IMF Country Report No. 23/235

SEYCHELLES

June 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

In the context of the Requests for an Extended Arrangement Under the Extended Fund Facility and an Arrangement Under the Resilience and Sustainability Facility and Cancellation of the Current Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- **Press Release** including a statement of the Acting Chair of the Executive Board**.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 31, 2023, following discussions that ended on March 29, 2023, with the officials of the Seychelles on economic developments and policies underpinning the IMF Extended Fund Facility Arrangement, and reform measures supporting the IMF Resilience and Sustainability Facility Arrangement. Based on information available at the time of these discussions, the staff report was completed on May 16, 2023.
- **World Bank Assessment Letter.**
- **A Statement of the Executive Director** for Seychelles.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR23/189

IMF Executive Board Approves US$56 Million Extended Fund Facility Arrangement and US$46 Million under the Resilience and Sustainability Facility for Seychelles

FOR IMMEDIATE RELEASE

- *The Executive Board of the International Monetary Fund (IMF) approved today a three-year arrangement for Seychelles under the Extended Fund Facility (EFF), in an amount equivalent to US$56 million, as well as a three-year arrangement under the Resilience and Sustainability Facility (RSF), in an amount equivalent to US$46 million.*
- *Under the previous EFF approved in 2021, Seychelles has made substantial progress in restoring macroeconomic sustainability after being hard hit by the COVID-19 pandemic. The new EFF will build on this progress and maintain macroeconomic stability, boost inclusive growth, and strengthen fiscal and monetary policy frameworks.*
- *The RSF will support the Seychellois authorities' agenda to build resilience to climate change, to exploit synergies with other sources of official financing, and to help catalyze further private financing for climate-related investments*

Washington, DC – May 31, 2023: The Executive Board of the International Monetary Fund (IMF) approved today for Seychelles a three-year arrangement under the Extended Fund Facility (EFF), in the amount of SDR 42.365 million (about US$56 million), and a three-year arrangement under the Resilience and Sustainability Facility (RSF), in the amount of SDR 34.35 million (about US$46 million).

The new EFF for Seychelles will replace the EFF approved on July 29, 2021 (2021 EFF). Under the 2021 EFF arrangement, the authorities satisfactorily implemented policies to restore macroeconomic stability in the face of multiple shocks, including the COVID-19 pandemic disruptions. All quantitative targets through end-December 2022 were met and all but one structural benchmark were met or implemented with delay. The new EFF will build on progress made under the 2021 EFF to strengthen macroeconomic stability while emphasizing reforms to boost investments in human and physical capital to support inclusive growth. Efforts will also focus on strengthening fiscal and monetary policy frameworks.

The RSF will support the authorities' agenda to build resilience to climate change by lifting bottlenecks to climate-related investments and by facilitating the integration of climate-related considerations into macroeconomic policies and frameworks. The RSF arrangement for Seychelles, the second in Africa, will exploit synergies with other sources of public financing and help catalyze further private financing for climate-related investments.

Following the Executive Board's discussion, Gita Gopinath, First Deputy Managing Director and Acting Chair of the Board, issued the following statement:

"Under the 2021 EFF, the Seychellois economy showed resilience to shocks, including the COVID-19 pandemic and Russia's war in Ukraine. The authorities' policy measures helped the economy recover quickly from the pandemic-related disruptions and provided necessary support for households and the private sector. Strong growth and better than expected fiscal outturns contributed to the rapid decline in public debt and the restoration of macroeconomic stability. Monetary policy has remained appropriately accommodative in light of moderate inflation. However, the authorities should remain vigilant to signs of inflationary pressures and adjust the monetary policy stance if needed.

The outlook is positive, with tourism almost back to its pre-pandemic level and inflation projected to remain moderate. However, Seychelles continues to face substantial risks, including from global financial and economic developments, which could severely impact tourism, and climate change.

The new EFF arrangement will protect macroeconomic stability and rebuild buffers, while helping to advance the authorities' reform agenda. Fiscal consolidation efforts through revenue gains, prudent spending, and improvements in Public Financial Management will help reduce debt vulnerabilities and create fiscal space for priority spending, including social spending and investment in climate change adaptation and mitigation. The authorities are also committed to continue reforms to boost inclusive growth by improving social protection targeting and investing in human capital. Reforms are also planned to improve the monetary policy implementation framework and to strengthen the resilience of the financial system.

The authorities plan to leverage the RSF to undertake reforms to remove bottlenecks to, and strengthen the climate-resilience of, public investment. The RSF will also help authorities catalyze further private financing and exploit synergies with other official financing. In particular, the RSF will focus on mainstreaming climate change in the government budget, strengthening climate-related risk management for financial institutions, and undertaking climate adaptation and mitigation reforms, including through measures to facilitate energy transition."

Seychelles: Selected Economic Indicators (2020-2028)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.		Prel.			Proj.			
National income and prices									
Nominal GDP (millions of Seychelles rupees)	21,458	23,209	26,112	27,666	29,309	31,366	33,554	35,909	38,317
Real GDP (millions of Seychelles rupees)	19,987	21,062	22,966	23,952	24,943	25,908	26,901	27,942	28,948
Real GDP	-7.7	5.4	9.0	4.3	4.1	3.9	3.8	3.9	3.6
CPI (annual average)	1.2	9.8	2.6	1.4	2.0	3.5	3.5	3.5	3.5
CPI (end-of-period)	3.8	7.9	2.5	2.2	2.4	3.6	3.5	3.5	3.5
GDP deflator average	0.7	2.6	3.2	1.6	1.7	3.0	3.0	3.0	3.0
Money and credit									
Broad money	29.1	5.8	4.4	...	...	...	...	...	...
Reserve money (end-of-period)	40.4	11.1	-3.0	...	...	...	...	...	...
Velocity (GDP/broad money)	0.9	0.9	0.9	...	...	...	...	...	...
Money multiplier (broad money/reserve money)	3.9	3.7	4.0	...	...	...	...	...	...
Credit to the private sector [5]	20.2	-11.9	4.9	7.3	8.0	7.8	7.6	7.4	7.4
Savings-Investment balance			(Percent of GDP, unless otherwise indicated)						
External savings	14.0	11.0	7.6	9.5	10.1	10.7	10.7	10.8	11.5
Gross national savings	8.4	15.0	15.5	16.2	16.7	16.2	16.1	16.1	15.2
Of which: government savings	-13.4	-3.3	0.8	1.4	2.5	4.0	5.0	6.0	6.5
private savings	21.8	18.3	14.7	14.8	14.2	12.2	11.0	10.1	8.7
Gross investment	22.3	25.9	23.1	25.7	26.8	27.0	26.8	26.8	26.7
Of which: public investment [1]	4.8	5.6	2.7	5.2	6.3	6.4	6.2	6.2	6.1
private investment	17.5	20.3	20.4	20.5	20.5	20.6	20.6	20.6	20.6
Private consumption	38.5	42.8	46.8	45.6	45.3	48.0	48.8	49.6	50.3
Government budget [4]									
Total revenue, excluding grants	33.3	33.0	33.3	34.3	34.8	34.9	34.9	34.7	34.6
Expenditure and net lending	53.3	42.4	35.3	38.7	38.8	37.3	36.0	34.8	34.0
Current expenditure	46.8	36.6	32.5	33.0	32.3	31.1	29.8	28.7	28.1
Capital expenditure [1]	4.8	5.7	2.7	5.2	6.3	6.4	6.2	6.2	6.1
Overall balance, including grants	-19.0	-6.0	-1.6	-2.9	-2.5	-1.4	-0.2	0.8	1.3
Primary balance									
Primary balance	-15.2	-3.2	0.7	-0.4	0.2	1.0	2.0	2.8	3.0
Total government and government-guaranteed debt [2]	91.9	80.8	69.2	67.6	66.0	63.1	59.6	55.3	51.2
External sector									
Current account balance including official transfers (in percent of GDP)	-14.0	-11.0	-7.6	-9.5	-10.1	-10.7	-10.7	-10.8	-11.5
Total external debt outstanding (millions of U.S. dollars) [3]	5,049	5,261	5,391	5,584	5,791	5,994	6,111	6,191	6,050
(percent of GDP)	414.2	382.9	293.2	285.0	279.0	269.8	257.2	243.4	223.0
Terms of trade (-=deterioration)	10.6	-5.0	-8.4	1.8	6.4	5.3	0.0	0.0	0.0
Gross official reserves (end of year, millions of U.S. dollars)	575	702	639	655	700	787	824	847	858
Months of imports, c.i.f.	3.8	3.7	3.6	3.4	3.5	3.8	3.8	3.8	3.7
In percent of Assessing Reserve Adequacy (ARA) metric	111	119	100	100	102	112	115	117	115
Exchange rate									
Seychelles rupees per US$1 (end-of-period)	21.0	14.7	14.3	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	17.6	16.9	14.2	...	...	...	...	...	...

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

[1] Includes on lending to the parastatals for investment purposes.

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

[3] Includes private external debt.

[4] The fiscal program targets at the approval of the EFF are now presented in percent of the new GDP.

INTERNATIONAL MONETARY FUND

SEYCHELLES

May 16, 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Context. Under the current EFF, the authorities have made substantial progress in restoring macroeconomic stability and debt sustainability after being hit hard by the COVID-19 pandemic. Now, they would like to pivot to the deeper medium-term structural reforms needed to support structural balance of payments needs and promote sustainable and inclusive growth. To support this pivot, they have requested the cancellation of the current EFF and the approval of a new one. Concurrently, they have requested a program under the Resilience and Sustainability Facility (RSF) to help advance their climate agenda, including measures to enhance resilience to climate-related shocks.

Program implementation under the current EFF. Program performance under the current EFF has been strong. Policies implemented under the EFF have helped support post-pandemic growth and achieve substantial fiscal consolidation and debt sustainability. All quantitative targets for the 4th review were met, four out of six structural benchmarks were met, and one implemented with delay.

New EFF request. Proposed policy measures under the new EFF aim to (i) rebuild fiscal and external buffers, (ii) strengthen the monetary policy operating framework, and (iii) advance reforms to boost inclusive growth. Staff proposes access of 185 percent of quota (SDR 42.365 million, or around US$57 million) under the EFF.

RSF request. The RSF will help build resilience to climate change and strengthen the policy implementation framework to exploit synergies with other official financing and catalyze further private financing for sustainable development. The reform measures will focus on three areas: (i) enabling climate-smart infrastructure investment and fiscal management (ii) financial sector resilience and climate finance mobilization and (iii) climate mitigation, adaptation, and disaster risk financing. Staff proposes access of 150 percent of quota (SDR 34.35 million, or around US$46 million) under the RSF.

Approved By
Andrea Richter Hume (AFR) and Pritha Mitra (SPR)

The discussions in Victoria took place during March 16–29, 2023; the in-person team consisted of Calixte Ahokpossi (head), Aissatou Diallo (resident representative), Taehoon Kim, Eric Lautier, Silvia Guadalupe Nunez (all AFR), Suphachol Suphachalasai (FAD), Jung Yeon Kim (SPR) and Arindam Roy (MCM). Leonardo Pio Perez (AFR) participated virtually. Jonathan Pampolina and Luisa Malcherek (LEG) participated virtually in relevant meetings. The team was supported by Andrew Esparon (local economist) and Danielle Bieleu (AFR) assisted with the preparation of this report.

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CONTEXT

1. **The objectives of Seychelles' current arrangement, approved in July 2021, under the Extended Fund Facility (EFF) have been broadly achieved, however, vulnerabilities remain.** At the time of the program request, Seychelles faced structural balance of payments needs exacerbated by the COVID-19 pandemic. Program objectives were to support the authorities' efforts to restore macroeconomic stability and debt sustainability, while strengthening the post-pandemic recovery. The economy started recovering in 2021 thanks to a widespread vaccination campaign and early border reopening to tourists. Policies implemented under the EFF have helped achieve substantial fiscal consolidation and debt sustainability. Yet, debt remains above its pre-pandemic level and the external position, despite a substantial improvement since 2020, remains tenuous with reserves below pre-pandemic levels in terms of months of imports. Financial stability risks, though contained, need to be carefully monitored given the increase in non-performing loans (NPLs).

2. **The authorities would like to pivot to deeper structural reforms under a new EFF, to promote long-term inclusive growth and increase economic resilience.** The authorities' request for a new EFF and the cancellation of the current one reflects the short time left on the latter (about six months by the time of Board discussion), the emergence of new priorities (strengthening the monetary policy operational framework and bolstering public investment), the persistence of balance of payments needs over a longer period, and the need to align the EFF priorities with climate-related ones under the Resilience and Sustainability Facility (RSF). The new program aims to promote long-term inclusive growth and increase economic resilience by rebuilding fiscal and external buffers, strengthening the monetary policy operating framework, and advancing reforms to boost inclusive growth.

3. **The authorities have requested an arrangement under the RSF to help address climate vulnerabilities.** The RSF would help the authorities shift their focus to climate-related spending and exploit synergies with other official financing and catalyze further private financing for climate change mitigation and adaptation strategies. The 2021 Nationally Determined Contribution (NDC) estimates that the total funding required to support climate adaptation and mitigation activities would amount to US$670 million between now and 2030, equivalent to about 5 percent of GDP per year.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

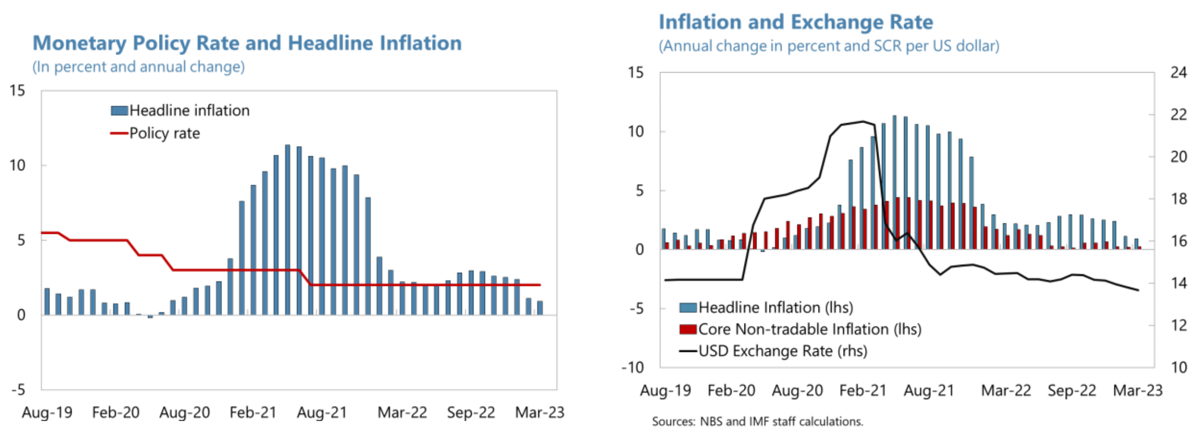
4. **Tourism continued to recover sharply in 2022 with arrivals reaching about 87 percent of pre-pandemic levels.** With tourism-related industries accounting for one fifth of GDP (and over a quarter of employment), this recovery helped GDP growth increase to 9.0 percent in 2022.[1]

[1] The National Bureau of Statistics (NBS) faces severe capacity constraints which have impacted its ability to produce and disseminate timely and quality national accounts data. The Fund is providing technical assistance to support national accounts compilation.

Employment overall increased by 8.4 percent, with a 19.1 percent increase in tourism-related industries.

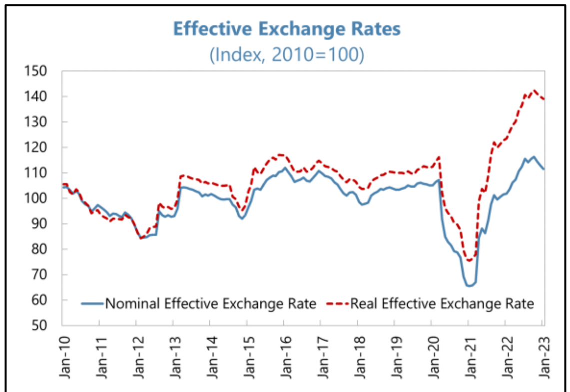
5. In 2022, Seychelles experienced relatively low inflation due to the continued strengthening of the currency as well as base effects. Following an average of 9.8 percent in 2021, the average annual inflation declined to 2.6 percent in 2022. The year-over-year inflation as of March 2023 is even lower, at 0.9 percent. The fluctuation was primarily driven by volatility in the prices of fuel and food, which are predominantly imported. The large exchange-rate appreciation observed between 2021Q2 and 2022Q2 (67 percent in NEER terms), reflecting a surge of tourism-related FX receipts, largely offset the "imported" inflationary pressures from higher global commodity prices and supply-side disruptions. The exchange rate against the US dollar kept strengthening until end-March 2023, reaching SCR 13.68 (from SCR 14.28 in March 2022), which is approximately the five-year average prior to the pandemic (SCR 13.66). The government's temporary measures to smooth price fluctuations also cushioned the impact.[2] The muted inflation has allowed the CBS to maintain an accommodative stance, with the monetary policy rate held at 2 percent since mid-2021.

Seychelles: Monetary Policy, Inflation and Exchange Rate



Sources: Central Bank of Seychelles, NBS, Haver Analytics and IMF staff calculations.

[2] Retail gasoline prices have been smoothed out as the government-owned enterprise purchased a larger bulk of petroleum than usual in anticipation of the global oil price hike. The electricity tariffs are adjusted on a quarterly frequency to absorb global fuel price fluctuations. The authorities also imposed maximum retail prices on several imported goods (less than 5 percent of the consumption basket) to protect low-income households on a temporary basis (1 year), which will expire in October 2023.



Source: IMF staff calculation.

6. **The external position has improved with the recovery in tourism.** The current account deficit is estimated to have narrowed to 7.6 percent of GDP in 2022. However, gross international reserves (GIR) declined to US$639 million (3.6 months of imports) in 2022, compared to US$702 million in 2021, due to lower inflows of financial support from multilateral creditors and increased external debt service needs. During 2022, the currency appreciated by 11.3 percent and 14.2 percent, respectively, in NEER and REER terms and by 4.1 percent versus the US dollar reflecting the continued recovery in tourism. Staff's External Sector Assessment indicate that Seychelles' external position is moderately weaker than the level implied by medium-term fundamentals and desirable policies, and that international reserves at end-2022 were at the lower end of the advisable range of international reserves. However, the external position has improved significantly over the last three years, with the estimated current account gap declining from -17.3 percent in 2020, to -7.7 percent in 2021 and -1.9 percent in 2022 (ESA-Annex III).

