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# Budget 2012 (English)

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29th November 2011

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Vice President

Danny Faure

Republic of Seychelles

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## BUDGET SPEECH 2012

Delivered by the Vice-President, Minister for Finance, Mr. Danny Faure

November the 29<sup>th</sup>, 2011

Mr Speaker

Leader of Government Business

Honorable Members of the National Assembly

Fellow Citizens

### A BUDGET TO SUSTAIN ECONOMIC PROSPERITY

#### 1. INTRODUCTION

Mr. Speaker, I am presenting this 2012 Budget at a time when the global economy is slowing down, when the European economy – particularly the Eurozone – is in crisis, and at a time where we have to cope with large external shocks such as the cost of fuel and food whose prices on the international market continue to sky-rocket.

As you are all aware, we need to find a strategic solution for Air Seychelles' financial woes whilst limiting the impact on the country's economy and its tourism industry.

Last year, I spoke of continued growth of our economy and the overall wealth of the population. This will always remain one of our core objectives.

This year, economic growth reached 5%, average inflation lower than 4%, and we remain on track to achieve a fiscal surplus of 4.5% of GDP. Our gross foreign exchange reserve level stands at USD 268m, or 2.4 months worth of imports.

The rupee has depreciated to more than SR 13 per dollar principally due to the drop in the value of the Euro compared to the dollar, and the price shock of a hike of more than 30% in international food and fuel prices.

## 2. Budgetary Performance in 2011

Our primary surplus target for this year is approximately SR 565.6m or 4.5% of GDP, a level which is high, but necessary in order for us to honour our debt repayment obligations.

Government anticipates revenue collections of SR 5.1 billion, which is SR 220m or 5% higher than forecast. This is mainly due to over-performance of Excise Tax and Business Tax.

Over-performance in Excise Tax is anticipated to be 23% or SR 75.9m on imports, and 28% higher, or SR 80m, on locally manufactured goods. Business Tax overperformance is anticipated to be more than 13% higher than Budgeted, primarily as a result of greater collection of arrears.

Government expenditure on the other hand, is expected to be SR 293.1m, or 6%, higher than the SR 4,631m initially budgeted for 2011. This is as a result of higher expenditure by ministries and departments, as well as higher transfers to the Public Sector through payments such as those to provide financial support for Air Seychelles.

## 3. Overview of the Economy in 2011

Mr. Speaker, our economic reforms in 2008 coincided with the greatest financial crisis in history. Seychelles, as all other countries in the World,

has been affected by the effects of the crisis. However, despite the global economic turmoil, Seychelles' economy has remained, to date, in a state of growth and resilient despite numerous external pressures.

The International Monetary Fund (IMF), recently confirmed that the rate of Seychelles' economic growth in 2010 was higher than anticipated at a rate of 6.7%. Over and above that, the 2011 forecasts have been revised from 4% to 5%. The driving factors for this increased growth vary amongst sectors such as tourism, construction, communications, local production and the financial sector, all of which remain healthy.

For example, the number of tourists expected to grace our shores this year is anticipate to surpass 190,000 – a new record high – representing a growth of almost 11% on 2010. Revenues of the tourism sector is also expected to increase as a result, but unfortunately not at the same rate.

The production sector has also shown some encouraging positive growth results compared to 2010 numbers. In the first six months of this year, for example, domestic meat production has increased by 24% compared to the same period of 2010. A 15% increase has also been observed in the local production of soft drinks, and Seybrew's production of alcoholic drinks has also grown by 12%. An increase of 9% has also been seen in electricity production.

On the employment side, at end-June 2011, the average number of people in formal employment had increased by 11% compared to the average number employed in the first six months of 2010. Over that period, the average salary has seen an increase of 14%.

#### 4. Monetary and Financial Sector Performance

Mr. Speaker, as I mentioned previously, despite our resilience in the face of external shocks, we have not been completely immune or shielded from developments in the global economy. Increases in the international food and fuel prices have had a large impact on the cost of living domestically.

Following inflation of virtually 0% in 2010, the rate of inflation has gradually increased largely part to the developments on the international



markets. In October, the price levels were 3.8% higher than they had been in October 2010. Following the recent increases in electricity tariffs, we are forecasting the end of period, or December's inflation to reach approximately 4.5%. The average inflation for 2011 is estimated to be 2.4%.

All that said Mr. Speaker, things could have been a lot worse if Government and the Central Bank had not intervened. As from April this year, the Central Bank started adopting a tighter monetary policy. This was achieved through the increase in the Minimum Reserve Requirement (MRR) – which is the portion of deposits that banks need to keep with the Central Bank. The MRR was increased from 10% to 13%. Inflation is also driven by consumption. The higher the level of cash – or liquidity – in a system, the greater the risk of fueling inflation. Through the increase of the MRR levels, the Central Bank is reducing the amount of rupees in the system, thereby reducing the ability of individuals and businesses to consume.

Each loan which is approved and disbursed represents the creation of more money through what is commonly termed as the “money multiplier effect”. Considering the fact that the majority of each rupee which is injected into the system is spent on imports, it is important for macro-economic stability that the Central Bank adopts a monetary policy which is tighter when the risk of inflation is higher. This stance helps control demand for foreign exchange, reduce pressure on the exchange rate, and eventually help control inflation. Tighter monetary policy is also responsible for the rate of credit growth to be slower in 2011 than in 2010.

On our side, Government took a number of measures to control inflation. The Stabilization Fund was set up to directly mitigate against the increased cost purchasing gas and producing electricity. At an indirect level, our prudent fiscal policy has helped us control Government expenditure.

This has been achieved despite significant pressure to contribute towards public infrastructure and other emergency situations such as the purchase of 7 reverse osmosis plants for desalination for PUC – at a cost of SR 176m – and financial assistance for Air Seychelles at a cost of more than SR 216m. I am confident that Government and the Central Bank – through

fiscal and monetary policy respectively – will ensure that the cost of living can be kept to an acceptable level.

