process in less than 2 years. This will be achieved in two ways.

First, coherent fiscal and monetary policies will put in place the conditions for foreign exchange inflows into the system to increase so that all clients will be able to purchase foreign exchange for their daily business and personal needs at a satisfactory exchange rate, and in the amounts needed.

Secondly, as convertibility will be achieved, a stable exchange rate will allow inflation to come down, which in the process will give back to the people, an increase in real wages and real interest rates. Through this, the

purchasing power will increase enabling our people to better deal with the cost of living.

It is our view that the current climate of high borrowing rates will abate in due course once our macro-economic fundamentals become aligned.

High lending rates reflect the liquidity situation which the reforms are intended to address. Lower rates coupled with stability on the exchange rate should help to bring down inflation to more desirable levels within the coming 2 years.

d. Privatization and Outsourcing

One main part of our economic strategy is for Government to continue its privatisation program.

As government reduces its direct role in commercial activities it will create more opportunities to the private sector.

In 2008 Government has continued with the privatisation of a number of operations including some of the ex SMB operations (e.g Foodpro, Agro and an agreement to transfer the assets of the Animal Feed Factory).

We have recently published tenders for:

1. Meat corner retail outlet;
2. Enterprise landing crafts
3. EX SMB aircraft

In 2009 we will move to privatise:

1. Hatchery;
2. Parent Stock facilities;
3. Tea plantation;
4. Tomato sauce production; and
5. Water bottling operation

Government will also make available land at Providence and invite expressions of interest from the private sector to build and operate an abattoir.

As for outsourcing, Government will continue to seek efficiency by identifying activities that can be best undertaken by the private sector.

Some Parastatals have already invited expressions of interest from the private sector to undertake a range of activities that were previously undertaken in house (e.g. road repairs, road painting, maintenance, drainage works, tree lopping etc).

It should be noted also that the Department of Agriculture will soon be inviting expressions of interest for the management of the Victoria Market and the Nursery at Grand Anse Mahe.

For the Victoria Market, it is pointed out that Government will first undertake some necessary repair works prior to the management being outsourced.

Other Ministries that will be publishing area to be outsourced include the Ministry of Education and the Ministry of Health. The details will be published over the coming weeks.

Mr. Speaker, the decision to outsource illustrates another example where the Government's economic reform results in the creation of business and employment opportunities within the private sector.

e. Social Safety Net

Government realises that with the measures that are being implemented in the framework of the economic reform program, the cost of living has increased for all Seychellois families.

As such, Government has created the new Welfare Agency to provide a social safety net for those most vulnerable in our society and the 2009 budget makes provisions for SR100m to fund the Agency.

Mr. Speaker, I wish to inform the Assembly that under the Social Security Fund, provision has already been made in the budget of 2009 for the following categories of benefits that will be paid in line with the Social Security Fund Act:

- SR202m Pension benefits
- SR38m Invalidity benefits
- SR2m for Orphan benefits

- SR2.5m Maternity benefits
- SR0.5m in Survivors benefits
- SR0.6m Injury benefits
- SR1.8m Funeral benefits

It is to be noted that Government has also consolidated the structure and procedure for domiciliary care to ensure sustainability of the program.

Effective January 2009, persons who are sick and where the household does not have the financial means to cover the cost of domiciliary care, will continue to benefit under the domiciliary care program.

Government will also make available an amount of SR100,000 to schools to allow school management to assist directly any student deemed to require assistance.

f. Drugs and NDEA

The country has stepped up its effort at fighting the scourge of drugs, a malaise which threatens to destabilize our young people and population.

The Council for Drug and Alcohol will receive R0.9m, CARE will receive SR2m and Mont Royale will receive SR3m in the budget for 2009.

The 2009 budget also make provision for SR16m for the operations of the National Drugs Enforcement Agency as part of our efforts in this fight against drugs.

g. Housing Finance

Government is also following closely the developments with respect to financing for housing.

With the new monetary regime, interest rates for housing have increased. Through HFC, Government will ensure that our policy of affordable housing still reaches the larger part of our community and HFC is putting together a financing package for both existing mortgage holders and those who may wish to borrow in future for their housing needs.

HFC has already announced a change in interest rates which they charging from January 2009

h. Government Procurement of Goods

Procurement of goods and services accounts for over 35% of Governments expenditure.