7. **Budget under-execution led to an unexpected primary surplus in 2022, and the continued decline of public debt.** The primary fiscal balance in 2022 recorded a surplus of 0.7 percent of GDP, against a deficit of 1.1 percent of GDP projected at the time of the 3rd review of the current EFF. The overperformance was mainly driven by under-execution of domestically financed capital projects (-1.5 percent of GDP), while current expenditures remained below projections (1.4 percent of GDP) due to recruiting difficulties and under-execution of the various programs. Revenue and grants grew by 10 percent year over year. However, this is lower than projected during the last review, due to lower-than-expected business tax receipts (16.4 percent lower year over year at end-December 2022), as large tax refunds were needed to correct for earlier 2022 tax assessments that had been based on 2021 collections (which were inflated due to large FX gains). Excise taxes also underperformed mainly due to higher duty-free sales for alcohol and tobacco. VAT grew by 27.5 percent year-over-year between 2021 and 2022. Yet, it was slightly lower than projected, as refunds were higher than expected. Grants were 0.3 percent of GDP lower than planned, due to associated delays in capital projects. The improved fiscal balance contributed to the debt-to-GDP ratio declining to 69.2 percent at end-2022, a 11.6 percentage points reduction since end-2021, with GDP recovery contributing the most to the decline (-6.7 percent of GDP).

8. **The accommodative monetary policy stance has been appropriate given the expected benign inflation and nascent recovery in private credit growth, however the authorities remain committed to adjust it, should inflationary pressures emerge.** Inflation in Seychelles, to a large extent, depends on external sector developments that impact the exchange rate. The authorities should remain vigilant to signs of inflation pressures stemming from higher global commodity prices, a weakening of the currency, and the potential impact on prices and private sector wages of the impending public sector wage increase.

9. Credit growth recovered in 2022, reflecting improved risk appetite of banks. Private credit grew by 5 percent in 2022 after contracting by 12 percent in 2021.[3] The main drivers of credit growth include private households, which registered a turnaround in 2022 along with a continued buoyant growth in mortgages, while registering a significant slowdown in credit contraction to local tourism establishments reflecting their steady recovery. Credit growth was supported by accommodative monetary policy with the average lending rate increasing marginally (by 30 basis points between end-2021 and end-2022, to 9.32 percent). After reaching a historical low of 1.01 percent at end-2021, yields on 1-year T-bills increased by 119 basis points by end-2022.

10. While the share of non-performing loans (NPLs) increased for the banking system as a whole in 2022, banks remain well capitalized. Overall, NPLs rose to 7.6 percent at end-2022 from 5.5 percent at end-2021, mainly due to the unwinding of pandemic-related forbearance measures in February 2022.[4] The increase in NPLs is concentrated in one bank, which is being monitored closely by CBS. The banking system remains adequately capitalized, with regulatory capital around 20.3 percent of risk-weighted assets at end-2022. However, the provisioning level for the banking sector is low (20.7 percent of NPLs) mainly due to their reliance on collateral (70.3 percent of NPLs). Given the small size of a tourism-dominant economy, banks are structurally exposed to high credit risks from large exposures and concentration risks.[5] At the same time, as a moderately dollarized economy, the share of FX loans stood at 24 percent of total loans. Repayments on FX loans are usually based on FX income or FX deposits placed with banks, thereby serving as natural hedges in the absence of derivative markets.

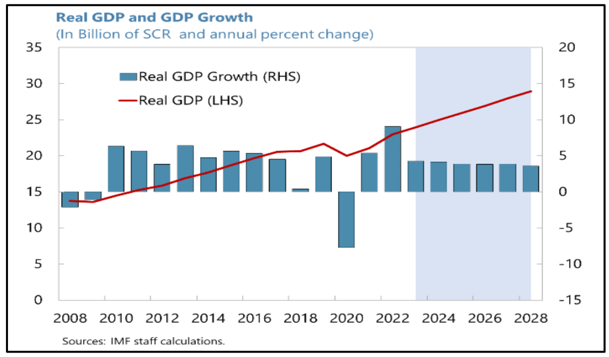
11. Quantitative performance and progress on structural reforms under the current EFF have been satisfactory. All end-December 2022 quantitative performance criteria (QPCs) and indicative targets (ITs) were met. Four out of six structural benchmarks (SBs) have been met, and one implemented with delay. The authorities published the new debt management strategy in December 2022, which was inserted in the 2023 budget document (SB end-December 2022). The Ministry of Finance, in consultation with CBS, published in April 2023 a plan for the government securities trading framework (SB end-March 2023). On SOEs, the SB on ring fencing the ground handling operations of Air Seychelles was not implemented due to the processing time to register the new company to be the legal owner of the ground handling assets at the Seychelles International Airport and sign the corresponding lease agreement and asset transfer document (SB end-December 2022).

[3] Credit recovery in 2022 was led by local currency credit while foreign currency credit (in US dollar terms) declined by 16.7 percent, mainly due to the declining credit to the tourism sector and higher interest rates on foreign currency lending following the global tightening of monetary policies in major advanced economies.

[4] With the withdrawal of forbearance measures, the share of forborne loans declined from 36 percent of total loans at the end of 2021 to 28 percent by end-2022. However, due to higher migration of forborne loans into NPLs during this period, forborne loans accounted for 64 percent of the total NPLs at end-2022 compared to 49 percent at end-2021. While tourism sector accounted for one-third of total NPLs, other key sectors that contributed to the NPLs include real estate, private households, trade and agriculture which together accounted for 42 percent of NPLs.

[5] The industry average for banks' large exposure to credit was 89 percent of core capital while credit concentration stood at 47 percent of core capital. Based on CBS guidelines, large exposure and credit concentration refers to credit facilities to a single customer or closely related group, that represent 10 percent or more and 25 percent or more, respectively, of the financial institution's core capital.

OUTLOOK AND RISKS



12. The outlook remains positive. Real GDP growth is expected to moderate to 4.3 percent in 2023. Forward looking indicators, such as the number of bookings and scheduled flights, indicate that the growth in accommodation and food service industry has reached a stable point, anticipating a 3 percent increase in 2023. The overall GDP growth rate is projected at around 3.6 percent over the medium term. The headline CPI is projected to rise by 1.4 percent (annual average) in 2023, reflecting the projected reduction of electricity prices.

13. The current account deficit is expected to widen to 9.5 percent of GDP in 2023, as the recovery in tourism slows down and imports rise reflecting a rebound in capital investments. FX reserves are projected to reach 3.4 months of imports at end-2023 and increase gradually to reach 3.7 months of imports by 2028. While overall credit growth is expected to accelerate to 7.3 percent in 2023, driven by continued economic recovery, foreign currency credit may remain weak due to rising lending rates associated with tightening of global financial conditions and a more risk-averse borrower class emerging from recent episodes of sharp exchange rate movements. Exports of services was positively impacted by the strong rebound in tourism earnings during the second half of 2021 and in early 2022, which was in part due to the capture of tourists with high spending per capita (Russian tourists in particular), in the early phase of the reopening. However, the average spending per tourist was significantly lower during the first two months of 2023, compared to the same period of last year. The decrease can be attributed to the weakening of the euro, a predominant currency of revenue in Seychelles, and the shift in the demographic of tourist arrivals to traditional European markets with more contained spending. Hence, despite the projected 5 percent increase in total number of arrivals, in part due to recovery of arrivals from traditional European markets, the impact of lower spending per arrival (about 13 percent lower than in 2022) is expected to result in lower tourism earnings in 2023. The Government is seeking help from development partners to conduct a study to understand the impact of the tourism sector on the overall economy. The study's terms of reference will be finalized by end-June 2023, and the aim is to complete the study by June 2024 (structural benchmarks).

14. The outlook is subject to substantial downside risks as Seychelles remains susceptible to external shocks (Annex I). The intensification of regional conflicts (Russia's war in Ukraine in particular) and an abrupt global slowdown or recession can have severe negative impacts on tourism and growth in Seychelles. The resulting retrenchment of tourism-led FX inflows could spill over into a sharp weakening of the rupee with a high pass-through to inflation. Weaker prospects for external grants, due to Seychelles' high-income status, may limit financing options and weaken the balance of payments. On the domestic side, financial stability risks may arise from further increase in NPLs arising from high large exposures and credit concentration. Should risks materialize, the authorities should maintain a flexible exchange rate while increasing external buffers, and consider targeted support based on the available policy space, on the back of contingency planning. The country is also vulnerable to sea level rises due to climate change, which can cause damage to coastal infrastructure and tourism development.

PROGRAM DESIGN AND OBJECTIVES

New EFF Arrangement: Program Objectives and Policies

15. The new EFF will focus on addressing the country's underlying structural challenges to strengthen resilience to shocks and promote more sustainable and inclusive growth. Policy measures implemented under the current EFF arrangement have helped support the economy during the pandemic and restore macroeconomic stability. The new program focuses on addressing the remaining near and longer-term challenges, mainly by: (i) boosting medium-term growth while protecting the most vulnerable (this will entail higher investment and social spending and financing needs), (ii) creating fiscal space and rebuilding fiscal buffers to safeguard debt sustainability, and (iii) strengthening the monetary policy operating framework and preserving financial stability.

A. Fiscal Policy

16. Fiscal policy will remain anchored by the primary fiscal balance, with the medium-term objective of rebuilding policy buffers, by gradually reducing public debt to 50 percent of GDP. The program envisages an ambitious fiscal consolidation of about 2.3 percentage points of GDP, with revenue and expenditure efforts, while boosting capital investment and protecting social spending. In 2023, a delayed recovery in public investment (focusing mainly on social housing and a new health facility) combined with a 10 percent increase in public sector salaries (the first increase in four years), are projected to result in a small primary deficit (0.4 percent of GDP). As program measures are implemented, the fiscal path is projected to return to surplus in 2024. As a result, the debt-to-GDP ratio will decline from 69.2 percent at end-2022 to 60.9 percent at end-2026 (end of the program) driven largely by continued prudent fiscal policy and growth. The authorities aim to reduce the debt-to-GDP ratio to about 50 percent by 2029, by gradually increasing the primary balance to 3 percent of GDP over the medium term. The fiscal consolidation effort is not expected to negatively impact growth, as most gains relate to efficiency gains, not to spending cuts (the declines in the wage bill and goods and services relative to GDP are related to the modernization of public administration and the digitalization of services – see below). In addition, the higher capital expenditure envisaged will support growth over the medium term.

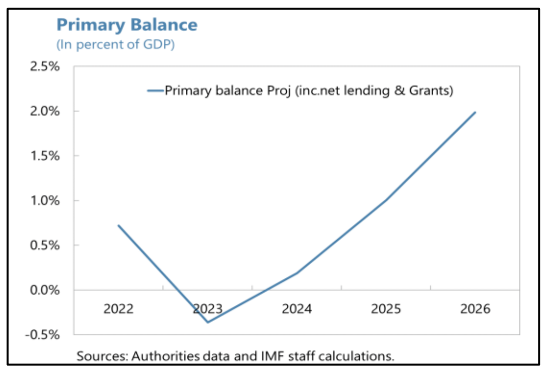
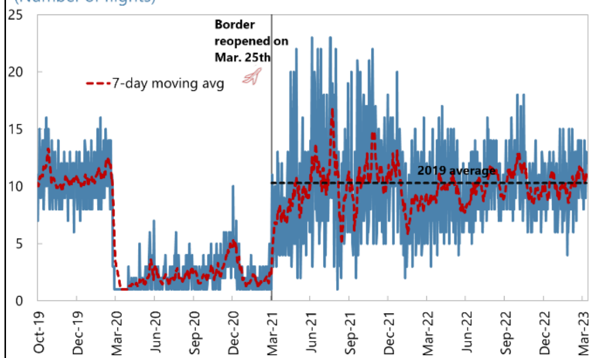


Figure 1. Seychelles: Tourism Indicators

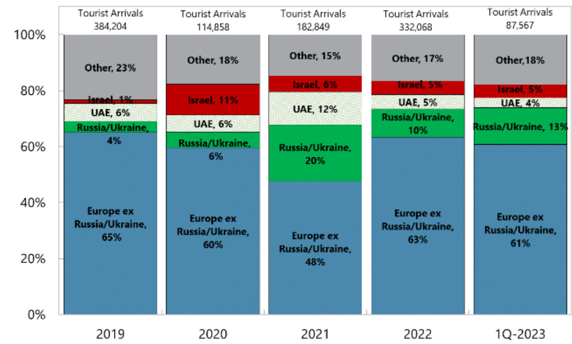
Seychelles continued to show resilient recovery in the tourism sector. The average number of international flights has returned to its pre-pandemic level.

Number of International Flights Arrivals to SEZ airport
(Number of flights)



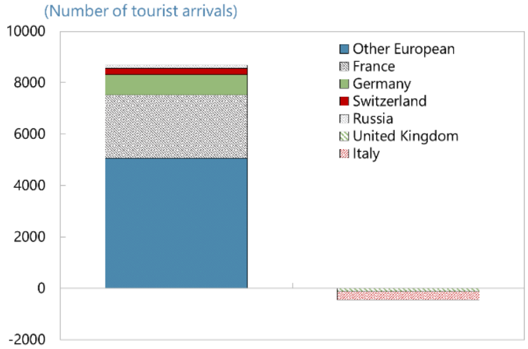
During the pandemic period, Seychelles managed to attract tourists from new markets, including Israel, Russia, and the United Arab Emirates

Share of Tourist Arrivals by Country, 2019-2023
(In percent)



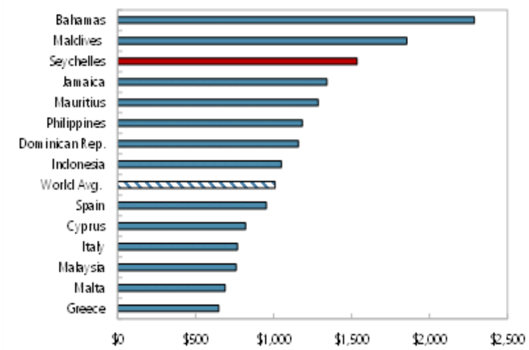
The shortfall in arrivals from Russia since early 2022 has been offset by an expansion of arrivals from the Western Europe market.

Change in Tourist Arrivals from Europe, Jan-Mar 2023
(Number of tourist arrivals)



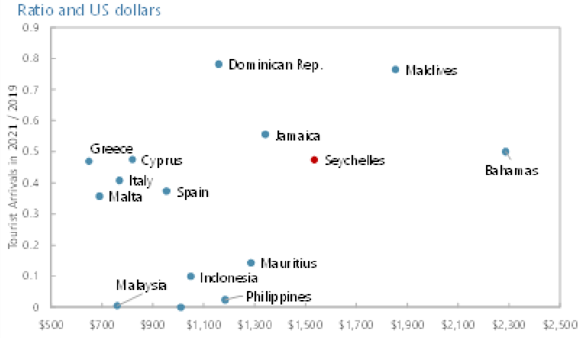
The durability of Seychelles as a destination likely reflects its luxury niche market.

Tourism Receipts per Arrival, 2019
In US dollars



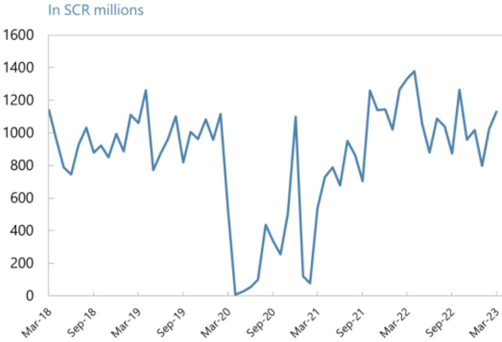
Niche luxury tourism recovered faster in the aftermath of the pandemic.

Tourist Arrival Recovery Ratios (2021/2019) and Tourism Receipts per Arrival
Ratio and US dollars



Tourism earnings in 2022 approached pre-pandemic levels.

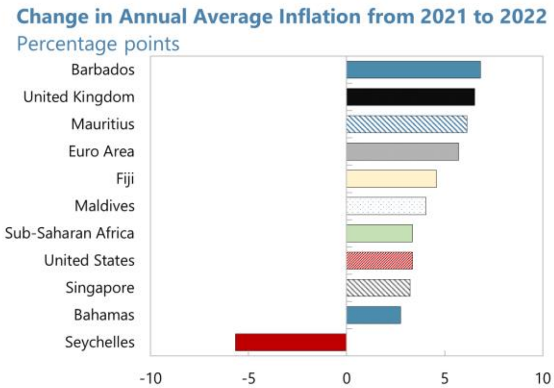
Tourism Earnings
In SCR millions



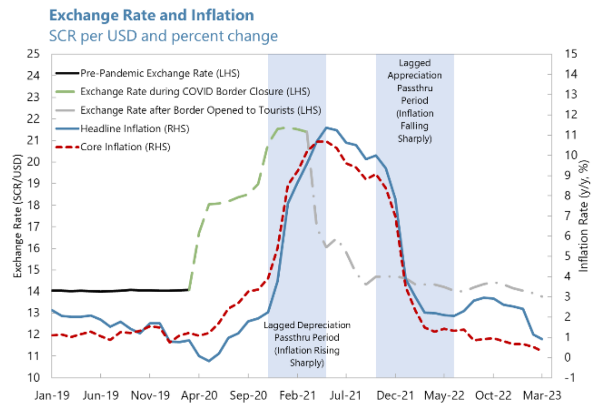
Sources: Flightradar24, Authorities data, CBS, United Nations WTO, and IMF staff calculations.

Figure 2. Seychelles: Inflation Indicators

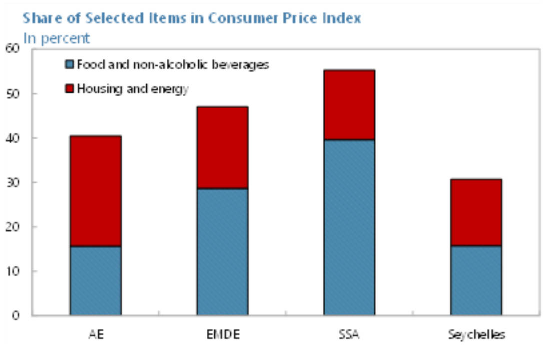
Inflation is evolving differently in Seychelles than in many other countries.



