**Budget Speech 2011**

**by Vice President, Minister for Finance Danny Faure, December 7, 2010**

***Re-investing in the Seychellois people***

Mr Speaker

Leader of Government Business

Leader of the Opposition

Honourable Members of the National Assembly

Distinguished Guests

Seychellois Brothers and Sisters

1. Introduction and Pre-amble

People of Seychelles, I am presenting this budget to you at a time when the economy is back into growth, where the world economy is slowing down and where the economy in the “Eurozone” where most of our tourists come from is going through difficulties.

If our economy is improving in this way, it is thanks to the hard work of our people. Today, people of Seychelles, I can say that we have succeeded together to achieve the principal objectives of our macro economic reform program in Seychelles and that is macro economic stabilisation.

We have eliminated the black market. We have the hard currency in the banks.

We have brought inflation under control; prices have stabilised.

We continue to increase the reserves of the Central Bank; we have in excess of two months’ reserves today.

We have re-structured our debts. They are now sustainable.

We have maintained fiscal discipline. The budgetary surplus will be 9.4% of GDP this year.

All of this has created favourable conditions. Our growth rate this year will be 6.2%.

In our effort and ambition to bring the Seychelles’ economy to this level today, we know that some personal plans of our citizens have been sacrificed, some projects and some programs have not materialised.

People of Seychelles, all your effort and courage was centred on the bigger picture. That was the economy of Seychelles and the future of the people of Seychelles.

People of Seychelles, we did this journey together. Today, the economy of Seychelles is going in the right direction.

The time has come for us to re-invest in our people, share with them the fruits of success. The time has come for us to re-invest in Seychelles. We will not be able to everything at once. Some will be done next year, others in the following year in line with our development plan.

From next year, we will increase the allocation to priority sectors that will benefit all Seychellois. We will give more resources to the social sector with the aim to increase the quality of service to the people. We will put more money in programs that will help to improve the lives of our citizens who have struggled to bring Seychelles to where it is today. We will put money in protecting those who are more vulnerable. We can only do this because we have worked hard together to grow our national cake.

2. Budgetary Performance 2010

Mr Speaker, our fiscal performance in 2010 has surpassed all our targets. This in fact allowed us the fiscal space to spend that extra money mainly to cater for major investment needs that this country needs to sustain its growth.

This year, we are likely to achieve a primary balance surplus of around SR1 billion which represents 9.4% of GDP. This is 2.4% above of the budgeted primary balance of 7.0 %.

The government expects to collect SR 4.1 billion in revenue, exceeding projected target by 18% or over SR 603 million. This comes mainly from five main revenue streams:

Excise Tax is showing an increase of 14%, mainly due to a boost in imports, namely for Alcohol (Beverages, Spirit and Vinegar), Petroleum (Mineral products) and Vehicles.

Goods and Services Tax, is expected to be 25% above estimates. Alcohol shows a 108% increase under Locally Manufactured Goods. On the Services side an increase of 38% is expected for Professional Services and 4% in Tourism due to expansion in the industry. We anticipate over 40% increase in GST for Imported Goods. Business Tax is expected to show a 33% increase mainly due to intense compliance work by Seychelles Revenue Commission. A 20% increase in collection for Other Taxes is anticipated mainly on account of an increase in Stamp Duty collection. Dividend from our Investments is expected to be 128% above estimates on account of higher dividends combined from

Nouvobanq and Indian Ocean Tuna.

On the expenditure side, the trend suggests that both recurrent and capital expenditure will be above budget. The targeted expenditure was SR 3.6 billion whilst we expect to complete the year with an expenditure of SR 3.9 billion or 7% above the budgeted amount.

Mr Speaker we spent more because we earned more and thus had fiscal space where we have provided additional funds for schemes of service for certain ministries to the tune of SR 32 million and also funds for preordering of school materials in preparation for the 2011 academic year for Ministry of Education which costs SR 10.5 million, amongst other expenditure.

On the Capital side, the increase was to provide for the Ile Perseverance Housing project, the Indian Ocean Island Games infrastructure project, development grants for Seychelles Broadcasting Corporation and Seychelles Land Transport Agency. SBC, one of the benefactors has received SR9.6m for the Digital Television Project, SR 3.8 million to

relocate their AM antenna and SR 3 million for their OB van which does live broadcast from public events.

3. Economic Developments in 2010

a) Real Economy and External Sector

i. External Sector

On the external front, most analysts are of the view that the global economy is recovering, even though the growth remains very fragile. According to the IMF World Economic Outlook (WEO) - October 2010) - “economic recovery is proceeding broadly”, despite existing concerns that the downside risk remains high. Domestically, all indicators point to a strong pick-up in the Seychelles economic in 2010. According to the latest forecast real GDP is projected at 6.2 per cent this year, compared to the original projected 4 per cent. The primary sources of growth are tourism, communication as well as construction activities, with the latter partly influenced by an expansion in FDI.

Moreover key domestic production like beverage and food processing, have also increased.

ii. Tourism

Tourism, which contributes 25.5% of our GDP, and the biggest employer in the country, has performed well in 2010. At end- November, year-to-date visitor arrivals amounted to 159,141, representing an increase of 11 per cent compared to the same period in 2009. This figure has already surpassed total arrivals in 2009. This trend is expected to continue for the remainder of the year, even though tourism earnings are not expected to follow the same trend given continued discounting by operators during 2010. Despite this, I need to point out that we do not foresee a comparable increase in the expenditure per tourist. On the whole, in that same period foreign exchange inflows rose to US$338 million in 2010 from US$257 million in 2009 partly due to foreign direct investment flows.

iii. Manufacturing

A combination of greater demand on the local market and improved access to foreign exchange allowed the manufacturing sector to improve this year compared to 2009.