As such, an efficient and effective public procurement system is an essential pillar for good governance and sound management of public finances.

The New Procurement Act, which will regulate public procurement in Seychelles, underscores Government's desire and commitment to have in place a transparent, competitive, efficient and accountable procurement system to better manage public finances and more importantly, to obtain value money for State spending.

The promulgation of the Act is an integral part of Seychelles Public Financial Management Reforms which

sought to instil propriety and accountability in public sector financial management and expenditure. The Act regulates the procurement of goods, works and services financed in whole or in part from public funds.

Additionally, all government agencies, institutions and establishments in which government has a majority interest are mandated to comply with this Act.

The new law will empower local suppliers and improve their competencies in applying for public contracts. This will in-turn, improve the competitiveness of our local manufacturing, construction and service providers.

6. New Measures

Mr. Speaker, as far as new measures are concerned, it is to be noted that the Government has already implemented the bulk of the fundamental economic and fiscal changes in line with our new economic reform programme.

As has been explained, the objectives of our reform program are to promote macroeconomic stability and sustainable growth by:

- Achieving full convertibility of the Seychelles rupee and introducing a market-determined exchange rate regime;
- Placing public debt on a sustainable path by implementing a comprehensive debt restructuring strategy, coupled with further tightening of fiscal and monetary policy, while preserving financial sector stability; and

- Reducing the role of the state in economic activity and enhancing the growth-generating capacity of the private sector by creating conditions conducive to private investment.

a. Review of Tax System

In 2009 we will undertake a complete review our our taxation system and where necessary amend or replace taxes to ensure that our system is a more modern and efficient system, one that will be easier to administer and one that is fairer to all sectors of the country and their activities.

To help us in this exercise, the IMF is sending a delegation in mid January 2009 that will seek to complete the exercise by June 2009.

In the meantime we will be carrying out a tax audit on some of the major companies in the country to establish if the level of tax compliance is at an acceptable level.

Mr Speaker, in this new environment and economic climate, we are giving all companies in Seychelles all of the tools they need to carry out their business and at the same time endeavouring to remove bureaucratic encumbrances. Businesses are now free to negotiate their bank interests, get their own access to foreign exchange, and basically run their business as they please.

All we ask in return is they honour their obligation towards the state, towards the country that is giving them

opportunities for business and towards the nation that nurtures them.

And that is, voluntary compliance with all of their taxation and social security obligations.

b. Levy on Environment

Mechanisms are already in place for each household to contribute SR10 every month as an environmental levy. That is a collective contribution that helps us to protect the environment, and the funds are managed by the Environment Trust Fund.

As from 1st January 2009 this contribution is being raised to SR25.

c. SPTC and New Tariffs

Mr Speaker, in line with Government policy of removing all subsidies from parastatal companies, as from 1st January 2009 the subsidy that was previously given to SPTC will cease.

From January 2009 SPTC will have to adjust its tariffs to cover its expenses.

From 1st January 2009 bus journeys that used to cost SR3 will go up to SR7.

This revised bus fare will be subject to review after three months

It is to be noted that Pensioners and the disabled will continue to receive the benefit of free travel on SPTC buses.

For students the following will apply:

- The students currently receiving bus passes with Ministry of Education will continue receiving these benefits.
- Those students which currently are paying SR2 will continue to pay SR2

I am pleased to inform this Assembly that the Government is looking at new strategies that should bring more efficiency to our bus service. Details on this new strategy will be announced soon.

d. New LPG Prices

Despite the new tax of 50cents that will be applied on every kilo of gas from 1st January 2009, SEPEC has informed us that consumers can expect to see an overall reduction in the price of gas per kilo given the lower cost of the latest consignment that will soon be on the market.

e. Levy on Vehicles

Government has decided that for the time being, the levy on imported vehicles will remain the same for at least the next 6 months, while we undertake the review of our current tax regime.

f. Road Tax

There will be no increase in road licence in 2009.

g. STC

STC has an important role to play in the importation of basic food items. It is Government's policy to ensure that such basic commodities that STC imports remain available and at a reasonable price.

As we all know, STC revises its prices every month in order to guarantee a degree of stability in the market. I am happy to announce that STC will maintain prices that it set on 19th November, until at least the end of January 2009.

This will also apply to Praslin and La Digue.

7. Budget 2009

a. Main Objectives

The main objective of the 2009 Budget is to achieve a primary surplus of 6.2% of GDP to enable Government to clear its debt and interest at a sustainable level.