Mr. Speaker, despite prudent fiscal and monetary policy this year, there has been a lot of pressure on the external position of the country – particularly in the second half of 2011. Increased demand for foreign currency has manifested itself through a depreciation of the rupee of 4.7%, 7.9% and 7.4% against the US dollar, Euro, and Pound Sterling respectively. This has happened despite an increase in the amount of hard currency that has entered the system in 2011.

Simply put, this means that the demand for foreign currency has outstripped the availability of foreign exchange in the market. Over and above, developments in the international values of currencies, particularly cross-rates between the Euro and the Dollar, as well as increased international food and fuel prices has put a lot more pressure on the value of the rupee.

These higher international prices have also contributed to the deterioration of our current account balance, where the deficit has moved from 24% of GDP in 2010 to be 27% in 2011.

All these developments re-enforce my message that our policies must remain prudent. Unless we reduce domestic consumption of imported goods and services, we will continue to have increased pressure on the exchange rate, and our ability to increase our international reserves will be affected.

Despite these difficult conditions, Mr. Speaker, the Central Bank has continued to increase the level of foreign reserves. Compared to USD 254m in December 2010, our stock of “gross” reserves is expected to be approximately USD 268m at the end of 2011. This will represent 2.4 months of imports.

## 5. Review of Key Development Sectors

### a) Agriculture and Food Production

Mr. Speaker, this year has been a particularly hard one for the agricultural sector. The weather has been harsh, and the liberalisation of the economy remains a challenge to the farmers.

In 2008, we lifted restrictions on the importation of poultry. This increased imports from 960 tons imported in 2007, to over 2,452 tons imported in 2010. Local production on the other hand fell over the same period from 1,439 tons in 2007 to only 802 tons in 2010.

We lifted restrictions to allow a fully liberalised system whereby the population receive a better choice, but more importantly, an affordable price.

The figures illustrate clearly the magnitude of the local market, and the potential that remains untapped by local production. In the context of a tourism sector which has grown significantly and a population which is consuming greater volumes. In this environment it is clear that a product which is reasonably priced, of good quality, and which is well advertised, will always have a market.

Government is currently carrying out the formalities to place the hatchery, animal feed factory, and abattoir on tender early in 2012. Our intention is to allow these three units to operate in a co-ordinated manner whereby they will complement one another's activities.

We hope that this will allow farmers to continue and increase production as well as employment in the sector in an effort to increase food security.

### b) Financial Sector

Mr. Speaker, the reform of our financial sector remains one of our priorities. Our Government took a major step in this direction earlier this year through the partial privatisation of the Seychelles Savings

Bank (SSB). Today, 23% of the SSB belongs to the clients of the Savings Bank.

The Central Bank will continue in its role as “avant garde” in the reform and development of our financial sector. Several amendments to the Financial Institutions Act – the law governing the functioning of financial institutions – will be presented to the National Assembly before the end of the year. These amendments will bring a number of benefits to individuals and the private sector, and hopefully spur competition between the banks.

In 2012, Government will present a number of bills to the National Assembly addressing company law, such as the Companies Act, to help improve the legal framework within which businesses operate and to address the recommendations of the OECD report on Seychelles.

The new laws which we will present to the Assembly will include a new Companies Act and a new Legal Practitioners’ Act.

We will continue without effort to set up more bilateral treaties on information exchange and place more effort on the drive to get Seychelles’ review by the OECD to reflect greater progress on our behalf.

We will also continue with our efforts to sign even more Double Taxation Agreements and others which protect investments. We currently have 37 DTA’s, of which 15 are already fully operational.

c) International Business Sector

2011 has been yet another successful year for the “Offshore” sector. SIBA has reported a profit of SR 61m for the year, compared to SR 52m last year. Its core activity remains the registration of international business companies. In the event that its current rate of growth continues to the end of the year, SIBA is anticipated to have over 100,000 companies registered on its books before the end of December 2011.

SIBA will continue with its work to improve the legal framework and to ensure that Seychelles always remains a credible jurisdiction which follows international norms and obligations.

d) Fisheries

In 2011, construction work was completed on the restoration of artisanal fishing pier at the Old Port. The fishing pier had suffered extensive damage following the December 2004 tsunami. This restoration project was financed by a Development Grant from the Japanese Government through the World Bank and has cost SR 23m.

The project has helped the fishermen with more space, increased manouvability and unloading space, all of which increase their operational efficiency.

Mr. Speaker, the presence and threat of piracy continues to hinder our fishing industry. Since 2008, we have seen a reduction in artisanal fishing activity. As I speak, a number of fishermen are reluctant to go fishing due to the risk of being attacked by pirates. This has reduced the tonnage of fish caught by artisanal fishermen from 4,500 tons per annum to 2,500 tons in 2010.

This trends also shows itself in the figures for semi-industrial fishing where the total catch has reduced from 330 tons in 2009 to 295 tons last year.

In the meantime, SFA is developing a mariculture project which should be completed by the end of 2012. SFA will invite all local businessmen to consider these possible alternative techniques during this difficult time.

The number of vessels licensed to fish in our waters has also reduced. In the first six months of 2011, industrial fishing vessels in the Western Indian Ocean caught 15% less fish than in the same period of last year. There has also been a 16% reduction in the tonnage of fish that have been trans-shipped or offloaded at Port Victoria in 2011.

During the first 6 months of 2011, reciepts have been USD 45.6m.

It is important that SFA and all the agencies which are responsible for the management of this resource take the leading role in ensure that we exploit the resource sustainably.

This resource represents the livelihoods of a number of families, and it is also our role to supply the population with its supply of fresh fish at an affordable price.

e) Tourism

Tourism is the country main foreign currency earner. We estimate that the sector will bring in USD 290m in 2011. As I am sure you are all aware, tourism remains the biggest employer, with 25% of the workforce. We currently have 21 large hotels, 132 small guesthouses, 118 car hires, 84 boat charter companies, and 48 restaurants to name but a few activities where Seychellois are active in the sector.

This year, we will see the total number of tourists to our shores go over 190,000. This represents an annual growth rate of more than 10%. However, it is to be noted that their average length of stay has reduced by 5%, or by half a day.