Production of canned tuna for example increased by 2% whilst that of block production increased by 18% which shows a strong increase in the construction sector.

Projections for canned tuna production are optimistic for 2011 whilst projections for construction are expected to slow down.

iv. Construction

Activity in this sector increased and was influenced by the project at La Misere as well as other FDI related projects.

Some of the bigger construction companies have then reinvested in residential projects or those geared at retail. Whilst we believe the sector will slow down, we will continue

to see activities around new FDI projects and other local investments.

b) Monetary Sector

One of the most impressive indicators of the economic stability has been inflation, which remained virtually flat during 2010, reflecting the success of our monetary policy. The easing of inflationary pressures have been due largely to intense competition in the trade

sector, which has allowed the country to counter the threats of rising international food prices, as well as the euro crisis, which in the middle of this year caused the rupee to depreciate somewhat against the US dollar. The year on year inflation figure as at October 2010 was negative 0.2 per cent.

In view of the stability of the external sector, the traded value of the rupee has remained stable against most major currencies and at about R12 per US dollar. The further stability in the traded value of the rupee has helped to boost confidence in our SR. Official international reserves have continued to grow at a strong pace. As at mid-November 2010, gross reserves stood at US$211 million, equivalent to around 2 months of imports, compared to US$169 million or 1.6 months at end-2009. Net international reserves by mid-November 2010 amounted to US$182 million, which was US$14 million above the end-December target under the reform program.

Mainly as a result of our fiscal surplus, interest rates have fallen further during 2010. Average treasury bills rates fell to around 2 per cent by mid-November this year compared to 4 per cent at the same time last year. Commercial bank lending rates have also fallen, although I note here that it is at a much slower pace than that of Treasury Bills, standing at 12.2 per cent in September 2010 compared to 14.9 per cent in the previous year. An important contributing factor was a reduction in July of the prime lending rate to 7.0 per cent by the two government-owned banks, namely Nouvobanq and the Savings Bank. Average interest rates on savings deposits fell to 1.7 per cent in September 2010 compared to 1.9 per cent end-December 2009.

Despite a reduction in the spread between the lending rate and savings rate, the spread remains high at around 10 per cent, which is higher than the spread level before the economic reforms were launched in November 2008.

Following a slowdown in economic growth in 2009, growth in credit to the economy has accelerated this year, by 11 per cent at end-September 2010 compared to the same month in 2009. The bulk of the additional lending has gone to tourism projects, trade activities, mortgages as well as expenditure of private households.

Concomitantly with the growth in credit to the trade sector, and coupled with large foreign direct investment inflows, imports have also increased in 2010, though at the expense of a widening of the

current account deficit.

The retirement of our domestic debt has increased the liquidity of

commercial banks, which we had anticipated would lower the lending rates. This has not yet happened, and I will talk about the measures for addressing lending rates later in the presentation.

Another major challenge for the financial system is the lack of

competition in the banking sector, which is hampering credit growth and the development of the banking sector.

4. Outlook for 2011

Looking ahead, due to its openness, and its heavy reliance on tourism, the Seychelles economy will remain vulnerable to external shocks. So the growth prospects will to a large extent remain dependent on the performance of the global economy and especially the euro zone where the majority of our tourists come from.

According to the latest IMF World Economic Outlook, global output is projected to grow by around 4.2 per cent in 2011. However, in the euro zone from where the majority of visitors originate to come to Seychelles, the estimated expansion in GDP is around 2 per cent.

Whilst inflation has thus far remained well under control, the projected economic expansion will at some point begin to begin to add to inflationary pressures. The CBS will thus need to stand ready to adjust monetary policies to maintain the low inflationary environment should the need arise.

5. Threats against our economy

c) Developments in the Euro Zone

Mr Speaker, I mentioned earlier that our economy is dependent on

tourism. Since more than 75% of our tourists come from Europe,

economic developments from that region play a key role in our

tourism development. Recently we have seen some European

countries take drastic measures to address their economic problems.

Whilst our budget and forecasts within the tourism sector are based

on the global outlook published by the IMF and the World Economic Outlook, we all hope that there are no negative surprises from Europe in 2011.

d) Piracy

Piracy in our waters continues to pose a real threat to our economy.

The tourism sector and fishing especially have been affected and the cost of imports has also increased due to insurance for cargo bound for Seychelles increasing.

According to recent estimates, the cost of freight for SEPEC alone and the cost of diversion will cost over $1.5m and that for other cargo vessels is approximately $3m.

Other charter vessels and the tourism industry in general will lose

another $8m; we estimate the fishing sector will lose another $4m.

This means that piracy will cause Seychelles to lose almost $17m or SR200m in a year if you then add the cost of patrols within our

territorial water.

e) Social Ills

We are seeing changes in behaviour which manifest in different ways.

These changes are creating social ills in our society such as drug and alcohol abuse which in turn adversely impact on the society and families. When a parent is addicted to drugs, he is less able to

provide his child with basic home care which is needed. In this vicious circle, there are other consequences that follow which cannot be measured economically but which have a significant impact on us.

It must be noted that Government is spending a considerable sum to address a number of different illnesses such as Hepatitis B and C.

Hepatitis C is increasing alarmingly; in 2009 there were 37 cases and from January to October this year, 50 cases have been registered. The cost of treating a Hepatitis C patient is over SR10,000 per month.