Highlights

i. Revenue

Mr. Speaker, for the year 2009 Government is forecasting to collect SR 3.56 billion, an increase of SR 737 million or 26% on the 2008 revised budget.

The revenue increase will come mainly from an increase in collection of taxes and as a result of a revision of fees that Government charges for its services. This is in line with our economic reform programme and acknowledges that costs associated with services provided by Government have significantly increased.

In 2009, Government expects to collect SR 1.442 billion from GST. This represents an increase of SR 525.8 million or 57% above the 2008 revised budget level.

An increase in trades tax collection of SR 151 million or 36% on the 2008 revised budget level is also expected to be achieved in 2009. This increase will be due mainly to anticipated collections from petroleum, alcohol and motor vehicles.

Furthermore, Government expects to collect SR 34.4 million or 7% above the 2008 revised budget level in business taxes.

Government is also forecasting an increase in collection from other non-tax revenues, such as licences, stamp duty and revenues from fees and charges such as Immigration fees and property transfer fees, as well as the sale of Nation newspaper.

A 28% or SR 46.8 million increase in other non-tax revenues and 31% or SR 39.7 million increase under Fees and charges are anticipated for the year 2009 in contrast to the revised 2008 budget.

The new GST of 15% on residential rental income becomes effective on Jan 1st 2009.

ii. Expenditure

The total expenditure and net lending forecast for the year 2009 is SR 4.17 billion which is SR 1.2 billion or 41% above the 2008 revised figures.

The increase is mainly due to the interest payments of SR 1.23 billion that Government needs to pay in 2009. This represents an increase of almost SR 530 million or 76% of the revised 2008 budget. This is mainly because of the new exchange regime and the increase in interest rate in the domestic market that Government has already started to pay.

The total allocation to Government Ministries and Departments will account for SR 1.22 billion or 29% of the total 2009 budget. This figure represents SR 178.7 million or 17% increase on the 2008 revised budget.

The total allocation for wages and salaries under Ministries and Departments is SR 611.8 million. This represents only SR 8.8 million or 1% increase over the 2008 revised budget level. This is the result of the recently announced salary increase and also based on the lower employment numbers within Government following the implementation of the Voluntary Departure Scheme.

The major expenditure increase under Ministries and Departments' budgets is in relation to Goods and Services, with a total of SR 607.1 million, being budgeted for. This amount is 39% or SR 170 million higher than the revised 2008 figure.

Mr. Speaker, Government Ministries and Departments will have a great challenge next year to maintain service delivery, but at the same time to continue tightening on their expenditures.

Ministry of Education and Ministry of Health and Social Development will again this year receive the bigger part of the Ministries and Departments' budget. Collectively, both ministries will receive almost SR 506 million. This represents about 42% of the total allocation to Ministries and Departments.

The allocation of such funding levels to these two very important Ministries further demonstrates the Government's commitment in these areas for the role they play in the development of the nation.

The Ministry of Education, in the year 2009 will receive SR 229 million, an increase of almost SR 33 million or 17% of the 2008 Budget.

The Ministry of Health and Social Development will receive an increase of SR 57 million in comparison to the 2008 budget, bringing the 2009 budget to almost SR 277 million. This is mainly because approximately 20% of the total costs of the Ministry's budget are incurred in foreign exchange.

Furthermore, the Social Development arm of the Ministry will need to be more pro-active when dealing with social issues vis-a-vis the current economic climate and will thus need a solid foundation for this challenging year ahead.

The Ministry of Employment and Human Resources Development will next year receive an increase of almost SR 5.46 million or 63% as compared to the 2008 revised budget. This shows the Government's commitment for our Human Resources Development, especially as we want to put Seychelles into the next level. It is also to be noted that the Employment Tribunal will be in full operation in January 2009.

In the 2009 Budget, Ministry of Foreign Affairs will receive an increase of nearly SR 15 million or 72% above the 2008 budget. This reflects the Government's policy to have more embassies around the world.

Mr. Speaker SR 7.55 million will be allocated to the National Assembly Secretariat. The increase from the 2008 budget is almost SR 3.96 million.

The National Assembly will be getting its own premises next year and it will be financed by the Chinese Government. After 15 years, the National Assembly needs to evolve and maintain its role as the custodian of our democracy.