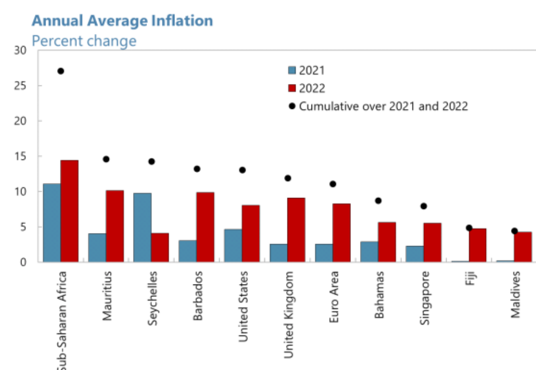
As a small-island economy dependent on imports, the value of the currency is a key determinant of domestic inflation, but with a considerable lag.



Seychelles' consumption basket is more in line with other high-income countries which have relatively lower weights for food and fuel items, than other SSA countries.



The cumulative increase of prices in 2021 and 2022 in Seychelles was larger than in many other countries.



Sources: IMF WEO, Haver Analytics, National Statistics Institutes, and IMF staff estimates.

17. **Strong revenue measures are envisaged, to bring the tax to GDP ratio back to its pre-pandemic level (about 31.5 percent of GDP), over the program period**. The introduction of new tourism turnover taxes to limit the impact of transfer pricing will bring additional revenue of 0.5 percent of GDP per year. The implementation of the nightly environmental charge for tourists now planned for the second half of the year (amounting to about $5 per room/night) should yield 0.2 percent of GDP annually. The new securities dealer's business tax will add 0.8 and 1.3 percent of GDP to revenues in 2023 and 2024, respectively. The doubling of the property tax rates is expected to add 0.1 percent of GDP to revenues from 2024. In the medium term, additional tax policy and tax administration reforms are also expected to help bring the tax-to-GDP ratio to 31.6 percent in 2026. These include (i) streamlined VAT exemptions, notably for digital services, with prospective

amendments to the VAT law by December 2023 (structural benchmark) and (ii) higher business and excise tax collections thanks to the ongoing digitalization agenda.

18. The authorities will strengthen tax and customs administration by increasing transparency and introducing measures to reduce tax evasion. To increase transparency, the authorities will disclose budgeted tax expenditure as a part of the 2024 annual budget exercise (structural benchmark for end-October 2023). On transfer pricing, the authorities amended the Business Tax Act in December 2022, and with the support of the World Bank, they are finalizing the associated implementation regulations (MEFP paragraph 14). These regulations have the potential to enhance the enforcement of the "arms' length" principle, which should result in lower revenue loss from transfer pricing/profit shifting. In customs administration, the implementation of the Compliance Improvement Plan should help the Seychelles Revenue Commission (SRC) enhance risk-based compliance to strengthen revenue performance. Efforts are also underway to upgrade the Automated System for Customs Data with new modules[6] to make custom clearance more effective and improve risk management targeting and payments (structural benchmark for end-September 2023). The upgrades will also improve data sharing and transparency across government institutions.

19. While current primary expenditure will increase in 2023, it is projected to decline by 3 percentage points of GDP over the medium term thanks to the modernization of public administration. The wage bill will increase in 2023, the reintroduction of a performance-based 13th-month bonus and the reallocation of cleaning services from goods and services. With the wage bill representing about 39 percent of tax revenue in 2023, the Government is planning to modernize the public administration, to improve its efficiency and lower the wage-to-tax revenue ratio (MEFP para 15). In the near term, a functional review will be conducted by the World Bank to better understand existing processes. Natural attrition and more effective processes through digitalization are expected to help contain the wage bill, which will decline by 0.9 percentage point of GDP over the program period. As for goods and services, they will increase in the near term, before declining over the medium term. The increase is related to reclassification of some social programs (Home Care Agency) from transfers to goods and services, and the implementation of the digitalization of public administration (MEFP para 17).

20. Public investment will be boosted, in level and efficiency, to support growth and improve social outcomes. Relative to 2022, public investment would increase by 2.4 percentage points of GDP in 2023 and by 3.4-3.6 percentage points of GDP over the medium term. Near-term projects include the construction of social housing, renovation of infrastructure from the Department of Internal Affair, and a new hospital on Mahe. Over the medium-term, the capital expenditure envelope will allow for additional investment in critical infrastructure, including climate-related projects (see RSF section). In addition, the authorities will undertake reforms to improve the efficiency and resilience of public investment. This includes implementing the January 2023 PIMA recommendations to improve investment execution notably through better project selection and

[6] These include new modules for the Excise Warehouses, E-Payment, E-Government, Single Window, Express Courier, E-Manifest for Courier.

appraisal. The authorities have drafted an action plan for the implementation of PIMA recommendations, which is expected to be adopted by the Cabinet of Ministers by end-September (structural benchmark). By end-June 2023, a review of the Public Investment Management Policy will be conducted, and by end-2024, the government aims to have a reliable database of appraised projects (MEFP ¶ 39). To attract more financing, the government will seek assistance from the World Bank to review the Public Financial Management and the Procurement Act and establish an appropriate framework for public-private partnerships (PPPs), including for climate-related investments (structural benchmark for end-March 2025).

21. The government aims to improve spending efficiency through PFM reforms and further digitalization efforts. Seychelles' budget processes are well formulated and supported by a medium-term fiscal framework, however volatile expenditures and revenues make cash forecasting difficult and the authorities have requested further support in this area. AFRITAC South will continue to help the authorities improve capacity and align the Medium-Term Debt Strategy and the National Development Strategy. The World Bank is also assisting authorities with a public expenditure review in 2023, in particular for the education and health sectors. Further digitalization efforts are planned in other ministries, including a new Integrated Financial Management Information System, a new Human Resource Management System and a new system for the Agency of Social Protection (ASP). This should allow for more effective processes and better tracking of public finances.

22. The consolidated level of spending on social protection appears adequate, but allocation should be improved to enhance human capital and better target the most vulnerable. Government spending on social protection is spread across budget lines (see Box 1) and a comprehensive assessment evaluates it at around 6.6 percent of GDP in 2022. This is slightly below the average for such spending public social protection expenditure (excluding health protection) in Asia and the Pacific (7.3 percent of GDP) but much higher than the average for Africa (3.4 percent of GDP), per estimates from the International Labour Organization. However, there are gaps in the coverage of the most vulnerable population in Seychelles and the targeting of social programs should be improved.[7] The authorities plan to create a social registry by end-March 2024 to better understand the profile of beneficiaries and to improve targeting. The home care agency was recently created to encourage the professionalization of care giving and to improve the efficiency of this benefit that accrues to around 12 percent of the population (MEFP ¶ 33). On pension, the sustainability of the retirement pension has also been improved through the increase in retirement age from 63 to 65 years in January 2023. On healthcare spending, the authorities are continuing efforts to tackle the longstanding issue of substance abuse. In 2021, the Seychelles government integrated the Agency for the Prevention of Drug Abuse and Rehabilitation (Apdar) into the Ministry of Health to streamline treatments and programs.

[7] The World Bank is helping the authorities undertake an assessment of social spending and targeting, the results of which will help inform the authorities' approach to social spending going forward.

Box 1. Social Assistance Programs in Seychelles

With an unemployment rate of around 3 percent in recent years, Seychelles has one of the lowest unemployment rates in the world. The country has the highest ranking in the United Nations Human Development Index in Sub-Saharan Africa. In contrast, 25.3 percent of the population lived below the national poverty line in 2018. In addition, substance abuse has become a major health and social challenge.

Social assistance programs are designed to protect households from poverty and destitution by ensuring a minimum level of economic well-being. This includes programs to guarantee income security for various situations, such as old age, unemployment, sickness, disability, work injury, maternity, or loss of a main income earner. These programs can also play a promotional role by enhancing the human and physical capital of beneficiary households to help them lift themselves out of poverty. In addition, climate-responsive social protection can prevent vulnerable households from falling into poverty after a climate disaster and enable them to undertake disaster preparedness and adaptation measures. The design of SSN systems therefore should reflect the existence of these multiple policy objectives. In Seychelles, social spending falls across different budget lines, including goods and services and capital projects, but could be broadly summarized under the following categories:

- **Social pensions.** Retirement benefits in Seychelles is the largest program and account for around 3.6 percent of GDP, the retirement age has recently changed to 65 years to increase sustainability of the program. In addition, Seychelles has a unique Home Care Scheme (1.1 percent of GDP), which is a long-term care program at home for the elderly and any persons with a reduced degree of functional capacity. The management of the scheme, monitoring of the level of care provided, and provision of training for home care givers is now managed by the new home care agency accounted under wages and salaries and goods and services in the budget.
- **Cash transfer programs.** These programs offer monetary transfers with the objective of providing regular and predictable income support to beneficiaries. This category covers a wide range of programs provided by the government including disability benefits (0.5 percent of GDP), invalidity benefits (0.4 percent of GDP), foster care scheme maternity, funeral, orphans, survivors and injury benefits for a total of 0.15 percent of GDP. A Children Special Fund (0.02 percent of GDP) also assists children who require additional support to improve their health and general well-being. In addition, the government is also providing employment reskilling programs, apprentice and youth employment scheme to promote labor mobility and lower unemployment, but budget allocation remains very low (0.06 percent of GDP)
- **School feeding programs.** Primary students receive free breakfast and lunch, and secondary students receive free breakfast. There are presently 834 pupils from primary schools receiving the above-mentioned assistance and 367 from secondary schools.
- **Fee waivers and targeted subsidies.** These include transport fee waivers (0.24 percent of GDP), Post-Secondary Student Bursary (0.08 percent of GDP), housing subsidies and allowances (0.08 percent of GDP). The government also provided temporary financial support, including utility and electricity subsidies, during the COVID-19 pandemic (0.2 percent of GDP), set to end in March 2023.
- In addition, the government continues to provide social housing under capital investments to assist people who cannot afford to build on their own or do not own land.

B. Public Debt Management Strategy and Government Financing

23. Significant progress has been made in achieving debt sustainability and reducing debt vulnerabilities. Public debt is now sustainable with high probability (DSA – Annex II). Public debt is projected to decline from 67.6 percent of GDP in 2023 to 51.2 percent by 2028. Financing needs have decreased substantially since 2020, declining to 16.4 percent of GDP in 2023 from 44.6 percent of GDP in 2020. The continued reduction in gross financing needs over the medium term would keep domestic bond financing at sustainable levels and balance of payments needs manageable. Seychelles is at moderate risk of sovereign stress which should be managed through continued prudent fiscal management.

24. Seychelles could face some external financing challenges over the longer term given its lower access to concessional financing due to its high-income status. To date, the authorities have been successful in engaging with multilateral creditors to secure external financing in the near term. The successor programs (EFF and RSF) are expected to result in annual average net external financing of 2.9 percent of GDP during 2023-25 dominated by multilateral creditors compared to net repayments of 1.3 percent of GDP during 2026-28. In the absence of concessional financing from bilateral creditors, the authorities would need to prepare for alternative sources of external financing including tapping the international market that entails market risks. The change in the financing mix towards greater external financing will require the authorities to update their recently published medium-term debt management strategy.

25. While significant progress has been made to develop the domestic debt market to provide a stable source of financing, the authorities should continue its development. Annual average net domestic market financing will remain negative at 0.8 percent of GDP during 2023-25 and turn positive at 0.3 percent of GDP during 2026-28. Although exposure of the banking sector to government securities declined marginally in 2022, government bonds held by the banking sector increased from 9.2 percent of their assets in 2021 to 11.6 percent in 2022. The potential for greater domestic bond financing to replace external financing could be constrained by the absence of a secondary market mechanism for government securities. The authorities published in April 2023 a policy framework for a secondary market mechanism for government securities needed to support liquidity of bonds (structural benchmark in the current EFF). Legal reforms would be required to allow greater flexibility in debt management. Over the medium term, the authorities should aim to further lengthen domestic debt maturity.

C. Monetary and Exchange Rate Policy

26. The monetary policy framework based on interest rates as an operational target in Seychelles is in the early stages of development. The Monetary Policy Rate (MPR) serves as the key policy rate to signal the monetary policy stance. CBS made progress in enhancing its monetary policy decision-making and communication by adopting a forward-looking monetary policy approach to anchor inflation expectations supported by transparency.[8] The authorities should remain vigilant to potential price pressures, and take action, as warranted, to ensure that inflation expectations remain well anchored. The implementation of monetary policy relies on the Forecasting and Policy Analysis System (FPAS), to guide monetary policy decisions on the policy stance, and a short-term liquidity management framework to support the calibration of open market operations. While the FPAS is yet to be fully integrated into the monetary-policy decision making process, IMF TA support will be provided to improve the near-term forecasting framework and the guidance of monetary policy.

27. CBS will strengthen the monetary policy operating framework through better liquidity management, deployment of market-based instruments including repos, and develop the interbank market. The interest rate transmission mechanism is constrained by weak liquidity management, lack of market-based monetary policy instruments and nascent money markets. The authorities started draining excess liquidity since January 2023 through increasing volumes of weekly deposit auctions, which would help strengthen the interest rate transmission mechanism and facilitate any course corrections required for monetary policy. Based on recent IMF TA, a reform plan for strengthening monetary policy operations after due consultation with stakeholders will be made public by the CBS by end-July 2023 (new structural benchmark). As part of the reform plan, CBS will re-operationalize its repo instrument by end-December 2024 (new structural benchmark) with the support of IMF technical assistance.

28. The authorities remain committed to a floating exchange rate regime. Adjustments in macroeconomic policies have been the first line of defense during recent market pressure episodes, including during the pandemic. FX interventions in the spot market are used as an exception and aim to smooth out excessive volatility to ensure orderly market conditions, when warranted. Given the stability in the FX market, the CBS has not intervened since February 2022. The current FX reserves arrangement based on its sources and uses suggests potential for reserve accumulation only when there are significant net inflows on government account associated with non-debt or debt flows, or through FX purchases in the market. The robust FX supply in the spot market in recent months (reflecting strong tourist inflows) provided room for the CBS to purchase EUR 32 million from the FX market between February-April 2023, which supports the strategic objective of bolstering Euro reserves. Given the outlook for GIR, such opportunities should be used to ensure an adequate level of international reserves. CBS, with TA support from the IMF, will refine a risk-based FX intervention strategy and develop the interbank FX market. The authorities continue to levy an annual tax on immovable property owned by resident foreign nationals in Seychelles.

[8] Since July 2022, the CBS has been publishing its semi-annual monetary policy report that underpins monetary policy discussions to provide forward guidance. The quarterly banking sector survey on financial indicator expectations published by the CBS in February 2023 after a long gap confirmed that the banking sector's expectations of inflation outlook are aligned with that of the CBS. At the same time, another survey with households' inflation outlook is expected to be carried out in the second half of 2023, with the support of the NBS.

D. Financial Stability

29. The financial system remains well capitalized and highly liquid (¶ 9). The recent increase in NPLs mainly in one bank poses some financial stability risks. However, with interbank linkages still relatively low (reflecting nascent money and capital markets) the risk of contagion is low. The recovery in credit is expected to rein in the rise of the relative share of NPLs, though upside risks to an increase in NPLs remain, stemming from a further deterioration in asset quality with the existing legacy of forborne loans, including restructured loans.[9] As the forbearance measures have been unwound by February 2022, CBS obtained granular information on forborne loans and their migration to NPL. Looking ahead, to assess the resilience of the banking sector overall to potential shocks, the authorities will now conduct a follow-up stress test study with a forward-looking analysis on NPLs, potential losses, and capital position, to be finalized by end-September 2023 (new structural benchmark). The assessment will factor in the quality and liquidity of collaterals used for determining the required provisioning by banks.[10]

30. To deal with increasing NPLs, CBS is putting in place an active monitoring mechanism and will engage with relevant banks for NPL reduction plans. Along with greater scrutiny of information on NPLs and eligible collateral, including through onsite inspection of all banks, supervisors are reassessing provisioning needs and the quality of collateral against impaired loans. Wherever required, staff has urged the authorities to undertake preemptive measures to preserve the capital base of banks.

31. To better deal with financial stability risks, the authorities are putting in place a strong regulatory framework for crisis prevention and management while bank supervision is being upgraded. The authorities have initiated on-site supervision of banks for better assessment of asset quality. The Bank Recovery and Resolution Bill, which is currently being prepared with support from IMF TA, is expected to be approved by the Cabinet by September 2023 (structural benchmark). Following the submission of the draft policy paper on the Financial Stability Bill, with the support of the US Treasury's Office of Technical Assistance (OTA), the authorities are finalizing the Bill for submission to the Cabinet by mid-2023. In view of the existing structural risks related to large exposures, credit concentration and unhedged FX loans, CBS would devise prudential measures as part of operationalizing the financial stability toolkit, supported by IMF TA.