The common way of transmitting this disease is through the

exchange of syringes and needles which are contaminated.

More people are going through depression. Mental health illnesses

are on the rise. Today over 300 cases are being treated by the

Ministry of Health and it costs them more than SR4,000 per month

for every case. It is even more expensive when you add the cost to

the family, the community and the society in general.

Productivity is also affected through absenteeism and irregularity of attendance at work, theft and crime of varied levels often to fund addiction. 40% of our prisoners are jailed because of theft.

Government will make provision for SR12.8m to continue to sustain and collaborate with different civil and religious organisations as well as Governmental organisations.

The solution lies with all of us, in the way we behave and the

decisions we make everyday. This is not the time to pass blame or

judgement. We must accept that the solution lies with all of us, in our behaviour and our everyday way of life.

6. Review of key economic sectors

Mr Speaker, I will now make a review of some key development sectors.

f) Agriculture and Food Production

This sector is one with many challenges. Government will continue to work with all stakeholders in order to implement its policy on food security.

After the liberalisation of pork and poultry importation, Government moved out of all food production businesses such as animal feed, slaughter and hatchery. These investments as well as a stock worth SR500 thousand were handed over to the Seychelles Marketing Cooperative for a nominal value of SR1.

The idea was that these businesses would be better managed to

benefit its members and prices would come down so that consumers would get better products at reasonable prices.

The reality was not quite that as farmers continue to compete

against imported meat.

We hope the Co-operative can use resources of the Livestock Fund

that today has accumulated SR11m to assist farmers meet up to this challenge.

This sector has numerous challenges. Government must continue

work with the sector to implement a sound policy on food.

g) Fisheries

Fish transhipment and landing in Port Victoria which had reduced by 15% in 2009 (from 250,523 tons in 2008 to 211,594 tons) is expected to increase in 2010.

Fishing in the artisanal sector is expected to stabilise in 2010 and we expect to see a small increase over 2009.

This has come as a result of the effort that Government and its

partners continue to make in fighting piracy which continues to destabilise our economy.

Receipts from exports fell by 34%, from SR2.5b for the first three

quarters of 2009 to SR1.8b in the same period of 2010.

As regards investments in infra-structure, Government’s engagement to continue to develop the sector has been well demonstrated this year. In June this year, SFA took delivery of 2 new facilities for the fishing community and the people in general – Providence Fishing Quay Zone 6 and the Ice Plant at Bel-Ombre.

Both these projects were financed by grants from the Japanese

Government.

There will also be facilities to allow fishermen to purchase fuel. This second phase will start early next year.

When repair works on the artisanal fisheries port will be completed, there will be 80 metres of quay space for boats to use. This will give more berthing space for larger vessels which will relieve pressure for the rest of the port. This project is being financed by the Japanese Government through the World Bank.

h) Tourism

As tourism remains the principal pillar of our economy and taking

into account the difficulties in the European market, Government will continue to invest in this sector. We are proposing SR25m for the Marketing Fund, SR39m for the Seychelles Tourism Board and SR14m for the Seychelles Tourism Academy.

Of course, we will continue to work with our partners in the private sector to ensure that this industry continues to expand in a

sustainable way and continues to create employment opportunities

for our youths in this noble industry.

i) Small and Medium Sized Enterprises

In 2010, the Concessionary Credit Agency (CCA) assisted 364 small and medium-sized businesses by providing SR23m worth of financing.

In 2011, we will continue with this policy which underscores the

importance we attach to this business segment and the role it plays

in our development. We are proposing another SR20m in this fund.

j) International Business

The offshore industry continues to grow at an impressive rate and

SIBA recorded a 35 percent increase in its revenue, 12 percent

increase in companies incorporation compared with last year and

paid a total dividend of SR30m to Government in 2010 .

In 2010 the sector introduced ‘foundations’ as a new product which has seen the incorporation of 29 of these with demand expected to grow next year. The New Securities and Financial Market Division within SIBA are now operational.

Seychelles is now listed as the fourth largest jurisdiction in IBC

registration.

Seychelles continues to maintain its commitments with OECD as to the global forum on transparency and exchange of information for tax purposes.

During 2010 the OECD carried out a peer review and following which, Seychelles has maintained its status on the white list as an

International Financial Services Centre.

k) Oil Exploration

As you know, we now have a research company carrying out seismic studies in our territorial waters. They will cover 18 thousand kilometres of lines in this exercise. After this phase, other companies will be invited to do further exploration and part of this information will also be used by two companies already in Seychelles to determine the location for drilling. Both companies have confirmed that they will start drilling by the end of 2012.

We estimate that the exploration phase and that of drilling will cost

over SR1.2b.

Mr Speaker, a US Government delegation was in Seychelles recently to discuss the possibility of technical assistance to Seychelles in areas of training, regulation and management of this new oil industry and business in view of its potential and the complexity which it entails.

Overall, Seychelles will benefit because these companies need to

establish themselves here and they will spend in areas such as

housing, transport and other logistical requirements.

The Government hopes that the effort bears fruit and that should

Seychelles make any oil discovery, we will embark on another phase of our development.

We can however only plan for this once there is clear evidence of a

commercially viable find.