Despite the reduction in length of stay, the average number of beds in hotels and guesthouses over the first six months of 2011 has increased by 4.6% compared to the average for the same period in 2010. This illustrates the level of confidence being shown by the private sector in the continued growth of the tourism sector in the future.

Aside from length of stay, we have also seen numerous new challenges such as the Eurozone crisis, which we feel is responsible for tourists spending almost 10% less euros per head in 2011 compared to 2010 whilst on holiday here. I am convinced that if we continue to develop various services and value added products, the amounts that tourists spend will increase.

f) Air Seychelles

In the past 30 years that Air Seychelles has been in operation, the commercial environment in which it operates has evolved. At the time it started, our tourism sector was still in its infancy. Over time, our tourism sector has grown, and we took a conscious decision to allow the tourism sector to develop its full potential. Development of the tourism sector is the development of the economy. In return, this means the development of our people. During this time Air Seychelles has also invested a lot in its human resources, i.e. in the development of our Seychellois.

In order for us to grow the economy, we had to increase the number of tourists that came here. In 2007, we received 161 thousand tourists, and in 2008 only 158 thousand. In 2011, we anticipate the arrival of 190 thousand tourists.

This implies that the number of tourists has increased by more than 20%, and tourism is currently employing more than 10,000 people. This increase has been possible because we took the decision to search for more airline companies from more countries to fly to Seychelles.

Meanwhile, in the past two years, the cost of fuel that Air Seychelles has had to pay SEYPEC has moved from USD 1.4m in October 2009, to USD 1.5m in October 2010, and was USD 2m in October 2011. And this was despite the fact that over the same period its volume of consumption had reduced by 13%.

Seychelles is facing increased competition from other destinations, and the importance that tourists place on flexibility of their mode of transportation has increased. Mr Speaker, Government has facilitated the financing of more than SR 445m to Air Seychelles between August 2010 and December 2011.

We are now in a position whereby Air Seychelles can no longer survive on the same business model. Air Seychelles is now adopting a new model. Often times over the lifetime of a business, in the face of new challenges and external conditions outside the control of the

business, the business needs to take a strategic decision to take a step back, in order to allow it the possibility of strong future growth and progress.

I acknowledge the fact that this is a difficult time for all of us, particularly the staff of Air Seychelles, but I am also aware that the Government is doing everything in its power with regards to the employment of these staff.

g) Petroleum Exploration

Our efforts to find oil in our waters has accelerated. “WHL”, the Australian company which took one of our concessions, has said that the results are encouraging, and has committed to start drilling by 2013 at the latest.

“AFREN”, a company listed on the London Stock Exchange has purchased a 15,000 km<sup>2</sup> concession to carry out another seismic survey in the next few months (December 2011 and January 2012) for it to plan its drilling activities. They will soon be finalising their analysis which will allow them to make an offer for new concessions early in 2012.

## 6. Investments in Public Infrastructure

Infrastructural projects financed under the Capital Budget will amount to a sum of SR 890m; and there will also be Development Grants to a tune of SR 248m which will go to PUC, SFA and SBC for development projects.

h) Schools

The tender process is being finalised for the completion of the construction of a crèche and primary school on Perseverance Island, which is being financed by BADEA and OFID. Construction is expected to start early in 2012.

Provisions have been made to launch a second tender for the construction of a secondary school on Perseverance.



Provisions have also been made for the planification of the construction of two new schools, one at Cascade, and the other at La Rosiere.

That total cost for capital projects for schools in the 2012 budget is SR 120m.

i) Roads and Traffic

In 2012, a total of SR 25.1 m will be spent to complete ongoing projects as well as starting, and completing, a host of new projects.

Some of these 2012 projects include the installation of more traffic lights in Victoria, erections of crash-barriers and other safety equipment such as traffic mirrors and road signs. The Budget has also made provisions for new bus-shelters and lay-by's.

j) Public Utilities

A total of SR 200m is being proposed for PUC capital projects for 2012.

This will include SR 44.5m to cover electricity-related projects including a new generator for Praslin.

Numerous projects have also been scheduled for implementation in 2012 to a total value of SR 96m. These projects include:

- Repairs of water treatment stations for a sum of SR 11m
- Repairs and replacements of leaking pipes for a sum of SR 17m
- Increased capacity of pipe work connecting Salazie to Rochon Dam for a sum of SR 3m
- Water catchment project at the O Morne Glacis area for a sum of SR 1m
- Water catchment project at Fond des Lianes, l'Îlot Glacis for a sum of SR 1.2m

- Pipe replacement projects for North East Point for a sum of SR 600 thousand.
- Project to install a pump, tank and pipes at Vilaz Roz, Baie Ste. Anne Praslin for a sum SR 1m
- Repairs to the water catchment area at Upper Capucin, Kap Lelefan for a sum of SR 600 thousand
- Water tank project for La Digue for a sum of SR 2.25m

PUC is also proposing a sum of SR 20.5m for a sewerage project on Mahe.

#### k) Housing

Government remains committed to ensuring that all our citizens have access to adequate housing.

This year, the Ministry for Land Use and Habitat completed a total of 331 houses/units (including 79 in various districts, and 252 on Perseverance Island). The ministry also completed the construction of access roads which allowed the delivery of 22 new plots of land. Supporting infrastructure projects have also been completed in a few areas where land had already been allocated. These projects have benefited approximately 20 plots. In an effort to promote private sector business development, tenders will also be launched for commercial developments on Perseverance Island.

Next year construction on Perseverance Island will continue, and Government is expected to complete another 250 houses on the island. At a district level (notably Carana, Corgat Estate and Les Mamelles) Government is expected to deliver another 60 units.

Government is also ploughing ahead with work for infrastructural developments on Eve Island and address certain sewerage problems in a few Government housing estates.

The Government also anticipates completion of the project for road building at the Ex-Deltel Land Bank.

l) Essential Services

Provisions have been made to improve the fire-fighting services on the islands of Praslin and La Digue. Both projects should be completed in 2013.