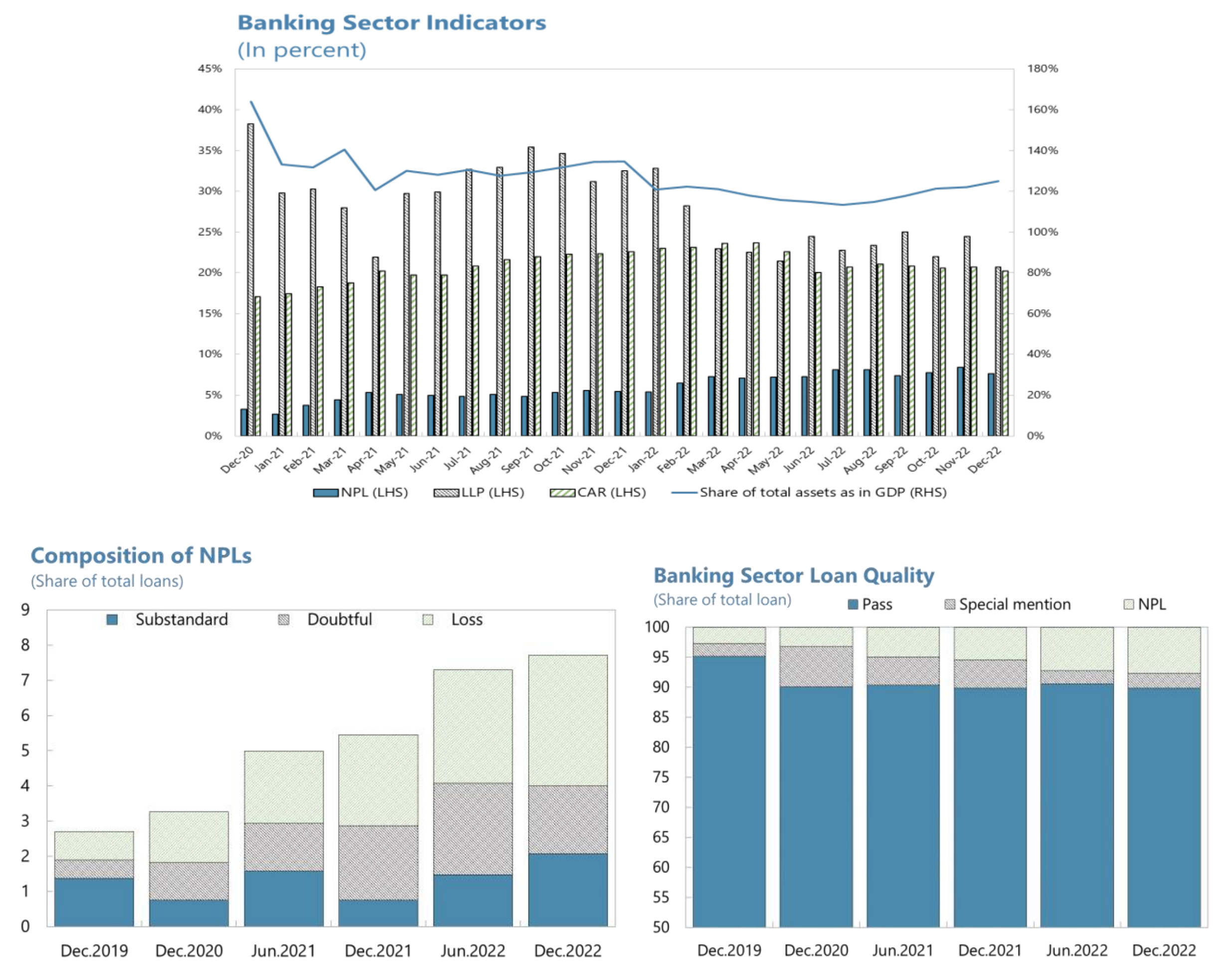
32. Capacity development in support of strengthening financial sector stability will remain a key factor for the authorities in making progress towards this objective. Follow up TA support will be required from the IMF to assist the authorities with the operationalization of the financial stability framework including advising on macroprudential policies toolkit, strengthening capacity on stress testing; and implementation of Emergency Liquidity Assistance as an effective lender-of-last-

[9] At the end of 2022, forborne loans that are non-NPLs accounted for one-fourth of the total industry non-NPL loans.

[10] As per the current regulations, the CBS does not apply any haircut on collaterals, irrespective of their type and quality, which results in low provisioning required by banks. The regulations, however, require collaterals to be valued every two years by professional valuation companies.

resort mechanism. Given the overlapping TA support on banking sector by the IMF and the US Office of Technical Assistance (US OTA), a coordinated approach on CD will be designed in consultation with the authorities.

Figure 3. Seychelles: Banking Sector



Sources: Authorities' data and IMF staff calculations.

E. Governance and SOEs

33. SOE risks were substantially reduced after the restructuring of Air Seychelles. The transfers to SOEs are projected at 0.16 percent of GDP in 2023, a significant reduction compared to 2 percent of GDP in 2020. Air Seychelles is on a more sustainable financial path after the May 2022 debt restructuring agreement.[11] As part of the operational restructuring, a new company was created to secure the ground handling operation at the Seychelles International Airport. The

[11] An agreement was reached with the bondholders of Air Seychelles for a 66.7 percent nominal haircut on its US$83 million obligations. Air Seychelles took a commercial loan to pay off its remaining obligations, and the Government paid off its remaining US$13 million obligation using a two-year commercial loan, with Air Seychelles responsible for interest payments. There is no outstanding exposure of the government to Air Seychelles on government guarantees.

Seychelles Aviation Handling Company will become the legal owner of the ground handling assets, leasing them to Air Seychelles through a lease agreement (structural benchmark for September 2023). The Government remains committed to providing no further funds to Air Seychelles.

34. The new Public Enterprise legislation will help improve the governance of SOEs. The legislation, expected to be discussed in the National Assembly by end-May 2023, provides a harmonized and coherent framework for the establishment, governance, and operation of SOEs. It also clarifies the accountability and the relationships between board members and those charged with governance and management of Public Enterprises, the Minister responsible for Finance. other Responsible Ministers and the Public Enterprise Monitoring Commission (PEMC). To ensure more transparency, PEMC will publish an Annual Report in accordance with the new legislation (SB end-June 2023). Going forward, the annual report will present the overall financial performance, including outstanding debt of Public Enterprises based on their audited financial statement and will be published six months after the closing of the financial year. Through an independent audit firm, PEMC will conduct governance audit and operational assessment of five key public enterprises by December 2023 (MEFP ¶ 43).

35. The authorities should continue to advance in ensuring that the information on beneficial ownership (BO) of legal persons and legal arrangements established in Seychelles is adequate, accurate and up to date. As of end-February 2023, around 85 percent of the 45,381 international business companies (IBCs) of good standing have submitted information to the BO database. The Financial Intelligence Unit (FIU) will continue to publish the rate of BO information submissions in the quarterly statistical report, with the next one to be published by end-May 2023. The authorities should ensure that the BO information in the database is effectively verified and subject to discrepancy reporting obligations.

36. The December 2022 amendments to the BO Act improved the enforcement of the submission of BO information (MEFP ¶ 71) and the proposed BO amendments will expand its accessibility (MEFP ¶ 72). In March 2023, the Financial Services Authority (FSA) submitted its 2022 Inspection Report on BO on resident agents to the National AML/CFT Committee. The inspection found several discrepancies, including incomplete data submitted, different nature of interest held by the BO, and multiple entries. A redacted version of the report containing non-confidential information was published in May 2023. With the December 2022 amendments, the BO Act now provides sanctions for failing to submit BO declarations (a penalty of SCR150,000 or US$12,000). The proposed end-December 2023 amendments to the BO Act should broaden access to the central BO database to financial institutions, other entities with AML/CFT obligations, and persons with legitimate interests.

F. Growth and Structural Reforms

37. The authorities are taking steps to increase private investment and promote medium-term growth. The government is currently drafting the National Development Plan (2023-2027) and the priority areas under the plan include: (i) a modernization of public service, (ii) a transformative economy agenda (including for tourism, agriculture and fisheries), (iii) improving public health, (iv) a modernization of the education system to meet needs, and (v) climate change resilience. The National Strategy underscores the necessity of enhancing value-addition and diversification within the targeted sectors. Another major objective is to promote the digitalization of the economy, with a particular emphasis on the modernization of public service systems and digital banking. The detailed policies to implement the strategy will be discussed with Fund staff once finalized by the authorities.

38. Further efforts are needed to lift potential growth in Seychelles and strengthen inclusion, building on measures undertaken during the current EFF. Proposed policies under the new program are broadly in line with the authorities' medium-term development plan that is under preparation. Policies to boost growth cut across various areas, including fiscal policy (investment level and increased efficiency and a floor on social spending), the financial sector (credit to the private sector), the modernization of public administration, and improving the contributions of the tourism sector to the economy. The government also plans to improve the efficiency of the digital payments platforms for government transactions and make them more user friendly (MEFP ¶ 11). Additional reforms to streamline bureaucratic processes and pursue the digitalization agenda will encourage new investors to start business and improve access to services to existing businesses (MEFP ¶ 18). Those efforts will be complemented by reforms in the national curriculum to make digital skills compulsory for all students at all levels of education (MEFP ¶ 19). Authorities remain committed to investing in human capital and address the skills shortages to support an inclusive growth on the island (¶ 22). To better determine the spillovers impact of tourism on the economy a study will be finalized by end-June 2024 that could help design policies to support local businesses in tourism activities.

RSF Arrangement: Addressing Climate Change Challenges

39. As a tourism-dependent island state, Seychelles is vulnerable to the impacts of climate change. Major risks include rising temperatures, increased intensity and frequency of storms and heavy rainfalls, water shortages, coral bleaching, and sea-level rise—all posing a threat to the island's infrastructure and main economic sectors. The tourism industry is particularly susceptible to the impacts of climate change; the above climate change-induced changes and natural disasters can lead to a decrease in tourism arrivals, while the rising sea levels and resulting coastal erosion and saltwater intrusion add risks to the infrastructure along the coasts and reduce the size of available coastal areas for tourism development. To address the vulnerabilities, Seychelles has put climate change adaptation at the center of its sustainable development strategy and is working to integrate collective efforts from various multilateral institutions.

40. Seychelles has taken substantial steps towards achieving its national climate adaptation and mitigation goals (Annex IV). The authorities have committed to ambitious climate change goals and invested in climate resilience and the Blue Economy, and are scaling up climate finance to support the Nationally Determined Contribution (NDC) implementation.[12] Seychelles is among pioneering nations in this regard, securing private financial support for the establishment of the Seychelles Conservation and Climate Adaptation Trust[13] and financing for climate adaptation through coastal management and the implementation of the Marine Spatial Plan. Seychelles also issued the world's first sovereign Blue Bond in 2019 and raised US$15 million to finance the sustainable use of marine resources. Seychelles has partnered with a range of development partners, NGOs, and universities to optimize the use of external resources and strengthen its capacity. On the climate mitigation front, Seychelles is progressing toward achieving its GHG emissions reduction target primarily through a transition to renewable energy and electric vehicles. Seychelles is also actively exploring Blue Carbon initiatives to contribute to global carbon sequestration by restoring marine vegetation.

41. **Despite the effort to ramp up climate investments, the climate financing gap remains large and is contributing to the slow implementation of some climate initiatives.** With current annual climate-related public spending around 0.9 percent of GDP per year against the needs of approximately 5 percent of GDP per year, Seychelles has significant financing needs to address climate-related risks and achieve its national climate objectives.[14] In total, the authorities estimate that investment needs amount to US$331 million for mitigation and US$339 million for adaptation. Seychelles is beginning to tap international climate funds such as the Green Climate Fund (GCF) and the Global Environmental Facility (GEF) with most of the support going toward climate adaptation investments.[15] Climate change adaptation and mitigation will require larger gross financing needs and result in higher public debt over the long run. The long-term debt assessment under the DSA indicates that the financing needs to address the impact of climate change is significant and would result in sizable additional financing needs which form the basis of RSF request (see Annex II DSA). Limited financial resources, capacity constraints and policy bottlenecks identified in the 2023 Climate PIMA are slowing the implementation of some government initiatives on climate change.

42. **The RSF will support the government's efforts to implement outcome-oriented reforms, exploit synergies and catalyze finance flows for climate adaptation, mitigation, and transition.** The proposed reform measures are underpinned by recent diagnostics and consultation

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[12] In the updated NDC submitted to the United Nations Framework Convention on Climate Change in 2021, Seychelles set a greenhouse gas emission reduction target of 26.4 percent below a business-as-usual emission level by 2030 and a net-zero emission target by 2050. The country has also geared up climate adaptation through the implementation of the Coastal Management Plan, the Marine Spatial Plan, the National Integrated Emergency Management Plan, and Strategic Land Use Development Plan.

[13] The trust was founded to promote strategic investments in marine conservation, climate change research and small-scale project grants.

[14] Climate-related public spending is identified in the 2023 Climate-PIMA report and the needs estimated in the 2021 Nationally Determined Contribution (NDC).

[15] The GCF is supporting 4 regional projects with a total share of US$23.4 million going to Seychelles to support climate resilience and renewable energy. The GEF currently has 10 active national projects with Seychelles, amounting to US$30.3 million worth of financial support to co-finance investment projects in the areas of biodiversity, land degradation, and climate change.

with the World Bank[16] and will focus on three areas: (i) enabling climate-responsive infrastructure investment and fiscal management, (ii) building financial sector resilience and mobilizing climate finance, and (iii) implementing climate mitigation and adaptation policy and disaster risk financing. The RSF package is expected to play a strong catalytic role, particularly through establishing a climate finance mobilization framework to unlock public and private finance, better management of climate-related risks in the financial sector to support scaling up of private climate finance, strengthening enabling institutions to promote climate investments and enhance climate-spending efficiency, and promoting private sector climate-related investments. In addition, the RSF would work in synergy with programs from other Development Partners (DPs) to help catalyze private finance.[17] Staff has collaborated with DPs to ensure and appropriate sequencing of reform measures across programs, while considering the authorities' capacity and TA needs to implement reforms.

G. Climate Change Policy

43. Recent diagnostics, including the 2023 PIMA and Climate PIMA, help identify critical reform areas to address the climate policy and financing challenges. Discussions with the authorities regarding the formulation of RSF reform measures were guided by recent diagnostics, including the January 2023 PIMA and Climate PIMA (C-PIMA) and the 2017 Climate Change Policy Assessment (CCPA). The 2021 NDC also provided key inputs. The discussions centered around the following three areas.

- *Climate Resilient Infrastructure Investment.* Under-execution of infrastructure investment—particularly on projects addressing climate risks such as coastal protection—has been a recurring problem for Seychelles. In this regard, the C-PIMA identified institutional gaps in climate resilience of the public investment management (PIM) framework. Three issues were raised. First, climate change considerations are not adequately integrated into the national and sectoral investment planning process, thus creating a risk of misalignment between major infrastructure investments and the NDCs. Second, significant gaps remain in ensuring that the country's overarching climate initiatives are reflected in the appraisal, selection, and budgeting for such investments. Third, fiscal risk management could be improved by incorporating a robust analysis of fiscal risks from climate change and natural disasters and preparing for sufficient fiscal responses.
- *Climate Financing and Risk Management.* Climate change preparedness in the financial sector is a major policy gap identified in the CCPA report. The preparedness of the financial sector to manage climate-related risks is inadequate and the absence of a mechanism for collecting data and reporting on banks' lending exposure to climate-related risks is a concern. On the financing

[16] Staff also consulted with other partners, including the African Development Bank, The European Commission, UNECA and the Global Climate Fund.

[17] The World Bank is preparing a US$25 million package for the Third Fiscal Sustainability and Climate Resilience Development Policy Loan (or DPF3) for approval in November 2023. The DPF focuses on promoting climate adaptation and mitigation actions in key sectors. The African Development Bank has also provided climate-related financing to Seychelles. These MDB operations have strong synergies with the RSF and contain elements that will further crowd-in private sector climate finance.

side, the government has employed innovative financing instruments such as the Blue Bond, debt-for-nature swap, and secured fundings from multilateral institutions (Box 2) to support green private sector projects. However, the scale of financing has been insufficient, and the government lacks an overarching strategy to deploy alternative financing instruments and mobilize financial resources at the scale needed.

- *Mitigation, Adaptation and Disaster Financing*. Additional policies and reform efforts are necessary to achieve effective implementation of climate change adaptation and mitigation goals in the NDCs. A rapid expansion of renewable energy investment is key to Seychelle's climate mitigation strategy, and private sector investment in utility and small-scale renewable electricity generation will play an essential role. A significant climate mitigation potential also exists in other sectors such as transport and waste management. Both fiscal policy and operational frameworks need to be put in place to facilitate these climate mitigation investments. The absence of an institutional framework and guidelines constitutes an obstacle to the transition towards renewable energy. Making the building sector green and resilient to climate and disaster risks is a priority area. At the same time, the country lacks a disaster risk financing framework at the national level to help meet the financing needs associated with different magnitudes of natural disasters.

44. In response to the above analytical underpinning, the RSF targets strong reform measures aimed at delivering tangible outcomes in the following three areas (Figure 4, MEFP Table 3).

- *Reform Area 1. Enabling Climate-Smart Infrastructure Investment and Fiscal Management.* The first RSF pillar aims to create an enabling environment to promote infrastructure investments that are green, resilient, and supportive of the Blue Economy, as well as mainstream climate-related risks into the fiscal planning and budgeting processes. To this end, priority climate adaptation and mitigation objectives in the NDC will be integrated in the forthcoming National Development Strategy 2023-2027 (*RM1*), climate-related expenditures will be identified/reported and a quantitative long-term fiscal sustainability analysis including climate risks will be conducted as part of the FY2025 budget process (*RM4*) , and the PIM policy will be revised to include methodologies that incorporate climate-related issues in project selection criteria and project appraisals, and applied to at least two major infrastructure projects by September-2024 and to all new major infrastructure projects going forward (*RM3*). The core PIMA recommendations[18] will be implemented concurrently to support the achievement of these RMs.

[18] More specifically, (i) enforce the PIM Policy for preparation of appraisal information; review thresholds for determining major projects and submit major projects to rigorous appraisal and (ii) develop a database of appraised projects and create and apply selection criteria for prioritizing them. Strengthen the authorization process for projects entering the PSIP.

Figure 4. Seychelles: Proposed Reform Measures for RSF

Board Approval	1st Review	2nd Review	3rd Review	4th Review	5th Review	6th Review
Reform Area 1: **Enabling Climate-Smart Infrastructure Investment and Fiscal Management**	**RM1:** The Ministry of Finance, National Planning, and Trade (MoFNPT) integrates priority climate adaptation and mitigation objectives stipulated in the National Determined Contribution (NDC) in the forthcoming National Development Strategy 2023-2027, to ensure that investment decisions are consistent with the outcomes expected in the NDC.		**RM3**: The MoFNPT updates the Public Investment Management Policy and includes (i) the requirements for the use of methodologies to identify net GHG emission, emission reduction alternatives, and climate resilience of projects in ex-ante project appraisals and (ii) project selection criteria that is fully aligned with the NDC; and (iii) applies the updated project appraisal to at least two major infrastructure projects by end-September 2024 and all new major infrastructure projects going forward. **RM4:** As part of the FY2025 budget process, the MoFNPT (i) identifies climate-related expenditures, including those with positive and negative climate effects, in Program Performance Based Budget (PPBB) and reports a summary climate statement in PPBB document, and (ii) conducts long-term fiscal sustainability analysis under different climate scenarios, assess the main discrete fiscal risks related to climate change.			
Reform Area 2: **Financial Sector Resilience and Climate Finance Mobilization**			**RM5.** To scale up climate finance, (i) the cabinet adopts a national climate finance mobilization strategy that comprehensively covers the financing instruments to unlock international climate finance from public and private sources; and (ii) the MoFNPT, together with relevant sector ministries, develop and submit a pipeline of appraised climate-related projects for recommendation by the Inter-Ministerial Committee and approval by the MoFNPT as part of the budget process.	**RM6.** The Central Bank of Seychelles (CBS) (i) issues guidelines for banks on reporting and disclosure of climate-related risks in accordance with international standards, (ii) establishes a data repository and reporting template for banks' lending exposure to climate-related risks, and (iii) publishes a summary climate risk exposure report which includes at least two major commercial banks.	**RM9.** The CBS adopts and implements a stress testing framework incorporating climate-related risks, and publishes a financial sector climate stress testing exercise starting with a macro prudential approach. **RM10.** In accordance with the national climate finance mobilization strategy adopted in RM5, (i) the cabinet adopts an implementation framework including institutional mechanisms, financing modalities, and necessary guidelines; and (ii) the MoFNPT, together with relevant sector ministries, secure* funding for at least one major adaptation or mitigation project that contributes directly to the NDC. *funding secured in the budget and/or loan agreement signed	
Reform Area 3: **Climate Mitigation and Adaptation Policy and Disaster Risk Financing**		**RM2.** The cabinet of ministers approves the new draft building legislation that integrate climate adaptation and mitigation aspects.		**RM7.** The MoFNPT, together with the Disaster Risk Management Division, develop and adopt a comprehensive national Disaster Risk Financing Strategy (DRSF) considering complementary instruments that meet the financing needs. **RM8.** To scale-up renewable energy in the context of the new Electricity Act and the NDC, (i) the Utility Regulatory Commission (URC) adopts and implements a rates determination framework for renewable energy sources under the net billing and gross metering schemes and publishes the cumulative installed capacity of distributed renewable energy in accordance with the Distributed Generation System Regulations, (ii) the Ministry of Agriculture, Climate Change, and Environment (MoACCE) adopts a Power Procurement Plan from independent power producers (IPPs) that is consistent with the Integrated Electricity Plan, and the URC approves a competitive selection process for renewable energy IPPs in accordance with the IPP Regulations, and (iii) the URC approves an implementation framework for a multi-year tariff system for end-use electricity tariffs that are cost-reflective and publishes tariff trajectory in accordance with the Electricity Tariff Setting Regulations.		**RM11.** The MoFNPT introduces green fiscal and tax incentives to promote positive environmental outcomes and reduce greenhouse gas emissions to support the NDC (for example, congestion fees, feebates, environmental levy, and/or price incentives for waste reduction).