7. Investments – public infrastructure

We will spend over SR 1 billion of our revenue on infrastructure this year to improve our people’s lives and increase economic activity.

l) Roads

Government will allocate SR64m next year to the SLTA to repair and surface as much of our road network as possible. This will benefit all Seychellois.

m) Emergency Services

Government will invest SR13.4m in a new fire station on Praslin and SR5.7m for a station on La Digue next year.

n) Essential Services

Mr Speaker, in the budget last year, Government proposed SR675m of investments for PUC for 3 years. We have already invested SR311m in PUC this year. Government will now provide for another SR200m for 2011. This investment will once again benefit all Seychellois.

This will fund projects to improve the electricity network and cover projects to improve water distribution.

The projects that PUC will implement next year will include

replacement of some transformers on its network, the 33kV project

in South Mahe and the 11kV project on Praslin to improve

distribution of electricity and reduce interruptions.

On the generation side, there will be 2 new generators donated by

the Abu Dhabi Government for Mahe. On Praslin the existing

generator will be re-positioned and a new generator will be installed financed by OFID.

PUC will also work closely with the private sector to finance infrastructure developments in the industrial zones. Electricity in

industrial zones will accelerate economic activity and create more

employment.

The current production of our de-salination plants is 7,800 tons per

day. PUC has plans to repair and upgrade the de-salination plant to

produce nearly 12 thousand tons per day.

It will also build a new pipeline from Mt Simpson to La Gogue to be able to increase the supply to La Gogue Dam and thus have more water during the dry season.

The water pipes around Le Niole and north Mahe including St Louis and Bel-Ombre will also be replaced to reduce water leakages and wastage.

Investments in the sewerage network will include works on the

central pumping station in Victoria.

o) Housing

In the last 10 years, we have spent over SR 1.3 billion for the

construction of houses to help our people. Next year, we will spend

a further SR169m in this sector. This investment will benefit all

Seychellois.

p) Submarine cable

Government has entered into a new partnership with Cable and

Wireless and Airtel so that once and for all Seychelles can increase its telecommunication bandwidth to create more speed at an affordable rate.

The Government contribution in this project is SR60m; we have also exempted the cable equipment of GST, which would have cost a further SR 60 million. The project itself amounts to SR375m. This investment will benefit all Seychellois. The system is due to come online in mid-2012.

Next year, in line with our development program, we will finalise a

scheme to facilitate access by all homes in Seychelles to the internet. This is an investment in our future which will transform the Seychelles economy and create new opportunities for our people and take Seychelles to greater heights.

q) Storage Capacity at SEPEC

During the coming year, SEPEC will undertake a number of projects to increase its capacity to store LPG. To reduce the risks of gas shortages, SEPEC will increase in 2011 its storage capacity by over 4,000 cubic metres. This measure will more than double its storage capacity or 8 months of stock when all tanks are full.

This is necessary as a strategic decision to ensure that we have

sufficient gas during the period when pirates are active and in the

event of an attack by pirates.

SEPEC will construct a new petrol station at Grand Anse Mahe

costing SR18m. The land has been identified and the project is

expected to be completed in Dec 2011.

SEPEC will also construct a new petrol station for Victoria North on Ile du Port which they expect to complete in Sep 2012 at a cost of SR20m. The Beau-Vallon petrol station will also be renovated at a cost of SR9m and will be completed in Dec 2012.

Mr Speaker, SEPEC has invested over $80m in the last 15 years on

infrastructure in Seychelles. This investment will benefit all

Seychellois.

8. Improving the Business Environment

During the last two years, we have put in place a number of measures to make it easier for Seychellois to do business at all levels.

The National Assembly approved several laws which form part of a new legal framework which will create new opportunities.

We have also re-aligned a number of procedures to encourage Seychellois to invest, including licensing procedures and improved access to financing.

We are working on ways to improve procedures in respect of applications for work permits and thus improve factors related to employment.

Next year we will present a new bill to modify the Companies Act for parliamentary approval.

We will continue with structural reforms as part of the second generation of economic reforms. Our aim is to eliminate red tape and bottlenecks which constrain doing business in Seychelles.

9. Medium Term Outlook

The outlook for the economy is a continued recovery over the medium term, albeit at a slower rate than in 2010.

We believe there will be continued growth in the medium term.

We expect an economic growth of 4% for 2011 and 5% for the years 2012 and 2013 which shows the results of our work, effort and good planning.

Inflation, over the next two years is expected to be remain between 2-3% after having been almost nil this year. A rate of 2-3% is considered good to stimulate the economy. This will therefore be the target of the Central Bank in the period ahead of us.

Our target is to reduce our debt to 70% of GDP in 2012 and 50% of GDP in 2018.

Once again, I would like to stress that foreign exchange that is needed to repay our debts has been taken into account in the preparation of this budget and in the operations of the Central Bank. There will thus be no additional pressure to bear on the exchange rate on account of external debt obligations.

Our international reserves today stand at $211m or the equivalent of over 2 months of imports and will increase to 3 months of imports by December 2012.

Government spending in SR will increase over the next 3 years but will reduce as a percentage of GDP as we reduce our activity within the economy and this is taken up by the private sector.

We have decided, in view of our good economic performance, to reduce our primary surplus from 9.4% in 2010 to 5% in 2011 and 4.7% in 2012.

This new primary surplus target will allow for more fiscal space to allow us to re-invest in our people.