There are several committees that have been formed within the National Assembly that require extra funding. At the district level, elected members are facing several constraints. Government, for its part, is not in a position to build an office for each MNA.

Thus the National Assembly Secretariat will continue to find ways to assist MNAs disburse their responsibilities in their district in a more efficient manner. In these times it is important that the people's representatives spend more time with their electorate.

Mr. Speaker we are also recommending SR 355.8 million under various social programs of central

Government. This is part of the continuous support from Government towards various activities and national organizations which contribute to the social development of the country.

In the year 2009, what we term as the Social Safety Net will receive SR 100 million. This safety net will be targeting the most vulnerable in our society who will be assisted on merit.

Furthermore, SR 137.6 million will be allocated to overseas training fund. This represents an SR 83.6 million increase in comparison with the 2008 Budget. This money will be used to assist our young people to pursue overseas training, with the main aim of them coming back to serve our country and play their role in the country's socio-economic development.

In addition this money will be used for the Seychelles Young Leaders Programme, an initiative of President James Michel that started in January 2008 whereby a group of 28 young professionals are doing a Master degree in Strategic Management and also enhancing their knowledge in leadership skills.

In addition SR 5 million will be allocated to the National Human Resources Development Council. This is new in the 2009 Budget.

With the Voluntary Departure Scheme in 2008, Government has seen it as a priority to re-skill

people and to focus on skills in sectors of the economy that have many expatriate employees.

Furthermore, SR 10 million will be allocated to the Concessionary Credit Agency to help people to start up or expand their small businesses. This is SR 5 million more than what was provided for in the 2008 budget. Government has seen the necessity to encourage as many businesses as possible, with the main aim of generating more competition so that we may endeavour to drive prices down, for the benefit of everyone.

In the 2009 budget, transfers to public sectors will be SR 186.1 million. This represents a SR 9.5 million increase over the amount allocated in the 2008 budget. This increase is mainly due to the creation of three new bodies during the year 2008. They are:- Public Officers' Ethics Commission, National Drugs Enforcement Agency and the Financial Intelligence Unit. A new Office of Fair Trading is also expected to come into operation next year.

In 2009, there will be no subvention to SPTC or IDC.

Culture, Sport & Youth

The 2009 Budget provides for the following allocations to this important sector of our youth's activities: 23 million for National Sports Council; 2.35 million for the National Arts Council, and 900,000 rupees for the National Youth Council.

This is in line with the Government's commitment to continue to grow our youth and the key development areas of sports and culture.

Special Funds

The Budget also makes provisions for several Funds: 8.5 million for the Praslin Development Fund; 1.5 million for the La Digue Development Fund, and 1 million for the Agricultural Trust Fund.

Contributions to Political Parties, LUNGOS and Chamber of Commerce

For the last 10 years contributions to political parties have remained at the level of 500,000 a year.

Government has decided to increase this allocation to 600,000 for next year. Government hopes that this will be used for political work that will in turn strengthen our democratic framework.

LUNGOS has an important role to play as representatives of civil society. Associations which are registered with Lungos have the capacity to engage in programmes of which some are presently undertaken by Government, thus reducing costs, avoiding duplication and provide the opportunity of improving programme executions. This budget provides 700,000 rupees for its activities.

The Seychelles Chamber of Commerce (SCCI) will receive a contribution of 500,000 rupees.

Mr Speaker, the total allocation to Capital Expenditure will increased by SR 44.25 million or 14%, to a total amount of SR 356.4 million, this is mainly due to increases in the cost of construction.

Capital projects of Government in 2009 will be capped at SR280.6 million. This increase is mainly due to the higher costs of construction.

There is also a provision of 67.7 million for the Development Grant. PUC will also receive an allocation for water, sewage and electricity projects.

In 2009 we are also providing the sum of SR 196 million for provision for all arrears. This will be paid to mostly foreign creditors, especially for overseas treatments, subscriptions to international organizations and the foreign components we owe to local contractors for different projects.

Mr Speaker, Government has also provided for a SR300m contingency fund. This is money to be set aside for any eventuality which may call for Government to intervene in institutions in which it has a direct interest, in the event of negative developments beyond their control.

b. External Debt

Our external debt as at 30th Sep 2008 stood at \$808m out of which \$263m is for arrears. The stock of debt to multilateral agencies is \$59m dollars, that to bilateral

countries is \$225m and those owed to private creditors is \$433m.