Source: IMF staff.

- *Reform Area 2. Financial Sector Resilience and Climate Finance Mobilization.* The second pillar seeks to strengthen financial sector resilience to climate-related risks and help close climate financing gaps through catalyzing public and private sector investments. Enhancing the financial sector's capacity to manage climate change risks is crucial for Seychelles, given that it is a tourism-dependent small island state where climate events could easily escalate into macro-critical shocks to financial institutions. The proposed reform package, which will initiate the implementation of climate risk disclosure, including issuing guidelines, establishing data repository and reporting template, and publishing disclosure reports of at least two major commercial banks (*RM6*) and the implementation of climate stress testing for the overall financial system based on a macro-prudential approach (*RM9*), will serve as a first step in promoting climate resilience of the financial sector. On the financing front, the reform measures will ensure that the government adopts a national climate finance mobilization strategy that considers different financing instruments and develops a robust pipeline of climate investment projects (*RM5*) and establishes an implementation framework that clearly sets out institutional mechanisms and financing modalities, and secure funding for at least one major adaptation or mitigation project (*RM10*).
- *Reform Area 3. Climate Mitigation, Adaptation and Disaster Risk Financing.* This reform area aims at addressing policy and institutional gaps critical to the successful implementation of sectoral climate actions. To scale-up private sector investment in renewable energy within the context of the new Electricity Act, inter-connected mechanisms will be put in place to (i) determine rates under the net billing and gross metering schemes, (ii) adopt the renewable Power Procurement Plan and establish a competitive selection process of renewable energy IPPs, and (iii) implement a multi-year electricity tariff system for end-use electricity tariffs that are cost-reflective (*RM8*). This reform measure complements areas of World Bank technical and financial support to the government in transitioning to renewable energy, particularly the adoption of the new Electricity Bill. A new building legislation that integrates climate adaptation and mitigation aspects will be approved (*RM2*), and a comprehensive national Disaster Risk Financing Strategy will be adopted, including the scope, coverage and financial sources. (*RM7*). Moreover, additional green fiscal incentives to promote green and environmentally sustainable investments will be introduced (*RM11*). The authorities have reaffirmed their commitment to achieving carbon emission targets, including in the context of oil exploration agreements (which they plan to implement with necessary environmental protection measures, MEFP ¶79).

45. The proposed RMs are a part of the joint climate change endeavor with the World Bank. The World Bank is in the process of completing the final disbursement of Development Policy Loan (DPL) at end-2023 and is on course to initiate the subsequent series next year. To exploit synergies and prevent direct overlaps, staff is closely collaborating with the World Bank team to maintain a well-coordinated reform matrix. For example, in terms of energy transition, the World Bank is focusing on helping the authorities adopt the implementation regulations of the Electricity Bill in the near term, while the RSF concentrates on medium-term reforms to operationalize key aspects including a cost-reflective multi-year electricity tariff setting regime, enabling renewable energy IPPs, as well as rates determination mechanisms for the net billing and gross metering schemes. Similarly, the World Bank new operation will promote sector-specific climate actions in the waste management and fisheries sectors, while the RSF primarily focuses on cross-cutting reforms such as fiscal incentives to curb greenhouse gas emission, financial sector regulations, and PIM and public financial management related measures.

46. The mission evaluated the needs for CD support in each reform area, and subsequent discussions with the IMF functional departments and the World Bank are underway to meet the needs. Table 3 of the MEFP presents the need for capacity development for each reform measure. The authorities are in consultation with the FAD for CD support on RM3 and RM4 as well as the implementation of C-PIMA action plans. The World Bank is also providing a partial technical support for RM3 and has assisted the authorities with technical aspects of the electricity regulations. On the financial sector front, the authorities have engaged an external advisor to develop a climate finance strategy and are in contact with the MCM and US OTA for technical assistance in conducting stress-testing exercises. During the course of the RSF program, staff will continually evaluate the need for capacity building to ensure the successful implementation of the proposed reform measures.

47. With the resources available from the RSF, Seychelles plans to augment its investment in climate change adaptation and transition initiatives. Considering the country's economic structures and size, the focus will be on strengthening capacity and building infrastructure for effective climate change adaptation and transition. Among other things, the reforms envisaged under the RSF, including PIM, adaptation and mitigation, will help remove bottlenecks and strengthen the climate-resilience of public investment. These reforms are also expected to enable higher public spending on climate-related investments over the medium term. With these likely to have a high import content, the RSF will help address the new prospective BOP financing needs as they emerge over time. Climate related investments envisaged in the medium-term budget include: (i) marine life and coastal management projects (e.g., Restoring Marine Ecosystem Services – Coral Reefs Project), (ii) energy transition projects (e.g., Government Building Rooftop Photo Voltaic project, Shift to Electric Mobility project) and (iii) waste management projects (Islands Projects – chemical and waste management in various Islands). More projects will be incorporated in the budget as RMs, including climate finance reforms, are implemented. Seychelles is collaborating with various international and government organizations to expand the financial resources for climate adaptation investments. The RSF will play a crucial role in facilitating the process. Staff will monitor the progress of the RM implementation and offer necessary guidance if warranted.

PROGRAM MODALITIES

48. Staff proposes a 36-month arrangement under the EFF with semi-annual reviews (Table 9).[19] This would offer sufficient time for the authorities to achieve key program objectives of promoting long-term growth and increasing resilience. Quantitative performance criteria (QPCs) and indicative targets (ITs) will be set and monitored (MEFP, Table 1). The program also envisages several structural benchmarks to monitor progress in the implementation of structural reforms (MEFP, Table 2).

[19] The authorities have cancelled the current extended arrangement under the EFF, but the strong performance on the targets associated with its fourth review contributes to the track record of the authorities' sustained policy commitment.

Box 2. Mobilizing Public and Private Climate Finance for Seychelles

Seychelles has been a pioneer in utilizing innovative financing instruments to support climate and environmental investments, albeit on a small scale.

- In 2015, Seychelles became the first country to successfully close a debt conversion for marine conservation and climate adaptation. The government established the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) to raise grant and loan capital for the debt conversion. The Trust was financed by a $15.2 million loan from the Nature Conservancy (TNC) and $5 million in grants from philanthropic organizations. The Trust then extended a loan of $20.2 million to the Seychelles government to re-purchase $21.6 million of its sovereign debt owed to Paris Club creditors, at a small discount (6.5 percent). The debt conversion effectively redirected the Seychelles' debt payments from official creditors to the newly created local trust, and restructured debt payments to more favorable terms (i.e., longer term and partial conversion to local currency). As part of this operation, the Seychelles government committed to improve policies and increase investment around marine conservation and climate adaptation. The debt conversion is expected to contribute to the creation of the Indian Ocean's second largest marine reserve. With this and subsequent fundings, SeyCATT provides grants of at least US$750,000 per annum to promote the stewardship of Seychelles' ocean resources, blue economy, and climate change adaptation.
- In 2018, Seychelles issued the world's first sovereign Blue Bond, an innovative financial instrument aimed at supporting sustainable marine and fisheries initiatives. The bond (in total of US$15 million) showcased the potential for countries to tap into capital markets to finance the sustainable utilization of marine resources. The World Bank assisted in the issuance of the Blue Bond and in reaching out to global investors. The proceeds, which consist of grants (US$3 million) and loans (US$12 million), have been distributed via the Blue Grants Fund and Blue Investment Fund. The Fund is managed by the SeyCCAT, while the Grant is the Development Bank of Seychelles (DBS), respectively.
- Seychelles has also been receiving project financing from the Global Climate Fund (GCF) and the Global Environment Facility (GEF). GCF is currently supporting 4 regional projects with a total share of US$23.4 million going to Seychelles, including Sustainable Renewables Risk Mitigation Initiative (SRMI) Facility and Global Fund for Coral Reefs Investment Window. The GEF currently has 10 active national projects with Seychelles, amounting to US$30.3 million worth of financial support to co-finance investment projects in the areas of biodiversity, land degradation, and climate change.

Selected List of Projects Supported by GCF and GEF

Project Name	Institution
Building Regional Resilience through Strengthened Meteorological, Hydrological and Climate Services in the Indian Ocean Commission Member Countries	GCF
Ecosystem-based Adaptation in the Indian Ocean.	GCF
Prioritizing Biodiversity Conservation and Nature-based Solutions as Pillars of Seychelles' Blue Economy (with UNDP)	GEF
Support the Shift to Electric Mobility in the Seychelles (with UNEP)	GEF

A core element of the proposed RSF reforms includes broadening the financial resources to address climate change by strategically increasing the mobilization of climate finance (RM5, RM10). The proposed RMs take a phased approach. By September 2024, the cabinet aims to adopt a national climate finance mobilization strategy that covers the financing instruments from public and private sources, while the ministry of finance submits a pipeline of appraised climate-related projects as a part of budget process. The authorities have enlisted an external advisor from the Commonwealth Secretariat to assist in developing an overarching strategy. In the second phase, by October 2025, the authorities plan to adopt an implementation strategy and secure funding for at least one significant adaptation or mitigation project that directly contributes to the NDC. This will involve securing funds in the budget and/or signing a loan agreement

49. Staff proposes a 36-month RSF arrangement, with reform measures attached to each review (MEFP, Table 3). The RSF arrangement will address the authorities' efforts to become more resilient to climate change and achieve its NDC commitments by taking outcome-oriented cross-sectoral reforms and climate adaptation and mitigation measures. The disbursed amounts for each review will follow the schedule of reform measures and as such will be unequal across reviews.

50. Staff proposes access of 185 percent of quota (SDR 42.365 million, or around US$57 million) under the EFF to be used as budget support. Notwithstanding Seychelles' progress under its current EFF (strong growth rebound, lower and sustainable debt), structural BOP needs persist, near and medium-term investment needs (and the associated imports) would be higher, and reserves need to be bolstered (they are now at the lower end of the adequacy range). The proposed EFF access also reflects the strength of envisaged reforms and financing needs, and aims to catalyze financing from other sources, including the World Bank and the AfDB (US$ 77 million in 2023, Table 6). The proposed access level would help increase external buffers in the near term (international reserves would rise to nearly 4 months of imports). In addition, the proposed reforms will help address the structural impediments to growth and weaknesses in the balance-of-payments position.

51. Staff proposes access of 150 percent of quota (SDR 34.35 million, or around US$46 million) under the RSF. Seychelles is eligible for the RSF. A strong and comprehensive policy package of the proposed RSF reforms, large prospective BOP needs associated with its implementation and the country's long-term climate objectives, and adequate capacity to repay suggest that the maximum access under the RSF is warranted, to help Seychelles continue making significant progress. The country's strong track record with climate-related reforms provides assurances on the ambitious policy package (Annex IV). The RSF reform package is comprehensive—it cuts across key policy areas and sectors from both adaptation and mitigation perspectives—and places a strong emphasis on exploiting synergies and catalyzing other sources of climate financing. These reform priorities contain significant outcome-oriented measures that are expected to lead to tangible changes in the authority's decision making, including by applying newly adopted frameworks to specific infrastructure projects or to the budget process to safeguard climate-spendings in the context of the envisioned fiscal consolidation. Disbursements will be equally split among the reform measures adopted under the RSF.

52. Seychelles' capacity to repay the Fund is adequate but remains subject to risks (Table 10 and Figure 8). The economic recovery started in 2021 has generated significant repayment capacity. The authorities' commitment to the program and their sound repayment history provide assurance. The Fund credit-to-GDP ratio will peak at 7.9 percent in 2025. This is higher than in most recent cases, reflecting Seychelles' relatively small GDP. The Fund credit to GIR ratio is projected to peak at 22.3 percent in 2025. With the proposed new EFF arrangement, Fund exposure to Seychelles will remain high for an extended period.

53. Staff has worked closely with development partners to leverage comparative expertise and institutional knowledge in defining policy priorities under the new EFF and RSF arrangements. Bank staff has provided an assessment letter on the authorities' climate policies for information for the IMF Executive Board discussion of the RSF request. Development partners are actively engaged in technical assistance related to climate related policy reforms (Annex IV).

54. An update of the safeguards assessment of the CBS will be conducted ahead of the completion of the first EFF and RSF reviews. The last safeguards assessment was completed in June 2021 and the CBS has implemented most recommendations, except for amending the CBS Act. The authorities are committed to submit to Cabinet by June 2023 amendments to the CBS Act aimed at, inter alia, strengthening governance and oversight, enhancing institutional and personal autonomy, and safeguarding financial autonomy (structural benchmark for end-June 2023). Separately, the framework agreement (i.e., MoU) between the CBS and the government on respective responsibilities for servicing respective financial obligations to the IMF will need to be updated.

55. Capacity development activities are closely linked to the implementation of both EFF and RSF program priorities (Annex VI). CD under the new EFF will focus mainly on DRM, PIMA priorities, and the monetary policy operational framework. CD under the RSF will focus on adopting green PFM and climate-sensitive PIM practices.

56. Risks to the new EFF and RSF arrangements are assessed to be moderate, and the EFF arrangement is fully financed in the first 12 months, with good prospects for the remainder of the program (¶ 50). Program risks from high global and regional uncertainty and decline in available concessional resources remain but will be moderated by Seychelles' strong track record under a series of Fund-supported programs, and commitments to strengthen fiscal risk management and contingent planning under the new program.

STAFF APPRAISAL

57. Seychelles has performed well under its current EFF, yet further reforms are needed to secure sustainable, inclusive, and resilient growth going forward. The authorities' policies under the EFF have supported the strong recovery of economic activity, lowered public debt, contained inflation, and provided necessary pandemic-related support for households and the private sector. They have also helped address the fallout of Russia's war in Ukraine, by providing temporary assistance to the most vulnerable households. However, public debt-to-GDP remains above its pre-pandemic level and tax revenue-to-GDP is below its pre-pandemic level. While monetary policy has been appropriately accommodative in light of moderate inflation and the need to support the recovery, the framework for implementing monetary policy needs to be strengthened to improve the transmission of monetary policy. The external position of Seychelles was assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies.

58. The authorities are committed to continuing their reform efforts by tackling remaining medium and long-term structural challenges and pivoting away from pandemic-related emergencies. To promote sustainable and inclusive growth, the authorities plan to boost investment in critical infrastructure, including climate-related ones. To make room for such investment, the authorities are committed to continuing their fiscal consolidation effort through revenue gains and prudent spending. This will help keep debt-to-GDP on a downward trajectory. The authorities should step up efforts to improve the targeting and the efficiency of social spending.

59. Improving the monetary policy implementation framework will be key to improving the effectiveness of monetary policy. In this respect, several reforms are envisaged over the medium term, with support from the Fund and other partners. The authorities have started draining excess liquidity since January 2023 through increasing volumes of weekly deposit auctions. They are finalizing their action plan to strengthen monetary policy operations, including the re-operationalization of CBS's repo instrument. The authorities remain vigilant against inflation risks and remain ready to tighten the monetary policy stance if needed. The exchange rate should continue being used as a shock absorber, with foreign exchange interventions limited to smoothing out disorderly exchange rate fluctuations.

60. The authorities are proactively monitoring the financial system and are planning various reforms to strengthen its resilience. The unwinding of pandemic-related forbearance measures has contributed to the rise of NPLs. CBS will conduct a follow up stress test with a forward-looking analysis on NPLs, which will serve as the basis for remedial measures, if required. A Financial Stability Bill and a Bank Recovery and Resolution Bill are under preparation, with a view of strengthening the resilience of the financial system.

61. Seychelles is at the forefront of climate actions and should continue strengthening its climate policies as well as their implementation. Given the country's vulnerability to climate change, the authorities have been proactive in initiating actions to tackle climate risks. In this respect, they issued the world's first debt-for-nature swap and blue bond. They should step up their efforts in implementing critical climate policies and actions identified by various diagnostic tools, including the NDC, the Climate-PIMA and the CCPA.

62. Staff supports the authorities' request for a 36-month EFF and 36-month RSF. The arrangements would support Seychelles' commendable efforts to tackle medium-term economic challenges and address climate risks. In view of Seychelles' external financing needs and the authorities' strong policy commitments, staff supports the authorities' request for an arrangement under the EFF. In addition, Seychelles has presented a strong and comprehensive package of reforms to address its climate-related challenges. Staff encourages the authorities to leverage the RSF to exploit synergies with other official financing and catalyze further private financing for climate mitigation and adaptation efforts.