10. Budget 2011

r) Main Objectives

The main objective of the 2011 Budget is to continue consolidating

Government’s fiscal position, achieve a primary surplus of 5% of GDP by Dec 2011, re-invest in priority sectors and to continue to keep public debt at a sustainable level. In other words, we are firmly engaged to remain within our new macro-economic framework.

s) Revenue Highlights

For the year 2011, Government is forecasting to collect SR 4.9 billion, an increase of SR 717 million or 17% on the 2010 revised figures. Of this the total tax that will be collected is 32.4% of GDP which is comparable to the revised 2010 figures of 31.2% of GDP. The total receipts from non tax revenue represents 4.3% of GDP for 2011 and this is the same as the 2010 revised figures of 4.3% of GDP. The higher revenue that will be collected is from Grant receipts which is 2.4% of GDP higher that the revised 2010 estimate.

The increase in collection of taxes is mainly due to economic growth.

However, there are a few policy changes, that we have mentioned

previously that will see their first full year of operation, and thus

impact our revenues. These are: an increase in GST on tourism services from 10% to 12% from Nov 1 2010 harmonisation of rates for all workers on Income Tax particularly an increase in the rates for expats from 10 to 15% in line with the rate applicable to Seychellois.

Another substantial increase in revenue is from grants receipts. This is mostly for capital projects mainly for the new coastguard building and facility, judicial building – funded by the Chinese Government and the EU funded and the Landfill project. Furthermore, the European Union will continue its commitments for budget support in 2011 with available funds of €3.2m.

11. Expenditure - Highlights

The total expenditures and net lending but excluding debt interests is forecasted at SR 4.3 billion for the year 2011. This represents 35.7% of GDP.

Mr. Speaker, Government remains strongly committed to the social

sector. This is mainly in health, education, social services, housing,

community development, social programs of central Government,

benefits and approved programs of social security fund and transfers to public entities fulfilling social functions.

The 2011 budget provides SR 1.6 billion in recurrent expenditure for this key sector. This represents 52% of the total primary current expenditure.

t) Social Program

Mr Speaker, we are also recommending SR270.9m under

Government’s social program so that we can maintain our effort

towards training in 2011. A total budget allocation of SR 133.1 million is being allocated to tertiary education training and that for the public service to be administered by the SIM.

Another important component of the social program is our social

safety net. Government is proposing SR65m for this in 2011. This will be used to assist those who are more vulnerable in the society and means testing for family support assistance.

In view of the recent increase in the cost of basic commodities, the

weights used by the Social Welfare Agency will be revised in

December 2010 and the new levels of assistance will apply from

January 2011.

u) Transfers to Public Sector

As mentioned earlier, 2011 budget is being presented using the new budget entities classification policy. The total allocation for the transfer to public sector is SR425.6m which represents 3.5% of GDP.

The main increase for 2011 is mainly to support National Sports

Council for the training of athletes for the 2011 Indian Ocean Games; the continuous support of Government towards the tourism sector in total will have an allocation budget of SR 77.8 million.

v) Benefits and Approved Programs of SSF

We are recommending SR376.9m in 2011 for the benefits and

approved programs of SSF and this represents 3.1% of GDP.

Retirement benefits to which Government provides to those of us

aged above 63 will cost over SR202.7m.

We have set aside SR34m for invalidity benefits. A further SR35m is being spent on Home Carer Schemes. Other programs which are

budgeted for will cover sickness benefits, maternity benefits and

orphans benefits at a cost of SR52.5m.

Mr. Speaker, these programs are funded by the various taxes that we have to pay; Income tax, Trades Tax, GST - all those are leveraged to cover all of Government’s expenditure – about 10% of which is for these benefits and approved programs of the SSF.

w) Wages and Salaries

The total allocation to wages and salaries is forecasted at SR906.3m which represents 7.5% of GDP. This is an increase of almost 1.4% of GDP compared to the revised 2010 estimates.

The budget 2011 makes provision for financing a number of new

schemes of service and to improve others. The schemes of service

are those of Social work, Immigration, Department of Information,

Communication and Technology, Ministry of Foreign Affairs, Police, SPDF and the Fire Brigade.

The implementation of these schemes of service will start from

January 2011.

x) Goods & Services

Goods and Services covers operational expenses of ministries other

than those of wages and salaries. Part of it will cover for costs of

electricity and water but the larger part is to pay for private sector

for services that they offer to Government. Thus this money is from the Government to the hands of the private sector through a tender system.

We are proposing an allocation of SR973.5m under Goods and

Services for the ministries in 2011.

This would be principally for the Ministry of Health and the Ministry of Education, Employment and Human Resources. These two ministries will receive in total SR330m under Goods and Services.

12. Expenditure by Large Ministries

y) Education, Employment and Human Resources

v. Wages and Salaries

We are proposing an allocation of SR247 for the salaries of this

ministry. This takes into account the schemes of service of teachers as well as the salaries of teachers due to complete their training in 2010.

vi. Goods and Services

Mr Speaker, in 2010 this assembly approved a supplementary budget to buy photocopiers for schools. These machines will now need to be set up.

For 2011, Mr Speaker, we are proposing SR120m for Goods and

Services in this ministry. This will cover the cost of books, new

stationery, new chairs and tables, the cost of exams as well as to pay contractors who provide services for security, school meals and cleaning in all schools.

vii. Infra-structure Improvements

In 2010 Government continued with investments in infrastructure in education. A new school was opened at Au Cap in October this year. The primary school and the crèche at Mont Fleuri will be completed next year. The Maritime Training Centre will also be completed next year.

The construction of a new primary school on Perseverance will

start next year and work will also begin on the new Glacis primary school financed by the Chinese Government.

The renovation work on Pointe Larue Secondary school will cost SR2m. Maintenance work will also be done on Cascade primary school and Beau-Vallon secondary school.