The 2012 Budget makes provisions for the Seychelles Fire and Rescue Agency to purchase in a new Heavy Duty Fire Tender in 2012, and another in 2013.

The Budget has also made provisions for our first Command Centre for the Department of Risk and Disaster Management. This will give us scope to better co-ordinate rescue operations and emergencies, especially those following natural disasters. The centre will be co-financed by the European Union and the Government of Seychelles.

m) SEYPEC's Storage Capacity

Seypec is already underway with the implementation of its project to increase its storage capacity of LPG. This project is cost 1.8 million euros and will allow the company to stock an extra 1,950 m<sup>3</sup>, or a total storage capacity of almost 8 months worth of consumption.

n) Reclamation

During the last reclamation project which built a number of the islands I have referred to in this Speech, we built a stockpile of more than 4.8 million tons of coral fill. Over the last 12 years, consumption of coral fill by the private sector has been almost 400,000 tons per year. Hence, the stock has been almost completely consumed.

As you will have seen, works have started already to create the new stockpiles. Upon completion of the project, we will have a stock of 800,000 tons on Île du Port, and a further 160,000 tons on Eve Island next to Praslin. On Praslin, the benefits of this project are twofold as the dredging is also helping enlarge the Baie Ste Anne pier.

Government is investing a total of SR78m to pay for the dredger and a further SR7m for other costs associated with the dredging activity in 2012.

o) Fisheries

In 2012 the Seychelles Fisheries Authority will construct a sales stand, or market, and other facilities for fishing at Roche Caiman to make the area more hygienic and make it easier for the fishermen to moor their boats. A sum of SR 1.1m has been earmarked for the project.

Other infrastructural projects will include processing plants at Bel Ombre and Providence on Zone 6 to allow for value addition processes to take place. These projects were recently tendered and plans are being finalised for their implementation. The projects are scheduled to be completed over the course of 2012.

The construction of a fuel depot for Providence on Zone 6 is at an advanced stage. The project is expected to benefit the fishing community and facilitate their activities. All these projects are being financed by the European Union under the fisheries partnership agreement.

SFA is also working with the fishing community of Praslin to develop and improve their current facilities.

p) Submarine cable system for Telecommunications

During the course of 2011, we have seen a lot of investment in the telecommunications sector. Currently we have approximately 135 mobiles registered for every 100 inhabitants in Seychelles. This is partly why we had to change from a 7-digit system to a 6-digit system.

In 2012, we will see one of the biggest telecommunications project in our history be completed. This will be the installation of a submarine fibre optic cable between Seychelles and Tanzania. It is a Public Private Partnership project, and along with the private sector, we will be investing USD 36m. We are using equity from Government and two telecommunication companies, as well as loans from the European Investment Bank and the African Development Bank. The project will become operational towards the end of 2012.

The Government will continue to strive to find ways to modernise our ICT infrastructure to ensure that the country can bring the best telecomm facilities to households, schools and the workplace.

q) Seychelles Tourism Academy

A tender has just been completed for the construction of a new building for the Seychelles Tourism Academy. The project is estimated to cost SR 98m and will be financed jointly through a loan from BADEA and a contribution from the Government of Seychelles.

r) Agriculture Laboratory

A provision of SR 4m has been made for the construction of a soil laboratory for the Seychelles Agricultural Agency. This will help the Agency offer a better service to more farmers and members of the public in a bid to encourage local production.

s) Naval Base

A new base which cost USD 15m has been completed on the Île du Port. The project was funded by a grant from the Abu Dhabi Government.

t) Judiciary

The construction of the “Palais de Justice” has started and is expected to be complete in the first quarter of 2014. This project is being financed through a grant from the Chinese Government.

u) New Landfill

The new Providence Landfill is being financed by the European Union for a sum of €2.2m and the Government of Seychelles for SR15m. The landfill is due to become operational in the coming months.

v) Community Projects

The 2012 budget makes provision for an allocation of SR30m for small projects in the districts to benefit the community at large. This is reflected in a 50% increase over the budget allocation in 2011.

## 7. Medium Term Projections

The economic outlook for 2012 remains positive. Considering the uncertainties and prolonged recession in Europe, we are forecasting a growth rate of 4% next year. We forecast that our nominal GDP for next year will surpass 1 billion dollars.

Our inflation rate is forecasted to be at 3.5%. On the external sector, we forecast a reduction in our current account deficit to 20% of GDP. Gross international reserves are forecast to increase to USD 283m, or the equivalent of approximately 2.6 months of imports.

Mr. Speaker, despite these positive and encouraging forecasts, economic growth will be suppressed if the conditions in the Euro zone deteriorate further.

Mr. Speaker, it is important to note that despite the Central Bank having increased International Reserves, our efforts to maintain a solid base of reserves must continue. We are currently still short of the 3-month equivalent of imports that are recommended by international best practise.

Another threat with which we are faced is piracy. We need to be realistic and accept this to be a problem which will not be solved in the near future. The costs of surveillance and the costs for protection of the boats to the economy will remain for the medium term at least.

Despite the fact that Foreign Direct Investment has been slowing down, there are currently two large hotels under construction. Their presence gives us hope that our tourism numbers will continue to grow over the medium term.

The submarine cable's presence next year will also play a huge role in diversifying our economic base and creating new avenues for economic growth.

In the medium term, we forecast that our economic growth will return to a rate of 5% in 2013 and 2014. However, by virtue of being a small island state with an open economy, we will permanently remain extremely vulnerable to external developments.