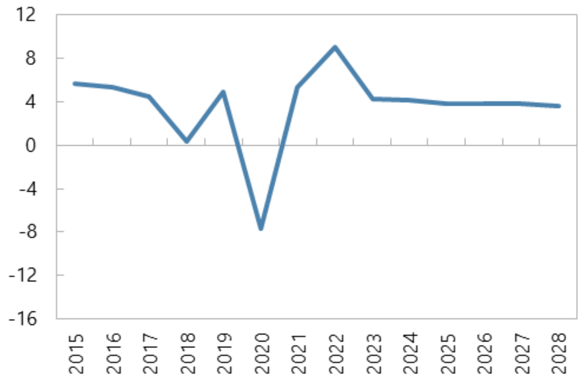
Figure 5. Seychelles: Indicators of Economic Activity

Sources: Seychelles authorities, and IMF Staff calculations.

Figure 6. Seychelles: Macroeconomic Indicators

After experiencing a V-shaped recovery, economic growth is expected to moderate.

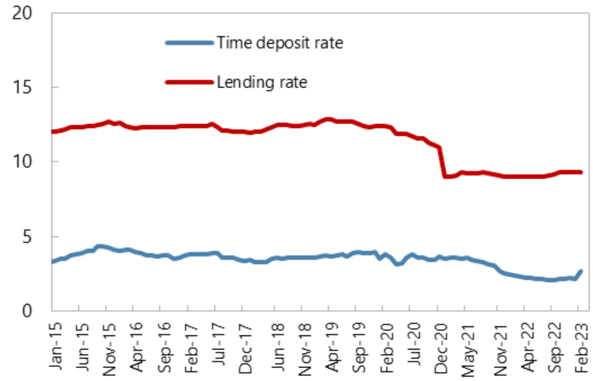
Real GDP Growth, 2015-28



Interest rates remain unchanged as inflation remains moderate and monetary policy rate unchanged since 2021.

Interest Rates, Jan'15–Feb'23

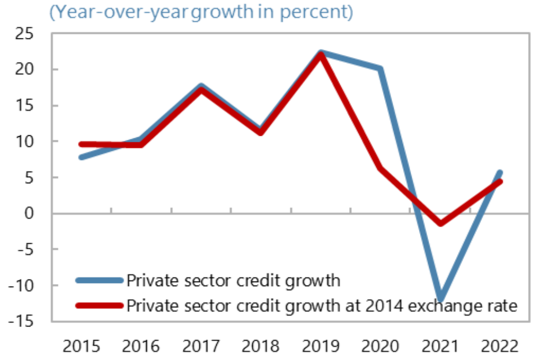
(In Percent)



Private sector credit started to recover in line with economic growth and the accommodative monetary policy.

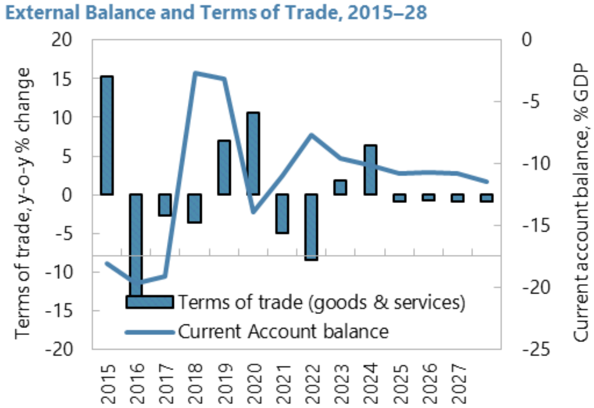
Credit to the Private Sector, 2015-22

(Year-over-year growth in percent)



The external position has improved with the recovery in tourism

External Balance and Terms of Trade, 2015–28

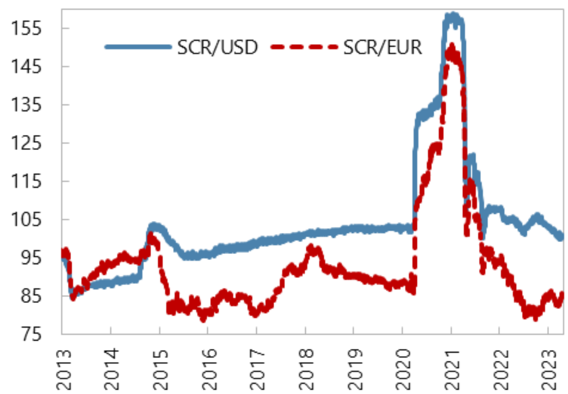


Sources: Seychelles authorities, and IMF Staff calculations.

Figure 7. Seychelles: Macroeconomic Developments and Projections

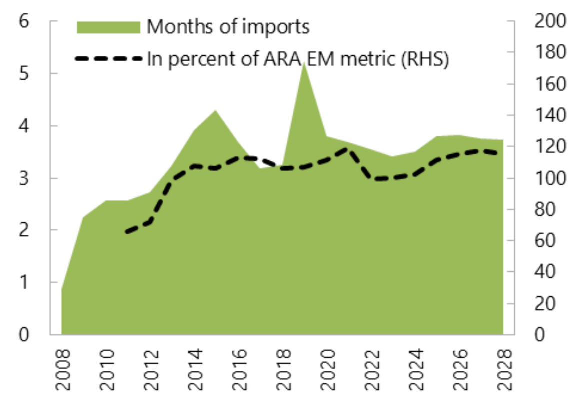
The pace of the rupee appreciation has moderated….

Daily Exchange Rates Index, Jan'13-Apr'23
(December 31, 2011 = 100)



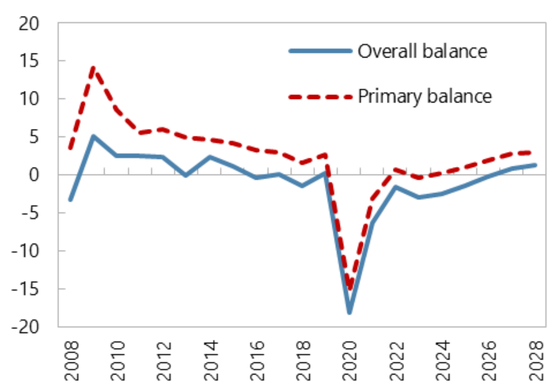
Reserves are reduced due to lower financial support from creditors and increased debt service needs higher fuel and food prices…

Reserves Adequacy, 2008-28 [1]



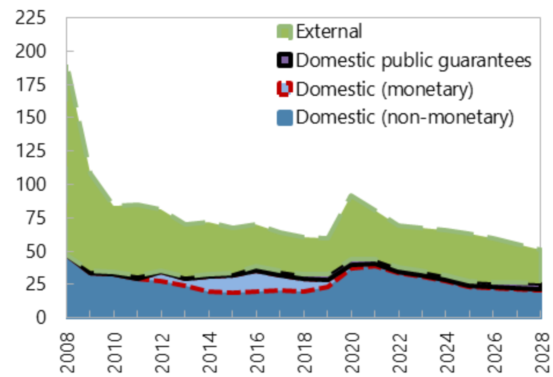
Fiscal policy remains prudent…

Fiscal Balances, 2008–28
(Percent of GDP)



…thereby helping preserve debt sustainability.

Stock of Public Debt, 2008–28
(Percent of GDP)



[1] Data for the ARA EM metric are not available prior to 2011.

Sources: Seychelles authorities, and IMF Staff calculations.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.		Prel.			Proj.			
	(Annual percent change, unless otherwise indicated)								
National income and prices									
Nominal GDP (millions of Seychelles rupees)	21,458	23,209	26,112	27,666	29,309	31,366	33,554	35,909	38,317
Real GDP (millions of Seychelles rupees)	19,987	21,062	22,966	23,952	24,943	25,908	26,901	27,942	28,948
Real GDP	-7.7	5.4	9.0	4.3	4.1	3.9	3.8	3.9	3.6
CPI (annual average)	1.2	9.8	2.6	1.4	2.0	3.5	3.5	3.5	3.5
CPI (end-of-period)	3.8	7.9	2.5	2.2	2.4	3.6	3.5	3.5	3.5
GDP deflator average	0.7	2.6	3.2	1.6	1.7	3.0	3.0	3.0	3.0
Money and credit									
Broad money	29.1	5.8	4.4	...	...	...	...	...	...
Reserve money (end-of-period)	40.4	11.1	-3.0	...	...	...	...	...	...
Velocity (GDP/broad money)	0.9	0.9	0.9	...	...	...	...	...	...
Money multiplier (broad money/reserve money)	3.9	3.7	4.0	...	...	...	...	...	...
Credit to the private sector [5]	20.2	-11.9	4.9	7.3	8.0	7.8	7.6	7.4	7.4
	(Percent of GDP, unless otherwise indicated)								
Savings-Investment balance									
External savings	14.0	11.0	7.6	9.5	10.1	10.7	10.7	10.8	11.5
Gross national savings	8.4	15.0	15.5	16.2	16.7	16.2	16.1	16.1	15.2
Of which : government savings	-13.4	-3.3	0.8	1.4	2.5	4.0	5.0	6.0	6.5
private savings	21.8	18.3	14.7	14.8	14.2	12.2	11.0	10.1	8.7
Gross investment	22.3	25.9	23.1	25.7	26.8	27.0	26.8	26.8	26.7
Of which : public investment [1]	4.8	5.6	2.7	5.2	6.3	6.4	6.2	6.2	6.1
private investment	17.5	20.3	20.4	20.5	20.5	20.6	20.6	20.6	20.6
Private consumption	38.5	42.8	46.8	45.6	45.3	48.0	48.8	49.6	50.3
	(Percent of GDP)								
Government budget [4]									
Total revenue, excluding grants	33.3	33.0	33.3	34.3	34.8	34.9	34.9	34.7	34.6
Expenditure and net lending	53.3	42.4	35.3	38.7	38.8	37.3	36.0	34.8	34.0
Current expenditure	46.8	36.6	32.5	33.0	32.3	31.1	29.8	28.7	28.1
Capital expenditure [1]	4.8	5.7	2.7	5.2	6.3	6.4	6.2	6.2	6.1
Overall balance, including grants	-19.0	-6.0	-1.6	-2.9	-2.5	-1.4	-0.2	0.8	1.3
Primary balance	-15.2	-3.2	0.7	-0.4	0.2	1.0	2.0	2.8	3.0
Total government and government-guaranteed debt [2]	91.9	80.8	69.2	67.6	66.0	63.1	59.6	55.3	51.2
External sector									
Current account balance including official transfers									
(in percent of GDP)	-14.0	-11.0	-7.6	-9.5	-10.1	-10.7	-10.7	-10.8	-11.5
Total external debt outstanding (millions of U.S. dollars) [3]	5,049	5,261	5,391	5,584	5,791	5,994	6,111	6,191	6,050
(percent of GDP)	414.2	382.9	293.2	285.0	279.0	269.8	257.2	243.4	223.0
Terms of trade (-=deterioration)	10.6	-5.0	-8.4	1.8	6.4	5.3	0.0	0.0	0.0
Gross official reserves (end of year, millions of U.S. dollars)	575	702	639	655	700	787	824	847	858
Months of imports, c.i.f.	3.8	3.7	3.6	3.4	3.5	3.8	3.8	3.8	3.7
In percent of Assessing Reserve Adequacy (ARA) metric	111	119	100	100	102	112	115	117	115
Exchange rate									
Seychelles rupees per US$1 (end-of-period)	21.0	14.7	14.3	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	17.6	16.9	14.2	...	...	...	...	...	...

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

[1] Includes onlending to the parastatals for investment purposes.

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

[3] Includes private external debt.

[4] The fiscal program targets at the approval of the EFF are now presented in percent of the new GDP.

[5] Changes reflect the effect of exchange rate movements on the calculation of FX denominated credit in rupees.

Table 2. Seychelles: Balance of Payments, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.		Prel.			Proj.			
	(In millions of US dollars, unless otherwise indicated)								
Current account balance (+ surplus; - deficit)	-170	-151	-140	-187	-210	-239	-255	-274	-311
(percent of GDP)	-14.0	-11.0	-7.6	-9.5	-10.1	-10.7	-10.7	-10.8	-11.5
Balance of goods and services (+ surplus; - deficit)	-92	-70	-45	-83	-91	-130	-128	-131	-135
Exports of goods	473	516	563	565	608	634	655	680	707
Of which: oil re-exports	149	162	193	172	188	186	186	188	194
Of which: tuna exports	252	276	283	306	313	326	339	354	375
Imports of goods	832	1,023	1,294	1,265	1,290	1,338	1,364	1,381	1,428
Of which: oil imports	144	197	299	270	268	266	266	268	278
Exports of services	767	1,235	1,681	1,507	1,599	1,641	1,706	1,783	1,862
Of which: tourism earnings	327	588	932	854	910	947	985	1,024	1,066
Imports of services	500	798	995	890	1,008	1,067	1,125	1,213	1,275
Balance on primary income (+ surplus; - deficit)	-64	-81	-80	-92	-104	-90	-108	-121	-150
Of which: interest due	30	28	27	30	34	36	47	50	42
transfers of profits and dividends	11	4	8	8	8	8	8	8	20
Balance on secondary income (+ surplus; - deficit)	-13	0	-16	-12	-16	-19	-19	-22	-26
Of which: general government, net	18	31	15	26	20	15	16	15	13
Capital account	21	24	10	17	24	20	19	19	20
Financial account [1]	-93	-207	-55	-175	-216	-277	-273	-293	-319
Direct investment, net	-135	-160	-226	-219	-241	-328	-349	-376	-400
Abroad	-7	-7	-37	-37	-43	-49	-56	-65	-74
In Seychelles	128	153	190	182	199	279	293	312	326
Of which: offshore sector	0	0	0	0	0	0	0	0	0
Portfolio investment, net	97	-13	5	19	16	16	16	2	2
Other investment, net	-54	-34	166	25	9	35	59	81	80
Government and government-guaranteed	1	-37	-3	-43	-48	-31	11	24	12
Disbursements	35	73	43	93	101	79	38	11	4
Project loans	4	9	5	16	42	54	13	1	4
Program loans	31	64	38	77	59	25	25	10	0
World Bank	21	44	25	32	29	15	15	0	0
African Development Bank	10	20	0	45	10	10	10	0	0
Others	0	0	13	0	20	0	0	10	0
SDR allocation	0	0	0	0	0	0	0	0	0
Amortization	-36	-36	-40	-50	-53	-48	-49	-35	-31
Others	-55	3	168	68	57	66	48	57	68
Net errors and omissions	0	0	0	0	0	0	0	0	0
Overall balance	-56	80	-75	6	30	58	37	38	28
Financing	56	-80	75	-6	-30	-58	-37	-38	-28
Change in net international reserves (increase: +)	-56	80	-75	6	30	58	37	38	28
Change in gross official reserves (increase: +)	-32	143	-63	16	46	86	37	23	11
Change in liabilities to IMF, net	25	63	12	10	15	28	0	-16	-16
Purchases/drawings	32	68	17	21	33	37	12	0	0
Repurchases/repayments	7	6	5	11	18	9	12	16	16
Other net foreign assets (increase: +)	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Exports G&S growth, percent	-41	41	28	-8	7	3	4	4	4
Tourism growth, percent	-62	80	58	-8	7	4	4	4	4
Exports of goods volume growth, percent	18	-16	-14	3	15	11	3	3	3
Imports G&S growth, percent	-34	37	26	-6	7	5	4	4	4
Imports of goods volume growth, percent	-19	0	9	-1	3	5	2	1	3
Exports G&S, percent of GDP	102	127	122	106	106	102	99	97	95
Imports G&S, percent of GDP	109	133	124	110	111	108	105	102	100
FDI, percent of GDP	11	12	12	11	12	15	15	15	15
Gross official reserves (stock, e.o.p.) [2]	575	702	639	655	700	787	824	847	858
(Months of imports of goods & services)	4	4	4	3	3	4	4	4	4
Percentage of IMF reserve adequacy metric	111	119	100	100	102	112	115	117	115
Government and government-guaranteed external debt	489	575	582	638	707	785	781	730	684
(Percent of GDP)	48	42	32	33	34	35	33	29	25
GDP (Millions of U.S. dollars)	1,219	1,374	1,839	1,959	2,076	2,221	2,376	2,543	2,714

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

[1] Per STA recommendations, net lending under financial account is recorded as positive following BPM6 guidance.

[2] The level of GIRs computed from the BOP includes the budget support.

Table 3a. Seychelles: Consolidated Government Operations, 2020-28
(Millions of Seychelles rupees)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.		Prel.	Proj.					
				(Millions of Seychelles rupees)					
Total revenue and grants	7,543	8,367	8,800	9,899	10,647	11,244	12,019	12,755	13,528
Total revenue	7,156	7,667	8,688	9,476	10,196	10,932	11,697	12,444	13,241
Tax	6,369	6,721	7,392	8,393	9,121	9,839	10,595	11,323	12,110
Personal income tax	1,023	1,030	1,086	1,182	1,254	1,342	1,446	1,548	1,662
Trade tax	260	226	302	347	362	384	404	422	447
Excise tax	1,268	1,207	1,416	1,479	1,551	1,658	1,774	1,898	2,022
Goods and services tax (GST) / VAT	2,117	2,326	2,965	3,179	3,431	3,704	3,964	4,242	4,526
Business tax	1,204	1,457	1,207	1,543	1,777	1,942	2,148	2,298	2,482
Corporate Social Responsibility Tax (CSR)	102	61	10	0	0	0	0	0	0
Marketing Tourism Tax (MTT)	62	60	82	87	92	99	106	114	120
Other	334	310	294	545	594	650	694	743	792
Nontax	787	945	1,296	1,083	1,075	1,093	1,102	1,122	1,131
Fees and charges	263	366	389	394	408	426	430	433	438
Dividends from parastatals	414	441	790	560	543	543	547	550	553
Other	110	138	36	35	34	33	35	49	50
External grants	387	700	112	423	451	312	322	311	287
Expenditure and net lending	11,440	9,843	9,212	10,714	11,374	11,691	12,094	12,486	13,027
Current expenditure	10,037	8,496	8,476	9,132	9,470	9,741	10,004	10,302	10,749
Primary current expenditure	9,397	7,757	7,875	8,417	8,686	8,978	9,261	9,583	10,101
Wages and salaries [1]	2,845	2,760	2,793	3,305	3,542	3,630	3,684	3,790	4,055
Goods and services [1]	2,915	2,827	3,124	3,557	3,580	3,703	3,796	3,890	4,007
Transfers [1]	3,607	2,123	1,915	1,542	1,550	1,630	1,765	1,886	2,021
Social program of central government [3]	1,512	468	268	294	278	288	291	342	366
Transfers to public sector from central government	435	240	277	45	37	40	52	36	37
Benefits and programs of Social Security Fund [3]	1,660	1,415	1,370	1,203	1,235	1,302	1,422	1,507	1,618
Other	31	46	43	13	14	15	16	17	17
Interest due	640	739	600	715	784	762	742	719	648
Foreign interest	292	259	209	158	178	200	218	204	201
Domestic interest	348	480	391	557	605	562	525	515	447
Capital expenditure	1,032	1,248	716	1,407	1,842	1,939	2,078	2,235	2,327
Domestically financed	599	394	425	982	907	956	1,625	1,944	1,989
Foreign financed	432	853	169	425	936	983	453	292	338
Net lending	222	41	-15	125	-26	-38	-38	-102	-102
Contingency	149	58	35	50	88	50	50	50	53
Primary balance	-3,257	-736	188.4	-100	56	315	667	988	1,148
Overall balance, commitment basis [2]	-3,897	-1,475	-412	-815	-728	-447	-76	269	500
Change in float	-189	86	5	0	0	0	0	0	0
Overall balance, cash basis (after grants)	-4,086	-1,390	-407	-815	-728	-447	-76	269	500
Financing	4,086	1,390	407	815	728	447	76	-269	-500
Foreign financing	652	1,480	-22	742	894	837	-154	-554	-614
Disbursements	1,176	2,118	618	1,599	1,898	1,648	706	155	51
Project loans	46	153	139	220	594	765	185	18	51
Program/budget support	1,130	1,965	479	1,379	1,304	882	521	137	0
Of which RFI	535	0	0	0	0	0	1	2	3
Scheduled amortization	-523	-639	-640	-857	-1,005	-810	-859	-709	-665
Of which Paris Club buy-back									
Domestic financing, net	3,191	-27	380	-20	-256	-480	139	195	24
Bank financing	2,703	-192	378	-18	-230	-432	125	175	22
CBS	1,071	-781	681	0	0	0	0	0	0
Commercial banks	1,632	589	-304	-18	-230	-432	125	175	22
Nonbank financing	488	165	2	-2	-26	-48	14	19	2
Privatization and long-term lease of fixed assets	63	72	81	93	90	90	90	90	90
Statistical discrepancy	180	-90	-239	0	0	0	0	0	0
Memorandum item:									
Total social spending [3]	…	1,514	1,689	1,780	1,782	1,850	1,852	1,854	…

Sources: Seychelles authorities; and IMF staff estimates and projections.