A number of other small projects will be launched in other schools to improve their standards.

viii. Total Expenditure

Mr Speaker, only for the education sector, employment and human resources, a total of SR636m has been budgeted for next year. This represents 5.3% of GDP or 14.8% of our 2011 budget. This shows Government’s commitment in investing in our children who are in the making and will be part of our human resources soon.

z) Health

ix. Wages and Salaries

We are proposing a total of SR173m for the Ministry of Health for 2011. This will cover a new scheme which took effect this year to retain staff and, like in education, to cover new recruitment of students who have completed their studies in that field.

x. Goods & Services

An allocation of SR206m is proposed for Goods and Services.

This allocation will cover Sr144m for specific costs such as SR87m for medicines, medical and laboratory supplies and specialized treatment.

The SR206m also covers SR38m for contractors involved in

security, cleaning, food supplies and the laundry.

The ministry will aim towards a service delivery level that meets up to public expectations.

xi. Infra-structure Improvements

A new hospital for in-patients is being constructed at Anse Royale through a grant from the Chinese Government. The Government will spend SR4m to repair the old hospital for outpatients.

We will also build a new Wellness Centre at Les Canelles costing SR26m for those suffering from mental illnesses and also those afflicted by drug or alcohol addiction.

There will also be renovation works to the Anse Aux Pins clinic,

Les Mamelles, Beoliere as well as the Anse Boileau and English

River Health centers.

There is also a plan to renovate Victoria Hospital which will cost

SR15m. This will include re-flooring and painting of all the wards and the complete renovation of d’Offay Ward and Hermitte Ward.

There will also be works done to upgrade some critical units such as the Coronary Care Unit and Intensive Care Unit. A new

Incinerator Plant and a new Haemodialysis Unit with all its equipment will also be provided for. A haemodialysis unit will also be set up on Praslin.

xii. Total Expenditure

Mr Speaker, on the health sector alone, SR510m has been provided for in 2011. This represents 4.2% of GDP or 12% of the national budget. This shows Government’s commitment to continue to invest in a comprehensive health system for the people of Seychelles.

aa) Housing

Mr Speaker, housing remains a priority for Government. We will

intensify construction work on Ile Perseverance now that we have

more resources to help our brothers and sisters get a suitable house.

The investment for this sector will be SR169m. This is an investment for the Seychellois people.

bb) Community Development, Youth and Sports

xiii. Youth and Sports

Mr Speaker, this year we have set aside SR30m for the Major

Games Trust Fund with the view to invest in infra-structure in

preparation for Seychelles to host the 8th Indian Ocean Island

games.

For 2011, we are proposing SR48m for the National Sports Council and SR18.1m will be used for preparation of our athletes.

Mr Speaker, we are proposing an allocation of SR13.7m for the

National Youth Council.

xiv. Community Development

Mr Speaker, we spent much of our time in the past encouraging leisure activities in our community and making residents in all districts participate more in developing their communities.

We have managed to apply this to district cleaning where small

contractors have been encouraged to take up that role.

Today we have more than 130 small contractors engaged on a

contract basis to clean and beautify their district costing

Government some SR36m per year.

More than 430 contracts worth SR20m have also been signed with entrepreneurs for several small assignments within the districts.

Mr Speaker, we will continue to promote our program of

decentralization so as to get our communities more involved

national development.

For 2011, we have made provision for SR20m for these small projects and SR41m for cleaning and beautification of districts

awarded to small contractors through a bidding system.

13. External Debt

The public debt stock and repayment profile have been transformed over the past two years as a result of a comprehensive external debt restructuring programme.

In 2008, our external debt level was $789m, of which 35% was owed to bilaterals, 7% to multi-lateral and 58% to private creditors. Our public debt level was nearly 150% of forecasted 2009 GDP and clearly unsustainable.

The Government, as part of our reform program, actively went out in 2008 to meet with our bilateral partners and the commercial creditors to seek debt forgiveness and to re-schedule the balance of our debts.

We have succeeded in re-structuring our bi-lateral debts with the Paris Club in April 2009 and in 2010 most of the Paris Club countries signed individual agreements with the Seychelles Government.

On the whole, Mr Speaker, we have succeeded in reducing our external debt in the last two years by $338m or SR4.2b or 43% of GDP. Our national debt is today $449m. We remain optimistic that we will sign the last remaining re-structuring agreements with 4 non Paris Club countries early next year.

We succeeded together thanks to the hard work of the people of

Seychelles.

The average life of our debt portfolio has increased from 6 months to 13 years. Today, we continue to show our credibility and based on new projections of debt payments, the maximum payment will reach $44m be in 2017.

I want to assure this house as Finance Minister that : given our debt profile that our GDP is $960m fiscal discipline in place our management of our macro economic environment Seychelles has the ability to repay its debt today and even when we reach 2017 when the maximum repayment will be $45m, we will still have the

capacity to service these debts without putting any undue pressure on our normal expenditure or our foreign exchange system.

Mr Speaker a document has been prepared along with this budget which shows our medium term strategy based on the new re-structuring of our debt and debt level for 2011.

14. External Relations and Multi-lateral Partners

The Ministry of Foreign Affairs has strengthened its policy of economic diplomacy and bilateral relations. We are seeing a new momentum. We have intensified our participation within SADC, COMESA and the Indian Ocean Commission.

The Ministry of Finance, the Central Bank of Seychelles and the National Bureau of Statistics have worked very closely with the International Monetary Fund, the World Bank, the African Development Bank, the European Commission, the Paris Club, the Arab Bank for Development in Africa, the OPEC Fund for International Development and the European Investment Bank.