## 8. BUDGET 2012

### w) Principal Objectives

The principal objective of Budget 2012 is to :

- Consolidate our fiscal position to attain a primary surplus of SR 642m
- Consolidate the social program of government
- Re-invest in infrastructure to support economic growth
- Invest in programs and projects that will improve the lives of our citizens
- Honour our debt obligations, upon which interest payments alone will come to SR 381m in 2012

### x) Main Revenue Lines

In 2012, Government forecasts collections of SR 5 billion, exclusive of grants. This represents an increase of SR 324m or 7% on the 2011 figures. This represents 36.8% of GDP. Revenues are collected primarily through tax. These taxes are as follows:

#### i. Income Tax

Mr. Speaker, in 2012, we forecast collections of SR 645.8m through income tax on all workers in the country. This tax, which is calculated based on a worker's salary, is charged at a rate of 15%.

ii. Trades Tax

Trades Tax is greater than 0% on only 6% of the various types of products that can enter the country. 94% of items enter at a 0% rate. In 2012, we forecast a collection of SR 446m through this tax.

iii. Excise Tax

This tax is levied on only 4 specific products: alcohol, cigarettes, fuel and vehicles. In 2012, we forecast collections of SR 737,6m through this tax.

iv. GST and VAT

GST will only be in operation until the end of June 2012, at which point it will be replaced by VAT. In 2012, we anticipate collections of SR 751.1m for GST and SR626m for VAT. Combined, these taxes will generate SR 1.377 billion.

The main change in policy in this tax concerns the tourism sector which commencing 1<sup>st</sup> of November 2011 is charging a 15% like other services. This change is anticipated to account for an extra SR 130m in revenue in 2012.

v. Business Tax

Business Tax is one which is charged on the profits of a company. There is no significant change to the structure of this tax next year, and we are forecasting collections of SR 778m.

vi. Other Tax

This line covers taxes such as Road Tax, License Fees for business or industrial fishing vessels, Stamp Duty and numerous others. In 2012, we forecast that this line will bring in SR 287m.

vii. Pension Fund Contributions

Mr. Speaker, we forecast contributions to the Seychelles Pension Fund will be SR 97m in 2012.

viii. Non-Tax

Non-Tax revenues include fees and charges and other government receipts. This lines is anticipated to generate SR



615m in 2012. This will include dividends from companies in which Government has shares, such as Nouvobanq, Seypec, STC and others.

## 9. EXPENDITURE

### y) Main Areas

In 2012, we are proposing a budget of SR 4.8 billion.

This represents an increase of SR 232m or 5.1% above the revised 2011 budget numbers. The SR 4.8 billion represents 35.3% of GDP.

I am proposing an allocation to the Ministries and Departments of SR 1 billion 614 million 305 thousand rupees.

A sum of SR 248.887m for Government Agencies involved with the provision of services.

I propose the following allocations :

- SR 314.581m for the Transfers to Social Programs of Government which includes SR 7m for the Children's Special Fund
- SR 20m for the Concessionary Credit Agency for small loans for small businesses
- SR 475k for the Red Cross Society
- SR 2m as the contribution to Religious Organisation
- SR 1m for LUNGOS
- SR 2m for CARE
- SR 107.048m for Tertiary Education Training
- SR 100.696m for the Social Safety Net
- SR 11.908m for the NHRDC Training Fund

- SR 1m for the Early Childhood Care and Education Trust Fund
- SR 1.2m for the Chamber of Commerce and Industry
- SR 4m for the Social Protection and Empowerment Program
- SR 882k for contributions towards NATCOF
- SR 20.548m for the Fuel Incentive Scheme for Fishermen
- SR 600k for the Seychelles Football Federation

I am proposing an allocation of SR 672m 61k rupees as transfers to the Public Sector. This includes a sum of SR 299.322m rupees to public entities with a regulatory function such as: Licensing Authority, Qualifications Agency, Human Rights Commission, Office of Fair Trading, Media Commission, Energy Commission, National Tender Board and others.

I am proposing an allocation of SR 85.098m towards organisations with a social mandate such as the youth commission, Sports Council, Children’s Council, Children’s Home Foundation, Arts Council, Council for the Elderly, Council for the Disabled, Council for Nurses and Midwives, AIDS Council.

I am proposing an allocation of SR 70.783m as contributions towards organisations with a development mandate such as: Tourism Marketing Fund (STB), Praslin Development Fund, La Digue Development Fund.

I am proposing an allocation of SR 60.250m as contribution towards organisations which have a communication and education mandate such as SBC and ALDEC.

I am proposing an allocation of SR 156.609m as subsidy to Public Enterprises and the entirety has been budgeted for to Air Seychelles. Air Seychelles’ financial year starts of the 1st of April and ends on the 31<sup>st</sup> of March. This allocation of SR 156.609m will be to support Air Seychelles between the period of January to March 2012. A portion

of the funds will cover their operating costs and another portion costs for their redundancy packages.

There are a number of projects in Government's plans that have been temporarily sidelined in an effort to have sufficient funds to assist Air Seychelles.

I propose an allocation of SR 370.843m towards payments for Benefits and Approved Programs of the Social Security Fund which include:

- Benefits for citizens aged 63 or above – a sum of SR 203.590m
- A sum of SR 41.156m for Home Carers Scheme
- A sum of SR 3.5m for the Specialised Treatment Scheme for Children under the age of 12
- A sum of SR 3.829m for Post-Secondary student allowances
- A sum of SR 20.660m to cover SPTC transportation costs for old age pensioners and post-secondary students
- A sum of SR 3.522m towards Dedicated Funds for Assistance to school students
- A sum of SR 44.4m for workers who took early retirement under the Early Retirement Scheme at the age of 55. This sum is transferred directly to the Seychelles Pension Fund and is paid directly to beneficiaries.

z) Independent Institutions

The fifth generation of the National Assembly continues with reforms to modernise this institution and to further the cause of democracy. A budget of SR18.2m is proposed to allow that the elected members will be provided with the means from the parliament to pay for rent of an office in their respective districts. This budget will cater for other related costs such as those of utilities.

Most importantly, the reforms have shown the necessity to cater for a Constituency Clerk in each district employed and paid by the National Assembly.

### Judiciary

We are proposing SR31.5m for 2012 which represents an increase of 21.9% compared to the 2011 budget.

This will cover for legal aid and outsourcing of secretarial and documentation services to clear a built up backlog. There will be more manpower employed and a new scheme of service will be implemented.