[1] Wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

[2] Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

[3] The total amount of social spending considered in the IT (memorandum item) also includes items under goods and services and wages and salaries.

Table 3b. Seychelles: Consolidated Government Operations, 2020-28 [1]

(Percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.		Prel.	Proj.					
	(Percent of GDP, unless otherwise indicated)								
Total revenue and grants	35.2	36.1	33.7	35.8	36.3	35.8	35.8	35.5	35.3
Total revenue	33.3	33.0	33.3	34.3	34.8	34.9	34.9	34.7	34.6
Tax	29.7	29.0	28.3	30.3	31.1	31.4	31.6	31.5	31.6
Personal income tax	4.8	4.4	4.2	4.3	4.3	4.3	4.3	4.3	4.3
Trade tax	1.2	1.0	1.2	1.3	1.2	1.2	1.2	1.2	1.2
Excise tax	5.9	5.2	5.4	5.3	5.3	5.3	5.3	5.3	5.3
Goods and services tax (GST) / VAT	9.9	10.0	11.4	11.5	11.7	11.8	11.8	11.8	11.8
Business tax	5.6	6.3	4.6	5.6	6.1	6.2	6.4	6.4	6.5
Corporate Social Responsibility Tax (CSR)	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Marketing Tourism Tax (MTT)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	1.6	1.3	1.1	2.0	2.0	2.1	2.1	2.1	2.1
Nontax	3.7	4.1	5.0	3.9	3.7	3.5	3.3	3.1	3.0
Fees and charges	1.2	1.6	1.5	1.4	1.4	1.4	1.3	1.2	1.1
Dividends from parastatals	1.9	1.9	3.0	2.0	1.9	1.7	1.6	1.5	1.4
Other	0.5	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1
External grants	1.8	3.0	0.4	1.5	1.5	1.0	1.0	0.9	0.7
Expenditure and net lending	53.3	42.4	35.3	38.7	38.8	37.3	36.0	34.8	34.0
Current expenditure	46.8	36.6	32.5	33.0	32.3	31.1	29.8	28.7	28.1
Primary current expenditure	43.8	33.4	30.2	30.4	29.6	28.6	27.6	26.7	26.4
Wages and salaries [2]	13.3	11.9	10.7	11.9	12.1	11.6	11.0	10.6	10.6
Goods and services [2]	13.6	12.2	12.0	12.9	12.2	11.8	11.3	10.8	10.5
Transfers [2]	16.8	9.1	7.3	5.6	5.3	5.2	5.3	5.3	5.3
Social program of central government [4]	7.0	2.0	1.0	1.1	0.9	0.9	0.9	1.0	1.0
Transfers to public sector from central government	2.0	1.0	1.1	0.2	0.1	0.1	0.2	0.1	0.1
Benefits and programs of Social Security Fund [4]	7.7	6.1	5.2	4.3	4.2	4.2	4.2	4.2	4.2
Other	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Interest due	3.0	3.2	2.3	2.6	2.7	2.4	2.2	2.0	1.7
Foreign interest	1.4	1.1	0.8	0.6	0.6	0.6	0.6	0.6	0.5
Domestic interest	1.6	2.1	1.5	2.0	2.1	1.8	1.6	1.4	1.2
Capital expenditure	4.8	5.4	2.7	5.1	6.3	6.2	6.2	6.2	6.1
Domestically financed	2.8	1.7	1.6	3.5	3.1	3.0	4.8	5.4	5.2
Foreign financed	2.0	3.7	0.6	1.5	3.2	3.1	1.3	0.8	0.9
Net lending	1.0	0.2	-0.1	0.5	-0.1	-0.1	-0.1	-0.3	-0.3
Contingency	0.7	0.2	0.1	0.2	0.3	0.2	0.1	0.1	0.1
Primary balance	-15.2	-3.2	0.7	-0.4	0.2	1.0	2.0	2.8	3.0
Overall balance, commitment basis [3]	-18.2	-6.4	-1.6	-2.9	-2.5	-1.4	-0.2	0.8	1.3
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	-0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	-19.0	-6.0	-1.6	-2.9	-2.5	-1.4	-0.2	0.8	1.3
Financing	19.0	6.0	1.6	2.9	2.5	1.4	0.2	-0.8	-1.3
Foreign financing	3.0	6.4	-0.1	2.7	3.0	2.7	-0.5	-1.5	-1.6
Disbursements	5.5	9.1	2.4	5.8	6.5	5.3	2.1	0.4	0.1
Project loans	0.2	0.7	0.5	0.8	2.0	2.4	0.6	0.0	0.1
Program/budget support	5.3	8.5	1.8	5.0	4.4	2.8	1.6	0.4	0.0
Of which RFI	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-2.4	-2.8	-2.5	-3.1	-3.4	-2.6	-2.6	-2.0	-1.7
Of which Paris Club buy-back									
Domestic financing, net	14.9	-0.1	1.5	-0.1	-0.9	-1.5	0.4	0.5	0.1
Bank financing	12.6	-0.8	1.4	-0.1	-0.8	-1.4	0.4	0.5	0.1
CBS	5.0	-3.4	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	7.6	2.5	-1.2	-0.1	-0.8	-1.4	0.4	0.5	0.1
Nonbank	2.3	0.7	0.0	0.0	-0.1	-0.2	0.0	0.1	0.0
Privatization and long-term lease of fixed assets	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Statistical discrepancy	0.8	-0.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (millions of Seychelles Rupees)	21,458	23,209	26,112	27,666	29,309	31,366	33,554	35,909	38,317
Total social spending [4]	…	6.5	6.5	6.4	6.1	5.9	5.5	5.2	…

Sources: Seychelles authorities; and IMF staff estimates and projections.

[1] The fiscal program targets at the approval of the EFF are now presented in percent of the new GDP. Data include the central government and the social security system.

[2] Wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

[3] Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

[4] The total amount of social spending considered in the IT (memorandum items) also includes items under goods and services and wages and salaries.

Table 4. Seychelles: Depository Corporations Survey and Central Bank Accounts, 2017-26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Act.						Proj.			
	(Millions of Seychelles rupees)									
Depository corporations survey										
Net foreign assets	10,591	11,787	12,486	18,596	18,815	18,569	18,711	19,546	20,915	21,592
Central bank	6,819	7,086	7,645	11,427	9,519	8,461	8,698	9,367	10,585	11,111
Other depository corporations	3,771	4,700	4,841	7,169	9,295	10,108	10,013	10,179	10,329	10,481
Net domestic assets	5,297	5,328	7,008	6,564	7,814	9,222	10,116	10,670	11,059	12,046
Domestic credit	8,476	8,620	10,562	14,257	13,178	14,239	14,889	15,442	15,831	16,818
Net claims on the government	2,209	1,699	1,882	3,844	3,978	4,432	4,414	4,184	3,752	3,877
Of which : Government deposits at the Central Bank	-3,355	-2,829	-2,513	-1,638	-2,417	-1,801	-1,801	-1,801	-1,801	-1,801
Of which : Change in monetary debt [1]	670.0	394.1	219.2	184.0	70.0	0.0				
Credit to the economy	6,267	6,921	8,680	10,413	9,200	9,807	10,474	11,258	12,079	12,941
Of which : credit to the private sector	6,032	6,727	8,229	9,890	8,713	9,142	9,809	10,593	11,414	12,276
Other items, net	-3,179	-3,292	-3,554	-7,693	-5,364	-5,017	-4,772	-4,772	-4,772	-4,772
Broad money	15,888	17,115	19,494	25,160	26,629	27,791	28,827	30,216	31,974	33,638
Currency in circulation	1,116	1,169	1,228	1,460	1,500	1,389	1,441	1,510	1,598	1,682
Foreign currency deposits	6,115	7,060	7,987	11,796	12,568	13,262	12,125	12,709	13,448	14,148
Local currency deposits	8,657	8,886	10,278	11,904	12,561	13,141	15,261	15,997	16,927	17,808
Central bank										
Net foreign assets	6,819	7,086	7,645	11,427	9,519	8,461	8,698	9,367	10,585	11,111
Foreign assets	7,560	7,731	8,191	12,144	10,361	9,170	9,294	9,940	11,159	11,684
Foreign liabilities	741	645	545	716	841	709	596	573	573	573
Net domestic assets	-3,260	-3,366	-3,081	-5,020	-2,399	-1,554	-1,531	-1,854	-2,636	-2,747
Domestic credit	-2,629	-2,651	-2,318	-1,121	-1,222	-859	-951	-1,275	-2,056	-2,168
Government (net)	-1,731	-1,644	-1,328	-453	-1,225	-603	-603	-603	-603	-603
Other depository corporations (net)	-705	-845	-873	-503	189	-30	-115	-432	-1,205	-1,308
Other (parastatals)	-192	-162	-117	-166	-185	-226	-233	-240	-248	-257
Other items, net	-631	-716	-763	-3,898	-1,177	-695	-580	-580	-580	-580
Reserve money	3,559	3,720	4,564	6,408	7,120	6,910	7,167	7,513	7,950	8,364
Currency in circulation	1,328	1,373	1,510	1,729	1,770	1,658	1,710	1,779	1,867	1,950
Commercial bank reserves	2,231	2,347	3,054	4,678	5,350	5,252	5,458	5,733	6,083	6,413
Of which : required reserves in foreign currency	841	924	924	924	924	924	1,661	1,741	1,842	1,938
required reserves in domestic currency	1,208	1,346	1,595	1,844	2,096	2,096	2,145	2,249	2,380	2,505
Memorandum items:										
Gross official reserves (millions of U.S. dollars)	546	551	581	559	702	634	655	700	787	824
Foreign currency deposits (millions of U.S. dollars)	442	503	567	562	855	927	859	900	952	1,002
Broad money growth (12–month percent change)	16.4	7.7	13.9	29.1	5.8	4.4	3.7	4.8	5.8	5.2
Credit to the private sector (12–month percent change)	17.8	11.5	22.3	20.2	-11.9	4.9	7.3	8.0	7.8	7.6
Reserve money (end-of-period; 12–month percent change)	18.9	4.5	22.7	40.4	11.1	-3.0	3.7	4.8	5.8	5.2
Money multiplier (broad money/reserve money)	4.5	4.6	4.3	3.9	3.7	4.0	4.0	4.0	4.0	4.0
Velocity (GDP/broad money; end-of-period)	1.4	1.3	1.2	0.9	0.9	0.9	1.0	1.0	1.0	1.0

Sources: Central Bank of Seychelles; and IMF staff estimates and projections.

[1] Negative shows accumulation, positive shows retiring (debt that is not rolled over)

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2018–22

	2018	2019	2020	2021	2022
	(Percent, end-of-period)				
Capital adequacy					
Regulatory capital to risk weighted assets	20.5	19.5	17.1	22.7	20.3
Regulatory tier 1 capital to risk weighted assets	16.8	16.2	14.1	17.2	15.3
Capital to assets (net worth)	10.1	9.9	8.4	9.2	8.6
Net tangible capitalization [1]	10.1	10.0	8.5	9.3	8.7
Asset quality					
Foreign exchange loans to total loans	24.2	26.0	36.4	27.9	24.4
Non-performing loans to gross loans	3.5	2.7	3.3	5.5	7.6
Provision as percentage of non-performing loans	19.2	25.1	38.3	32.5	20.7
Earnings and profitability					
Return on assets (annualized)	3.7	2.5	1.0	2.6	2.2
Return on equity (annualized)	35.7	24.0	11.5	28.1	25.4
Interest margin to gross income	54.5	62.6	58.3	51.8	57.2
Noninterest expense to gross income	55.9	57.7	55.3	56.0	56.5
Net interest margin (annualized) [2]	4.2	9.4	7.4	7.3	4.2
Net noninterest margin (annualized) [3]	-0.8	-3.1	-1.7	-2.8	-1.0
Expense to income	61.4	63.7	60.7	65.0	57.3
Interest expense to gross income	14.4	16.6	13.6	12.4	8.8
Liquidity					
Core liquid assets to total assets [4]	45.2	44.1	44.1	43.6	47.8
Broad liquid assets to total assets [5]	58.2	55.3	57.3	59.4	63.0
Liquid assets (broad) to short term liabilities	63.7	60.6	62.3	66.3	68.9
Liquid assets (broad) to total liabilities	64.7	61.6	62.5	65.4	68.9
Liquid assets to deposit liabilities	68.5	65.3	67.8	69.4	72.5
Foreign exchange exposure					
Total long position in foreign exchange to capital	...	...	...	5.2	6.9
Total short position in foreign exchange to capital	...	...	...	-4.3	-3.2

Source: Central Bank of Seychelles.

[1] Defined as: equity capital/(assets-interest in suspense-provisions).

[2] Defined as: (Interest income - interest expense)/average assets.

[3] Defined as: (Non-interest income - non-interest expense)/average assets.

[4] Core liquid assets include cash, balances with CBS, and deposits with other banks.

[5] Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Program Monitoring – External Financing Requirements and Sources, 2020-28

(Millions of US$ unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
Gross Financing Requirements	**213**	**192**	**185**	**247**	**281**	**296**	**316**	**324**	**359**
Current account deficit	170	151	140	187	210	239	255	274	311
CG Debt Amortization	43	41	45	61	71	57	61	50	47
Sources of Financing	**213**	**192**	**185**	**231**	**265**	**280**	**308**	**324**	**359**
Public sector	67	141	60	97	118	100	42	11	19
o/w: World Bank	21	44	25	32	29	15	15	0	0
African Development Bank	10	20	0	45	10	10	10	0	0
Others	0	0	13	0	20	0	0	10	0
IMF	32	68	17	4	17	21	4	0	0
EFF purchases	32	68	17	0	0	0	0	0	0
SDR allocation	0	0	0	0	0	0	0	0	0
RSF financing[1]	0	0	0	4	17	21	4	0	0
FDI (net)	135	160	226	219	241	328	349	376	400
Portfolio investment (net)	-97	13	-5	-19	-16	-16	-16	-2	-2
Others (net)	55	-3	-168	-68	-57	-66	-48	-57	-68
Capital account balance	21	24	10	17	24	20	19	19	20
Net errors and omissions	0	0	0	0	0	0	0	0	0
Change in reserves (- = increase)	32	-143	63	-16	-46	-86	-37	-23	-11
Financing gap	**0**	**0**	**0**	**16**	**16**	**16**	**8**	**0**	**0**
Prospective Financing				**16**	**16**	**16**	**8**	**0**	**0**
IMF EFF purchases[1]				16	16	16	8	0	0
Memo items									
GIR (percent of ARA)	111	119	100	100	102	112	115	117	115
excluding RSF				100	100	107	110	113	111
GIR (months of imports of G&S)	3.8	3.7	3.6	3.4	3.5	3.8	3.8	3.8	3.7
excluding RSF				3.4	3.4	3.6	3.6	3.6	3.5

Source: Central Bank of Seychelles and IMF staff estimates and projections.

[1] Including IMF disbursements associated with future reviews.

Table 7. Seychelles: Quantitative Targets Under Current EFF, 2021-22[1]

(In millions of Seychellois Rupees, unless otherwise indicated)

	December 31, 2021				March 31, 2022				June 30, 2022			September 30, 2022			December 31, 2022			
	Performance Criteria				IT				Performance Criteria			IT			Performance Criteria			
	Prog.	Actual	Adjusted targets	Status	Prog.	Adjusted targets	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Adjusted targets	Actual	Status
A. Quantitative performance criteria[2]																		
Net domestic financing of the government (ceiling)[3]	-555.0	-27.6	1849.3	Met	25.0	65.5	47.5	Met	101.3	-40.4	Met	133.1	3.0	Met	163.8	720.9	379.7	Met
Primary balance of the consolidated government (floor)	-2289.0	-776.8		Met	-700.0		135.7	Met	-229.6	580.5	Met	-306.2	642.7	Met	-382.7		188.4	Met
Total revenue (floor)[4]	7252.0	7666.8		Met	1735.5		1840.2	Met	3470.9	4183.7	Met	5206.4	6286.8	Met	8960.3	8513.7	8687.8	Met
Net international reserves of the CBS, millions of US dollars (floor)[5]	394.0	529.0	349.0	Met	407.0		518.0	Met	416.0	495.9	Met	423.0	489.5	Met	426.0	387.9	471.5	Met
B. Continuous quantitative performance criteria (ceilings)																		
Accumulation of new external payments arrears	0.0	0.0		Met	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	Met
Accumulation of new domestic payments arrears	0.0	0.0		Met	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	Met
C. Indicative targets (ITs)																		
Net change in public and publicly guaranteed domestic and external debt (ceiling)	753.0	-1005.7		Met	990.0	1140.9	-996.6	Met	792.8	-1291.3	Met	872.0	-965.8	Met	951.3		-663.0	Met
Priority social expenditure (floor)[2]	1425.5	1414.9		Not Met	287.0	226.8	338.3	Met	574.1	677.9	Met	861.1	1024.2	Met	1527.7		1585.5	Met

Sources: Seychelles authorities; IMF staff estimates and projections.