Thanks to the credibility of our economic program, we have received technical support which will help us improve the technical and professional capacity of our staff so they can improve the management of our institutions.

The financial support we have received has been in the form of debt reduction, grants and concessional lending. I would like to take this opportunity to thank all our international partners for this relationship that we have developed and support that we have received.

15. New Measures and Policies

cc) Tax reforms

Our Tax Reforms continue. A new VAT (Value Added Tax) will replace the current GST (Goods and Services Tax) from the 1st July 2012. I am happy to note that public opinion and feedback we received from consultations have allowed us to review our draft law to arrive at a piece of legislation which we believe is suited for Seychelles.

dd) Income Tax for Foreigners

The rate of income tax for non Seychellois will increase to 15% from 10% from January 2011.

ee) Reduction of Business Tax on Sole Traders and Partnerships

With the view to encourage more business, as we move on with tax

reforms, the business tax rate for sole traders and partnerships will

reduce from January 2011 and will be 15% on taxable income in

excess of SR150 thousand but less than SR1m per annum.

This will re-align this tariff to reflect the new rate of income tax on

wages which has reduced from 18.75% to 15% in October 2010.

ff) Withholding tax on Banks

As part of tax reforms, Government will increase the withholding tax on management fees of banks from 15% to 33% from January 2011.

gg) Harmonisation of Taxes

From January 2013, all taxes under our tax reform program will be

harmonised.

hh) Outsourcing

Mr Speaker, in 2010 we implemented our policy of outsourcing for a number of services such as cleaning and security. We believe that this program has fostered a greater entrepreneurial spirit within our

people, developed the labour force and has brought about greater

efficiency in the public service.

It is our intention to go further in the outsourcing exercise so that

Government can concentrate better in its role of delivering to the

people. In the coming year, we will outsource where necessary in the fields of architecture, installation of street lights, project supervision and management and other areas where we do not have sufficient resources.

ii) Small and Medium Enterprises

Since commercial banks now enjoy greater liquidity positions which means readily available financing for small and medium sized enterprises, the maximum loan that the CCA will disburse to

businesses will reduce from SR300 thousand to SR150 thousand.

SR2m will be made available to the SIM to help small businesses

follow freely offered training in fields of accounting, book-keeping, management, marketing, tax liabilities and tender procedures so that they may become more competitive.

A sum of SR10m will be invested in new micro-enterprise

infrastructure on Ile Perseverance, Praslin and La Digue to support

small businesses.

jj) Financial Sector – Lending Rate

The two Government owned banks Nouvobanq and Savings Bank will lower their prime lending rate by another 1% which means that lending rates will remain within single digits for all loans whether secured or not.

With effect from January 2011, the Development Bank of Seychelles, Nouvobanq and Savings Bank will implement a new loans policy that will ease off over onerous lending conditions imposed by these institutions on the public and businesses today.

In January 2011, the Central Bank will introduce new measures to

facilitate access by the public to bank credit without being unduly

penalised.

We believe this is necessary to encourage everyone as well as

businesses to get access to affordable financing.

kk) Stabilisation Fund

Given the experience we have endured in the wake of the fuel crisis, Government has decided to establish a Stabilisation Fund. This will be created with an initial capital of SR120m.

This Fund will ensure that should there be any sudden price fluctuation, we will have the ability to dampen its effect and adjust

prices gradually. It is a mechanism to help price stability and prevent shocks in our small open economy which is vulnerable to external factors and shocks.

ll) Investment of Social Security Fund

With the changes in the Social Security Fund and the necessity to

have a board of trustees with the responsibility to invest funds

accumulated in past years, we have decided to sterilize SR200m of its monies held in the banking system into a Special Account at the

Central Bank for at least one year.

During this year, this board of trustees will develop an investment

plan for the funds of the SSF.

The impact of this measure will further stabilize our monetary

position.

mm) Contingency Provision

A sum of SR50m will be put in a contingency fund to be used on

capital projects from July 2011 provided we achieve our revenue

targets by the end of June 2011.

nn) Renewable Energy Program

Government in partnership with the Energy Commission and PUC

will, from January 2011, implement the first phase of a program

geared at reducing the consumption of electricity through the usage

of solar powered water heaters.

This first phase which will cost SR15m is in line with our policy to

promote greater utilization of renewable energy sources. The Energy Commission will provide details of this soon.

oo) Scheme for Housing Repairs

Government will put in place a new facility through HFC to launch a new project using SR25m to finance small loans not exceeding SR25 thousand to be used for housing repairs.

Only individuals with a net salary of SR 8,000 or less will qualify for this scheme. The interest rate will be 3% per annum and the loan will be repayable over 7 years. This scheme becomes effective from January 2011.

pp) Pension Fund Contributions

In my address in the budget 2010, I announced that Government will introduce a new system of pension contributions from 2011.

Contributions therefore will be as follows:

Worker - 1% of the gross salary

Employer - 1% of the gross salary of R50 whichever is the

greater

Self Employed – 2% of declared gross salary or R100 whichever

is the greater

This will apply to all workers on full time employment, part time or casual workers from January 2011.