Furthermore, an addition of SR 2.5 million under judicial emoluments has been allocated to recruit three additional judges and three additional magistrates. Government is also financing three magistrate courts near the Palais De Justice. This project is forecasted to be complete by mid 2012.

### Auditor General's Office

The European Union has allocated Euro 1 million for technical capacity. Approximately 50% of the grants will be used in building capacity of the Auditor General office in performance audit and in assisting the Public accounts and finance committee of the assembly in their role in scrutinizing Government spending.

#### aa) Wages and Salaries

Government is allocating SR 1,029.5 million in 2012 compared to SR 935.1 million of the revised 2011 budget which is SR 94.4 million or 10.1 percent increase. SR 31.8 million will be needed for schemes and upgrading of posts.

bb) Goods & Services

The total allocation under Goods and Services is 1.08 billion rupees compared to 1.02 billion for the revised 2011. This represent an increase of 5.4 percent.

The increase in utility tariff will costs Government an additional SR 15.5 million in 2012.

Department of Defense will receive an increase of SR 12.5 million mainly of the recurrent implication of the additional grants received in 2011. These are the naval base, ships helicopter and aero plane.

Ministry of Education, Employment and Human Resources will be allocated a total of SR 127.4 million under Goods and Services which represents an increase of SR 12.2 million or 10.6 percent on the revised 2011 budget.

Ministry of Health is receiving the highest increase under Goods and Services. A total of SR 239.1 million which represents 22.2% of the total Goods and Services allocation compared to only 20.4% of the total Goods and Services allocation for the 2011 revised budget.

The increase will be needed for the recurrent implication of the Diagnosis Centre and Wellness centre. Furthermore Ministry of Health has seen an increase of Haemodialysis patients from 86 in 2008 to 98 in 2011 and spending of SR 13.2 million per year on average for haemodialysis supplies.

Thus a total allocation of SR 93.2 million has been allocated for the procurement of drugs, haemodialysis supplies, laboratory supplies anesthetic costs, medical and radiology supplies compare to SR 81.3 of the revised 2011 budget which represent 15% increase.

Ministry of Foreign Affairs has seen a substantial increase of 38.3% in the 2012 budget compare to the 2011 revised budget. This is mainly to pay for the operational costs of foreign embassies.

## 10. Expenditure by Large Ministries

Mr Speaker, I will present details of 2 of the largest ministries

### cc) Education, Employment and Human Resources

Mr. Speaker in the 2012 Government has provided a total of SR 657 million to the education sector which represents 4.9% of GDP or 12.7% of the total expenditure 2012 budget.

#### ix. Wages and Salaries

In 2012 we are proposing an allocation of SR 269 million for wages and salaries. This represents an increase of SR 23.7 million or 8.8% on the revised 2011 estimate. In 2010 we implemented a new teachers scheme of service and in 2012 in conjunction with the Department of Social Development, a new scheme of service for school counselors.

We are proposing additional scheme of service for education head quarters personals, laboratory technicians and school librarians.

In addition the Department of Employment and Human Resources will implement a new scheme of service.

These schemes of service will costs around SR 5.2 million. In addition, R 7.8 m has been catered for the recruitment of additional personnel.

A provision of R1.4m has been made for the Department of Employment to cater for the salary of fifteen returning graduates from overseas in the education sector.

x. Goods and Services

An allocation of SR127.4 which represents 11.8% of the Goods and Services Budget has been proposed for this ministry.

Of this amount, SR74.9m or 58.9% will be for specific costs such as:

- Purchasing of stationery in bulk SR8m
- Outsourcing of Uniforms SR7.5m
- Purchasing of text books in bulk SR4.0m
- Exam costs SR6.8m
- Outsourcing of security, cleaning, school meal and Youth Hostel SR35.1m
- Education reform SR4.5m

dd) Health

Mr. Speaker in the 2012 Government is allocating a total of SR487.8m to the health sector which represents 3.6% of GDP or 9.4% of the total expenditure 2012 budget. This is an increase of SR37.6m on the revised 2011 budget.

xi. Wages and Salaries

In the 2012 budget, we are proposing SR 184.9 million under wages and salaries which represent 18% of the total 2012 wages and salaries allocation. This is mainly for additional recruitments, upgrading of posts and salary enhancements.

xii. Goods and Services

Mr Speaker Ministry of Health will once again receive the highest allocation under Goods and Services. We are proposing SR239.1m for the 2012 budget under Goods and Services which represents 22.2% of the total 2012 allocation of Goods and Services.

The allocation under specific cost is SR151m which represent 63% of the Ministry's Goods and services and are mainly for the following:

- Medical Supplies SR27.6m
- Anaesthetic Costs SR7.2m
- Drugs SR33.4m
- Laboratory Supplies SR11.5m
- Haemodialysis Supplies SR10.5m
- Radiology Supplies SR3m
- Specialized Treatment Fund SR13.7m
- Outsourcing Services of security, laundry services, and food supplies SR29.3m

xiii. Infrastructure Development

A total of SR 60.8 has been allocated in the 2012 which represent 7% of the total 2012 capital projects allocation. These projects will be partly finance by OFID, BADEA and Government of Seychelles.

Government will start the procedures for a new health centre at Ile Perseverance. Government is also allocating some funds for the maintenance of Anse Aux Pins and Les Mamelles health centers and the renovation of outpatient (old hospital) at Anse Royale.



## 11. Public Debt

Mr Speaker, one of the key pillars of our reform which we began in 2008 was to ensure that the country's national debt was put back on a sustainable footing.

You will recall that at that time, our external debt was \$751m and domestic debt was \$304m; total debt was thus \$1.055b; our GDP was then \$824m which thus gave us a debt to GDP ratio of 128%.

Today, we have worked together to change this situation. According to September 2011 figures, our domestic debt was SR4.3b or \$352m. Our external debt, however, had reduced by over \$295m to \$456m. Our total combined debt is thus \$808m.

Measured against today's GDP of \$965m, our current debt to GDP ratio is thus 84%, a substantial reduction from 128%. We remain fully committed to reduce our debt to GDP ratio to 50% by 2018.