Such funds, Mr Speaker, were not monies spent unwisely. Much of it was to build infra-structure such as schools, hospitals, the reclamation, utilities such as a new power station and the construction of roads and supporting infra-structure that today serve as the base of our economic growth.

Mr Speaker, these policies have allowed for the construction of public housing at highly competitive prices. Today if the same houses were to be re-valued, the owners would stand to benefit from an appreciation of these homes of at least 5-6 times. For example, the house that was purchased by a Seychellois family at Roche Caiman for SR90k, cost Government at least SR200k and will today fetch at least SR500-600k.

This is the kind of investment we have provided for and for which the benefits have gone to individuals and home owners which our population have become.

c. Negotiations with Paris Club and other creditors

Government has already begun a preliminary round of discussions with private creditors in order to explain to them our debt strategy in the light of our economic reform program and long term plans.

This will be followed soon by a first round of discussions at Paris Club in early 2009.

It is our hope that the Paris Club will grant Seychelles favourable debt re-scheduling that will allow the country to bridge the gap in its balance of payments that exist and will continue to do so if our debts remain at their present unsustainable level.

8. Conclusion

Mr. Speaker, as we face new economic realities, it is important that we remind ourselves of our long term goals; that we know where we come from and where we want to go.

At this juncture we have a unique opportunity to integrate Seychelles fully into the world economy once and for all, with all the right financial and economic mechanisms possible.

After all our sacrifices and difficulties, we will come out with a new economic model that will allow our enterprising spirit to work to our best advantage.

The new economic model will allow us to operate in an environment of free market forces, where business and trade can be conducted without bureaucratic rules, -and one in which the Seychelles Rupee has its right place and value in Seychelles as well as overseas.

It is clear that tourism will remain the mainstay of our economy and supported by fishing and other exports of services including financial services and not to forget our formidable tanker freighter service which has grown in size.

We have begun once again in earnest, oil exploration in our waters and it is my hope that soon we will once again drill deep

into our sea bed to find out where the oil reserves that many believe lie in our waters are and we will then begin a new chapter in our history.

Mr. Speaker, as we close 2008, I see us bracing ourselves to face the impact of the ongoing worldwide recession.

In Seychelles, we cannot control events beyond our borders. We can only plan ahead, prepare our people to adapt to changing times, times when we are sometimes required to take some tough decisions in order that we are able to overcome difficulties.

Mr Speaker, I am confident that the measures we have taken so far are comprehensive in their macro perspective, and that if we work together we will manage these changes and make them work to our advantage.

We may require further adjustments along the way depending on how our situation evolves. However, it is my view that Government has laid the stepping stones for a modern economy for this country, based on the realities of the world, as well as our own realities.

For the first time in our history, we are truly integrating fully into the global village.

The time has come for us to use everything we have learned and all our resources to make them work for us, so that within a relatively short time, we will reap the fruits of our work.

That can only happen if we continue to nurture peace and stability in our country, because our life, our progress and the success of our economy depend entirely on these ingredients.

We fully understand that these difficult and hard times can bring about frustrations and impatience, but where there are problems we need to solve them together, because it is this very sense of solidarity and ability to dialogue that has brought us to where we are today.

I see a Seychelles where we will have overcome most of our major economic challenges, where there is enough foreign exchange to go round, where prices have stabilised and Seychellois are busy doing business in a free market.

I see a thriving Seychelles with a flourishing private sector growing the economy through more value adding activities and higher employment levels giving opportunities to the new generation of Seychellois who will help take this country forward into the next decade and beyond.

If we are now evolving a new system within this new economic model it is because we want, once and for all, to launch our new generation into the modern economic world so that they can start the new Seychelles dream in as realistic a manner as possible.

Finally, Mr. Speaker, I wish to thank the Seychellois people for their attention and understanding during all this period. I wish to thank President Michel for his leadership and courage to bring about the changes we need; to my colleagues for their

support, and all members of the National Assembly for their support.

I thank my staff in the Ministry of Finance for their professionalism, motivation and devotion in their work and the numerous tasks we have undertaken together.

My team joins me today to wish all the people of Seychelles a Merry Christmas and a Happy New Year 2009.

My sincere thanks also go to you Mr Speaker and members of the National Assembly.

I now commend the Bill for the approval of the National Assembly.