In 2012, the new level of contributions will be 3% of gross salary as follows:

Worker – 1.5% of the gross salary

Employer – 1.5% of the gross salary of R50 whichever is the

greater

Self Employed – 3% of declared salary or R100 whichever is the

greater

The Seychelles Pension Fund will provide more details on this

shortly. Mr Speaker, contributions that each of us makes

towards the Pension Fund will go towards our own pensions in

the future.

qq) Increase in Pension

Mr Speaker, I am pleased to announce an increase of 5% in

retirement pensions from January 2011 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 2011. 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.

rr) Increase in Social Security Benefits

With effect from January 2011, all social security benefits will

increase by SR100 as follows:

From To

Retirement Pension 2,300 2,400

Invalidity Benefit 2,200 2,300

Orphan Benefit 1,100 1,200

Injury Benefit 1,900 2,000

Survivor (widows) Benefit 1,900 2,000

Sickness Benefit 1,900 2,000

Maternity Benefit 1,900 2,000

ss) Home care

All home carers will from January be eligible to annual leave.

Government is proposing SR35.2m to maintain its program of home care for 2011.

tt) Other Assistance

The program to support children, students, pensioners and the

disabled who use public transport on Mahe and Praslin will continue and SR36.2m has been budgeted.

A sum of SR2.7m has also been provided to assist schools through the “Dedicated Funds for Schools”. This fund is managed by the schools to help students who are more in need.

All post secondary students will henceforth receive an allowance to pay for expenses related to their studies. The cost of their studies

remains free. The allowances will be as follows:

First Year – SR 750

Second Year – SR 850

Third Year – SR 950

Students from La Digue, Praslin and Silhouette who are accommodated at the Youth Hostel will receive an additional SR100 on their Youth Hostel allowance.

uu) Early Childhood Care and Education Trust Fund

In line with Government’s engagement in the first world summit on Early Childhood Care and Education organized by UNESCO this year, a new trust fund will be set up from January 2011 and our contribution to this fund will be SR1m. Any contributions into this fund by businesses will be treated as tax deductible expenditure by the Seychelles Revenue Commission.

vv) Tax on Sports Equipment

Seychelles will host the 8th Indian Ocean Island Games in 2011 at a time that our youths will compete against our island neighbours. In recognition of this, Government has decided to remove both trades tax and GST on all imports of sports equipment, excluding clothing and footwear, during 2011.

16. Conclusion

My fellow brothers and sisters, the Seychelles economy is back into growth. We have worked hard to enlarge our national cake. It is our responsibility as Government to re-distribute the national cake, in line with our vision to develop our country; a vision which is based on noble principles of a Government of the people, by the people and for the people.

The budget 2011 does exactly that. We have invested in our key sectors: developing human and social resources. We have invested in our social safety net so no one gets left behind. We have invested in infra-structure to increase economic growth and the quality of life of all Seychellois. We have invested to ensure we can meet up to the challenges of globalization.

We have put money aside to prepare against any uncertainty inherent in the world economy.

The 2011 budget and the measures I have announced will improve the quality of life of all Seychellois without exception.

Government reduced income tax on all Seychellois workers on the 1st October 2010 from 18.75% to 15%. This represents an indirect salary increase for all workers in both the Government and the private sector. In the last two years, we revised the minimum salary which has improved the qualify of life of our workers who were receiving a lower salary. In Government, we have continuously reviewed different schemes of service.

We have introduced a new wage grid. We have continued to increase the wages of Government workers. As our economy improves, our objective remains to review the wages of Seychellois workers in general.

Mr Speaker, in my budget address of 2009, I stated: “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.”

Two years later, we have accomplished this. People of Seychelles, we are determined to maintain the structural reforms which will further transform our economy for the benefit of the people of Seychelles. We will make it even easier for Seychellois to do

business. We will successfully negotiate our entry into the WTO. We will position ourselves to integrate regionally which will offer a window of opportunities for Seychelles. We will maintain economic growth. We will maintain fiscal and monetary discipline. We will maintain our social gains.

Together we will create more jobs for Seychellois by transforming our economy. The second generation of reforms will be yet another milestone that we will reach together. There is ample work ahead of us.

Mr Speaker, in this endeavour, we will work hard to succeed. We will do it all together as a people in unity and with determination.

Mr Speaker, we must have pride in our success as a people.

The student who works hard at school and does well in his exam and behaves well, must be proud of his success.

The athlete who makes sacrifices and hoists up our flag in international competition, must be proud of his success.

The parent who works hard and sees his child grow up well, must be proud of his success.

This elderly citizen who has shared his life and wisdom with those younger than him, must be proud of his success.

The small business which has established and is growing and today is employing another Seychellois, must be proud of its success.

The large business who employs Seychellois and plays an active role in corporate social responsibility, must be proud of its success.

The civil or religious society which helps to save lives and keep our youth away from negative influences, must be proud of its success.

This national assembly that works to have better laws in our country, must be proud of its success.

The worker who gives it all, must be proud of his success.

This nation that succeeded in transforming its economy and turned it into what it is today, must be proud of its success.

With this positive attitude and the determination to make Seychelles stand out in the world, nobody can stop us.

I would like to thank the President of the Republic who woks tirelessly for Seychelles, for his guidance and support, as well as my colleague ministers and their respective teams.

I thank my staff in the Ministry of Finance for their teamwork, steadfast professionalism, motivation and passion in their work.

I would like to congratulate members of the private sector and civil society who continue to work with us in a spirit of collaboration.

I would also like to thank the National Assembly for the support they have given in establishing the necessary legal framework which has helped the country to enter a new phase of development.

I would like to thank the people of Seychelles who rise up to the occasion everyday for his country.

Mr Speaker, I would like to thank you and everyone in this Assembly, as well as the people of Seychelles, for your kind attention.

I now commend the Appropriation Bill 2011 for the approval of the National Assembly.

Thank you.