This large reduction has only been possible due to our combined effort in the reform. This has been the history of our debt, this is the commitment we have given to our partners. We must remain credible in the eyes of the world.

It is very important that we always adhere to policies that allow for sustainable debt management. Our reputation is key and we must always be associated with credibility and success.

Mr Speaker, the annual external debt ceiling for 2012 for the Government is \$45m. This is a reduction of \$2m on this year's external debt ceiling.

## 12. New Measures and Policies

### ee) Price Revision

We have seen how the prices of fuel have varied during 2010. Every time this happened, this affected the financial positions of some key organisations whose cost base are dependent on fuel; such entities include SPTC, PUC and SEPEC.

Between Jan 2007 and July 2008, the price of a barrel of oil went from \$50 to \$140. Our fuel import cost went from \$59m in 2008 to \$80m. Early this year, the price had reached \$90 a barrel, in April of this year it was \$120. Fuel oil that PUC uses to produce electricity was selling at \$511 per ton in Jan 2011; today it is fetches %755 per ton, an increase of 47%.

The cost of fuel imports for Seychelles in 2011 will reach a new record of \$103m; this is equivalent to 10% of our GDP and more than a third of all hard currency that the tourism sector will generate this year.

It is for such reasons that we have decided to allow the prices of commodities of these 3 organisations to fluctuate based on their actual fuel cost base.

This is necessary to avoid any risks to the finances of these organisations.

PUC and SPTC will also review their prices regularly to take into account their fuel cost base. SEPEC will also need to do the same including reviewing the price of LPG which is used by everyone including hotels and the industry in general. It must be noted that SEPEC is presently investing in infra-structure projects such as the construction of the new Grand Anse Mahe petrol station and the construction of 5 new tank-tainers on Mahe.

ff) Contribution to Pension Fund

You may recall last year when I referred to pension contributions and the need to ensure that the Fund is sustainable.

You will recall also when I announced a measure to introduce a 1% contribution from Jan 1, 2011. Employers also had to contribute 1% making thus a total of 2% as contributions.

In 2012, the new combined contribution will be 3% of gross salary as follows:

Employee: 1.5% 'gross salary'

Employer: 1.5% 'gross salary' or SR50, whichever is higher

Self-Employed: 3% of the declared salary or SR 100 whichever is higher

The Seychelles Pension Fund will provide more details on this contribution method soon.

Mr Speaker, the contribution that each of us makes should be dependent on our salary level. We must not forget that the Pension Fund must always remain healthy so that it can respond to your needs when you become a pensioner.

Mr Speaker, as I said last year, the contribution that each of us makes towards pension is our own contribution which will go towards our own pension tomorrow.

gg) Contingency

We are replacing the Stabilisation Fund by the Contingency Fund. An allocation of SR75 is proposed for this Contingency Fund. This will cover for expenses which may be triggered by the following:

- Any substantial increase in the price of fuel products and food
- Natural calamities

- Costs related to piracy operations

hh) Commercial Court

Another measure envisaged is the creation of a commercial court. This will be a special court to deal with commercial disputes. The setting up of this commercial court, expected by March 2012, will be a positive development in our effort to improve our business climate as it will reduce the time it takes to resolve commercial disputes.

ii) Stock Exchange

In 2012, Seychelles will launch its first ever stock exchange. This will be a new product on the financial market; it will provide Seychellois and the public in general with an opportunity to invest in companies listed on the new exchange. It's also another vehicle to allow entrepreneurs to raise finance for their businesses. The Stock Exchange will be supervised by the Central Bank under the Securities Act.

This development is an important step forward in the drive to modernise our financial sector and offer more value adding services within the economy.

jj) Leasing

As part of measures to develop the financial sector, Government will in 2012 propose legislation to the National Assembly that will allow for leasing and hire purchase activities in Seychelles.

kk) Insurance

As from Mar 1st 2012, regulations will be passed to make it mandatory that all companies operating in Seychelles and whose physical assets are based in Seychelles be obliged to take insurance policies from locally licensed insurance firms.

## II) VAT

Mr Speaker, as of July 1<sup>st</sup> 2012, the VAT tax law will come into force. This tax replaces the existing GST.

This tax is similar to GST except that it is more consistent with what exists in many small countries as well as some industrial countries particularly in Europe.

The VAT rate is set at 15%. All businesses whose annual turnover is in excess of SR5m will be required to register for VAT. This new system will also allow for voluntary registration by companies whose turnover is less than SR5m.

### mm) GST on some specific products

As from Jan 1st 2012, GST will no longer apply on:

- Baby food
- Pampers
- LPG or cooking gas
- Musical instruments
- Books, periodicals and magazines

The specific import codes applicable to the above will be published soon.

### nn) TIA ek AFIA

There are a number of businesses today holding certificates under the Tourism Incentives Act) and the AFIA (Agriculture and Fisheries Incentives Act) and which will expire in Dec 2011. Government will extend this expiry date to June 2012 such as to co-incide with the introduction of the VAT.

oo) Public Finance Act

In 2012, we will propose legislation to the National Assembly with the view to modernise our public finance law. This new law will come into effect as from January 2013.

pp) Agency for Social Protection

Mr Speaker, Government places strong emphasis on the protection of the most vulnerable within our society. Today we have a welfare agency that caters for welfare assistance. We also have the social security fund that administers benefits under the social security act.

As from January 2012, both activities will be merged under one organisation called the Agency for Social Protection. This new agency will be created under a new law which will be proposed to the National Assembly next month.

qq) Savings Bank

The Government will offer more shares of the Savings Bank to the Seychellois public in 2012. You will recall that the first phase of the sale offer has been done. The second phase will allow individuals and companies to buy shares not sold under the previous offer. The bank will also change its name to Seychelles Commercial Bank.

rr) Sale of Government Shares in companies

Government will be selling its minority shares in 3 other companies: SACL, Land Marine and Naval Services. Details on this will be announced soon.

ss) Housing Policy – HFC

Next year, a new housing finance policy will be implemented. The right of every Seychellois to adequate housing remains a fundamental objective of this Government.

Under this new policy, the new role of HFC will be defined. HFC will have a new mandate and its role will be streamlined.

Mr Speaker, under this new housing finance policy, Government will work closely with financial institutions so that they may play a more active role in providing finance to the housing sector.

tt) DBS

As of April 2012, DBS will be re-organised as an ordinary company under the Companies Act. It will adopt a charter which will define its role as a modern development bank.

uu) Board of Trustees - SSF

The Board of Trustees (SSF) was established to manage the investments of the SSF. The income from such investments will be used in the social protection of our citizens. In 2012, SR25m of this fund will also be invested in the Pension Fund.

vv) Natural Disaster Fund

As from Jan 2012, a new fund with SR10m will be set up to with the aim of carrying out rehabilitation that may be required as a result of natural calamities in the districts.

ww) Marketing Fund

The Marketing Fund budget will be increased to SR45m from January 2012.

xx) Small Housing Loans

You will recall that Government initiated a new facility through HFC to provide financing of up to SR25k. Such monies were directed at small housing repair needs through small loans. In June of this year, the limit on such loans was raised to SR50k. As of next year, Government will inject a further SR10m into this scheme. It must be noted that only individuals with a salary of less than SR8k after tax would qualify for this scheme. The interest charged on such loans is only 3% with a tenor of 7 years.

yy) Laptop Scheme

In 2012, we will introduce a scheme to assist post secondary students gain access to financing to purchase a laptop. Such financing will provide for SR3k of direct contribution from the Government to the supplier against SR5k invested by the student.

Details of this scheme will be announced soon.

zz) Agriculture

In 2012, STC will set up a system to allow farmers to sell their products to STC at a published price which is revised every quarter. STC will also reduce on the quantities of chicken that it imports.

This measure is necessary to promote local agricultural production.

A unit will be created under STC to work in the interest of local farmers and sensitise the market on buying local produce and the need to support local production.

aaa) Minimum Salary

The minimum wage level is being revised from SR19.80 to SR21.00 per hour for all workers other than casual. The rate for casual workers will be raised from SR22.80 to SR24.20 per hour.

bbb) Salary Increase for Home Carers

An increase of SR200 per month for home carers will come into effect as of Jan 1<sup>st</sup> 2012.

ccc) Salary Increase in Government

In line with current policy, all increases in wages and salaries within Government are implemented through the wage grid. From Jan 1<sup>st</sup> 2012, the wage grid will reflect the following increases:

a) SG 1 to SG 4 – an increase of 6%

b) SG 5 to SG 8 - an increase of 4%



- c) SG 9 to SG 12 - an increase of 3%

ddd) New Schemes of Service

In line with fiscal targets in 2012, the new schemes of service will be implemented in 2 phases; some ministries, departments and independent institutions as of January 2012 whilst others in July 2012.

The following ministries, departments and independent institutions will implement their new schemes of service as of January 2012:

- a) Department of Employment
- b) Ministry of Land Use and Habitat
- c) Seychelles Land Transport Agency
- d) Seychelles Fishing Authority
- e) Seychelles Planning Authority
- f) Judiciary

The departments whose schemes of service will be implemented in July 2012 are as follows:

- g) Department of Information, Information Communication and Technology
- h) Department of Police
- i) Department of Education (Lab technicians, staff Head Quarters and Librarian)
- j) Seychelles Agricultural Agency
- k) Seychelles Bureau of Standards
- l) Ministry of Finance and Trade

- m) Department of Culture
- n) in all ministries and departments: Procurement Cadre, Accounting Cadre, Human Resources and Administration Cadre and IT Cadre

eee) Increase in Pension

Mr Speaker, I am pleased to announce an increase in retirement pension effective from 1<sup>st</sup> January 2012 in accordance with Section 46 of the Pension Fund Act, 2005.

The Schedule of Benefits has also been revised to reflect this increase of 5% from January 2012. The other benefits such as incapability pension, children's pension and surviving spouse's pension have been increased corresponding to the increase in Social Security benefits.

fff) Increase in Social Security Benefits

With effect from January 2011, all social security benefits will increase as follows:

	From	To
Orphan Benefit	1,200	1,280
Invalidity Benefit	2,300	2,440
Injury Benefit	2,000	2,120
Survivor (widows) Benefit	2,000	2,120
Sickness Benefit	2,000	2,120
Maternity Benefit	2,000	2,120
Retirement Pension	2,400	2,550

### 13. CONCLUSION

We have witnessed in 2012 some extraordinary events; two elections that have confirmed once again that the work being done by Parti Lepep under the leadership of President Michel for the Seychellois nation and Seychelles is well appreciated by the majority of the Seychellois people.

The other event was the Indian Ocean Island Games where the people of Seychelles rallied with national fervor to support our athletes.

As we face another year full of uncertainty, our Government offers the people of Seychelles continuity in economic direction as well as stability.

Mr Speaker, the budget 2012 reflects a serious approach recognising the difficulties and fragility the worldwide situation ahead.

Through the budget 2012, we remain firmly committed to continue to transform the Seychelles economy with the aim of ensuring a shared prosperity.

We would like to stress to all Seychellis on the need to work even harder and that we must remain united in the wake of any storm. This stance and our unity will remain key to our success.

Mr Speaker, it is for this reason that the 2012 budget is one to sustain our economic progress.

I would like to thank the President of the Republic for his guidance and support for the people of Seychelles and Seychelles. I thank him for his guidance and support. I would also like to thank my colleague ministers and their respective teams.

I thank my staff in the Ministry of Finance for their teamwork, steadfast professionalism and motivation to succeed for the Seychelles economy.

I would like to congratulate members of the private sector and civil society who are truly making their presence felt for the country and its people. Thank you for your collaborative spirit.

And thank you to all the members of the National Assembly and yourself Mr Speaker.

I would like to thank the people of Seychelles for their confidence in the economic direction of Seychelles.

I now commend the Appropriation Bill 2012 for the approval of the National Assembly.

Thank you.