[1] The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

[2] The performance criteria are cumulative from the beginning of the calendar year.

[3] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears. The NDF refers to the central government.

[4] If nominal GDP is lower than projected, the revenues floor will be adjusted by the amount equivalent to the nominal GDP shortfall in percentage terms.

[5] The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and non-project cash grants exceeds (falls short of) the amounts assumed in the program. The floor will also be adjusted upwards (downwards) by the amount that external debt service payments fall short of (exceed) the amounts assumed in the program. The floors will also be adjusted upwards by the amount of the new SDR allocation to Seychelles if the IMF makes a new allocation of SDRs to its membership.

Table 8. Seychelles: Remaining Structural Benchmarks Under the Current EFF, 2021–23

Actions	Timing	Objective	Status
Debt Management			
Publish a new domestic debt management strategy document.	End-December 2022	Mitigate foreign currency and rollover risks, optimize issuance decisions, and strengthen benchmark pricing through extension of the yield curve. The debt management strategy will guide future borrowing decisions based on cost-risk trade-offs related to the debt portfolio.	Met
The Ministry of Finance will publish quarterly reports on debt management operations and outstanding debt position as published in the debt bulletin on its website.	End-September 2021 and quarterly thereafter	Enhance debt management and transparency.	Met
The Ministry of Finance, in consultation with CBS, will approve a plan for government securities trading framework.	End-March 2023	Implement the debt management strategy.	Not met. Implemented with delay in April 2023.
The National Public Debt Management Committee chaired by the Principal Secretary Ministry of Finance will approve a quarterly borrowing plan on a recurring basis.	End-March 2022 and quarterly thereafter	Implement the debt management strategy.	Met
The Government will quarterly publish the issuance calendar for bonds on the Ministry of Finance website.	End-March 2022 and quarterly thereafter	Enhance debt management and transparency.	Met
State-Owned Enterprises (SOEs)			
As part of the operational restructuring of Air Seychelles, ringfence the ground handling operation of Air Seychelles as a separate legal entity.	End-December 2022	Ensure that the ground-handling operations at the Seychelles International Airport, considered an important strategic asset, remain protected from creditors.	Not Met

Table 9. Seychelles: Proposed Schedule of Reviews and Purchases Under the EFF-Supported Program and Disbursements Under the RSF Arrangement

Availability date	Conditions for disbursement	EFF Purchases	
		SDR million	Percent of Quota
May 31, 2023	Approval of the 3-year arrangement under the EFF	6.107	26.7
November 15, 2023	1st Review and continuous and end-June 2023 performance criteria	6.107	26.7
May 15, 2024	2nd Review and continuous and end-December 2023 performance criteria	6.107	26.7
November 15, 2024	3rd Review and continuous and end-June 2024 performance criteria	6.107	26.7
May 15, 2025	4th Review and continuous and end-December 2024 performance criteria	6.107	26.7
November 15, 2025	5th Review and continuous and end-June 2025 performance criteria	6.107	26.7
May 15, 2026	6th Review and continuous and end-December 2025 performance criteria	5.723	25.0
Total Access		42.365	185

Availability date	Conditions for disbursement [1]	RSF Disbursements	
		SDR million	Percent of Quota
May 31, 2023	Approval of the RSF arrangement	-	-
November 15, 2023	Completion of RSF review of reform measure 1 implementation	3.123	13.6
May 15, 2024	Completion of RSF review of reform measure 2 implementation	3.123	13.6
November 15, 2024	Completion of RSF review of reform measure 3 implementation	3.123	13.6
	Completion of RSF review of reform measure 4 implementation	3.123	13.6
	Completion of RSF review of reform measure 5 implementation	3.123	13.6
May 15, 2025	Completion of RSF review of reform measure 6 implementation	3.123	13.6
	Completion of RSF review of reform measure 7 implementation	3.123	13.6
	Completion of RSF review of reform measure 8 implementation	3.123	13.6
November 15, 2025	Completion of RSF review of reform measure 9 implementation	3.123	13.6
	Completion of RSF review of reform measure 10 implementation	3.123	13.6
May 15, 2026	Completion of RSF review of reform measure 11 implementation	3.120	13.6
Total Access		34.350	150

Source: IMF staff.

[1] The disbursement amounts are split evenly among all reform measures.

Table 10. Seychelles: Program Monitoring – Indicators of Fund Credit Under the EFF and RSF

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
	(Millions of SDR)																						
Existing Fund credit																							
Stock [1]	82.4	69.2	62.2	53.4	42.3	32.7	22.5	12.3	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligation	12.5	18.0	10.9	12.5	14.0	11.9	11.9	11.4	11.0	2.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Principal (repayments/repurchases)	8.5	13.2	7.0	8.8	11.1	9.6	10.2	10.2	10.2	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	4.0	4.8	3.9	3.6	2.9	2.2	1.7	1.3	0.8	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Prospective Fund credit																							
Disbursement	15.3	24.7	27.8	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRA	12.2	12.2	12.2	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	3.1	12.5	15.6	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock [1]	15.3	40.0	67.9	76.7	76.2	73.7	69.1	62.5	55.4	48.4	41.8	36.8	32.3	28.6	25.1	21.7	18.3	14.8	11.4	7.9	4.5	1.5	0.1
GRA	12.2	24.4	36.6	42.4	41.9	39.3	34.7	28.2	21.1	14.0	7.5	3.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	3.1	15.6	31.2	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	33.9	31.9	28.6	25.1	21.7	18.3	14.8	11.4	7.9	4.5	1.5	0.1
Obligations [2, 3]	0.3	1.3	2.9	4.6	5.4	7.3	8.8	10.1	10.0	9.6	8.8	6.9	6.2	5.2	4.8	4.6	4.4	4.3	4.1	3.9	3.8	3.2	1.5
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.5	2.5	4.6	6.6	7.1	7.1	6.6	5.0	4.5	3.8	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	1.4
GRA	0.0	0.0	0.0	0.0	0.5	2.5	4.6	6.6	7.1	7.1	6.6	4.5	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	2.0	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	1.4
Charges and interest	0.3	1.3	2.9	4.6	4.9	4.7	4.2	3.5	2.9	2.6	2.2	1.9	1.7	1.5	1.3	1.2	1.0	0.8	0.7	0.5	0.3	0.2	0.1
Existing and prospective Fund credit																							
Stock [1]	97.7	109.2	130.1	130.1	118.5	106.3	91.6	74.8	57.6	48.4	41.8	36.8	32.3	28.6	25.1	21.7	18.2	14.8	11.4	7.9	4.5	1.5	0.1
GRA	94.6	93.6	98.9	95.8	84.1	72.0	57.2	40.5	23.2	14.0	7.5	2.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	3.1	15.6	31.2	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	33.9	31.9	28.6	25.1	21.7	18.3	14.8	11.4	7.9	4.5	1.5	0.1
In percent of quota	426.8	476.9	568.1	568.2	517.4	464.3	399.9	326.8	251.5	211.2	182.6	160.8	141.1	124.7	109.7	94.7	79.6	64.6	49.6	34.6	19.6	6.6	0.0
GRA	413.1	408.7	431.7	418.2	367.4	314.3	249.9	176.8	101.5	61.2	32.6	12.9	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	13.6	68.2	136.4	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	147.9	139.1	124.8	109.7	94.7	79.7	64.7	49.7	34.6	19.6	6.6	0.0
In percent of GDP	6.7	7.1	7.9	7.4	6.3	5.2	4.2	3.2	2.2	1.7	1.4	1.1	0.9	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of Government Revenues	18.8	19.5	22.0	20.5	17.7	14.7	11.7	8.9	6.3	4.9	3.9	3.2	2.6	2.1	1.7	1.4	1.1	0.8	0.6	0.4	0.2	0.1	0.0
In percent of exports of goods and services	6.4	6.7	7.7	7.4	6.4	5.3	4.3	3.2	2.3	1.8	1.4	1.2	0.9	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of gross reserves	20.1	21.0	22.3	21.2	18.7	15.5	12.4	9.4	6.7	5.2	4.2	3.4	2.8	2.3	1.8	1.5	1.1	0.9	0.6	0.4	0.2	0.1	0.0
Obligations to the Fund from existing and prospective Fund arrangements																							
Total obligations	12.8	19.3	13.8	17.1	19.5	19.1	20.7	21.5	20.9	12.2	9.1	7.3	6.6	5.6	5.1	4.9	4.8	4.6	4.5	4.3	4.1	3.5	1.8
Principal (repayments/repurchases)	8.5	13.2	7.0	8.8	11.6	12.2	14.8	16.8	17.2	9.2	6.6	5.0	4.5	3.8	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	1.4
GRA	8.5	13.2	7.0	8.8	11.6	12.2	14.8	16.8	17.2	9.2	6.6	4.5	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	2.0	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	1.4
Charges and interest	4.3	6.1	6.8	8.2	7.8	7.0	5.9	4.8	3.7	3.0	2.6	2.3	2.0	1.8	1.7	1.5	1.3	1.2	1.0	0.9	0.7	0.5	0.4
In percent of quota [4]	55.7	84.4	60.0	74.5	84.9	83.5	90.3	93.9	91.3	53.3	39.8	31.7	28.6	24.4	22.3	21.6	20.8	20.1	19.4	18.7	18.0	15.3	7.9
In percent of GDP	0.9	1.3	0.8	1.0	1.0	0.9	0.9	0.9	0.8	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
In percent of Government Revenues	2.4	3.5	2.3	2.7	2.9	2.6	2.6	2.6	2.3	1.2	0.9	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.0
In percent of exports of goods and services	0.8	1.2	0.8	1.0	1.1	1.0	1.0	0.9	0.8	0.5	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
In percent of gross reserves	2.6	3.7	2.4	2.8	3.1	2.8	2.8	2.7	2.4	1.3	0.9	0.7	0.6	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.0

Sources: IMF Finance Department; and IMF staff estimates and projections.

[1] End-of-period.

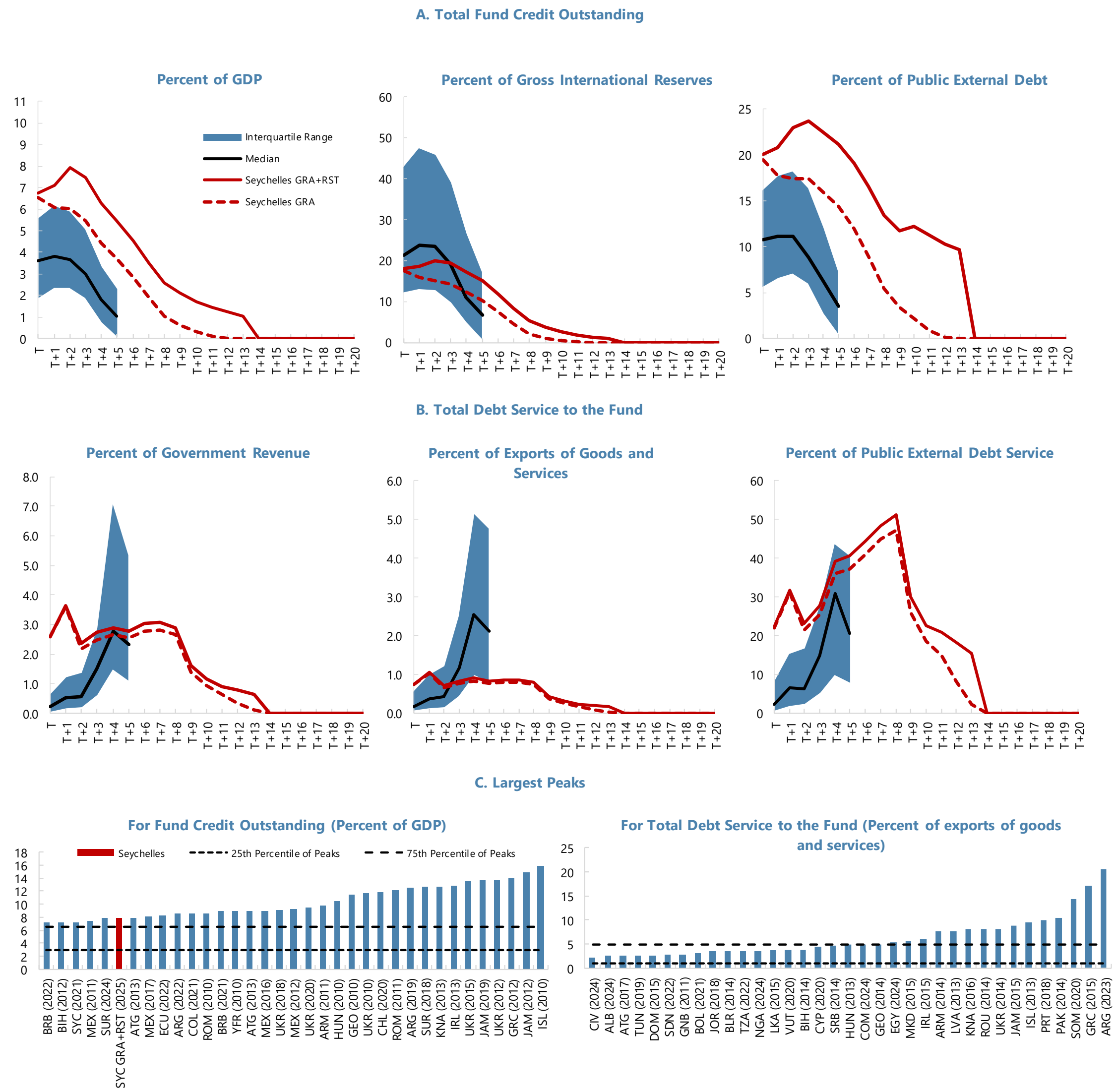
[2] Repayment schedule based on repurchase obligations. Obligations to the Fund from Existing and Prospective Fund Arrangements includes charges.

[3] Seychelles belongs to the RST interest Group C. Based on the RST rate of interest of 4.698 percent as of April 27, 2023.

[4] Effective February 2016, the new quota of SDR 22.9 million is applied.

Figure 8. Seychelles: Capacity to Repay Indicators Compared to GRA-only Borrowing Countries

(In percent of the indicated variable)



Sources: IMF Finance Department, World Economic Outlook.

Notes:

1) T = date of GRA arrangement approval.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and 2022.
4) Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.
5) Comparator series is for GRA arrangements only and runs up to T+5.
6) Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations. Reflects prospective payments, including for the current year.
7) All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Conjunctural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**High** Supply disruptions and sharper-than-anticipated increases in international energy prices raise the costs of energy imports and other imported goods.	• Develop a contingency plan (including risk management tools such as establishing contingent line of credit and a rule-based cash buffer (¶15)) that would lower the impact of a delayed economic recovery. • Consider further fiscal consolidation and targeted and temporary support as needed for vulnerable sectors in case such risk materializes. • Let the exchange rate act as a shock absorber to protect reserve buffers.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	**Medium**	**High** Recession in key tourist markets would lower tourist arrivals and hamper economic recovery and revenues.	• Develop a contingency plan (including risk management tools such as establishing contingent line of credit and a rule-based cash buffer (¶15)) that would lower the impact of a delayed economic recovery. • Consider further fiscal consolidation and targeted support as needed for vulnerable sectors in case such risk materializes. • Let the exchange rate act as a shock absorber to protect reserve buffers, and utilize FXI to prevent disorderly market conditions.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Conjunctural Risks			
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**Medium** Exchange rate-inflation pass-through is slow in Seychelles. However, higher food and energy prices would hurt vulnerable consumers (particularly low-income households).	• CBS to maintain vigilant monitoring and be ready to tighten monetary stance to anchor inflation expectations. • Enhance the effectiveness of the government's planned targeted support for the most vulnerable population to deal with rising prices of a delayed economic recovery.
Higher NPL levels in the banking sector in Seychelles	**Medium**	**Medium** Higher NPL levels in the banking sector, which increased mainly due to the withdrawal of forbearance measures, could pose risks to financial stability.	• Encourage and facilitate prudent restructuring of loans and enhance management and monitoring of NPLs. • The authorities should provide guidance on prudential treatment of moratoria and NPL management strategies and assess their implementation.
Limited access to external grants and concessional financing due to Seychelles' high-income status	**Medium**	**Medium** A reduction in external financing could worsen the balance of payments with implications for the exchange rate.	• Consider tapping alternative sources of external financing in the medium-term. • Ensuring a prudent macro-fiscal stance to foster market access at reasonable terms. • Preemptively rebuild fiscal and FX buffers.
Structural Risks			
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**Medium** The materialization of risks related to natural disasters could trigger further public expenditures and alter the planned reduction of public debt.	Prioritize the implementation of projects related to climate change.

Annex II. Sovereign Risk Debt Sustainability Framework

Figure 1. Seychelles: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium-, and long-term horizons.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate on the basis of the strength of institutions and the authorities' commitment to prudent fiscal stance.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	...	...	
Long term	...	Moderate	Long-term risks are moderate as the need for climate-related expenditures feed into debt dynamics.
Sustainability assessment 2/	Sustainable with high probability	Sustainable with high probability	The projected debt path is expected to improve and stabilize over the long run and GFNs will remain at manageable levels. While the impact of climate change is a concern, efforts to mitigate its impact is already built in over the medium term in the infrastructure spending, and the authorities are already actively engaging with other international agencies for technical and financial support. Therefore debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Staff assesses Seychelles to be at a moderate risk of sovereign stress and debt is assessed to be sustainable with high probability. Public debt declined by over 20 percent of GDP from 89.5 percent of GDP in 2020 to 69.2 percent in 2022, thanks to the stronger than-projected economic recovery and fiscal consolidation efforts vastly overperforming program targets. Medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate. Over the longer run, Seychelles should continue with policies to tackle risks arising from climate change. Fund's support through RSF will help contain risks. Health spending needs will also rise, in part due to high percentage of population suffering from substance abuse.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Seychelles: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Groups		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	Yes	
CPS	8	Other public financial corporations	Yes	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

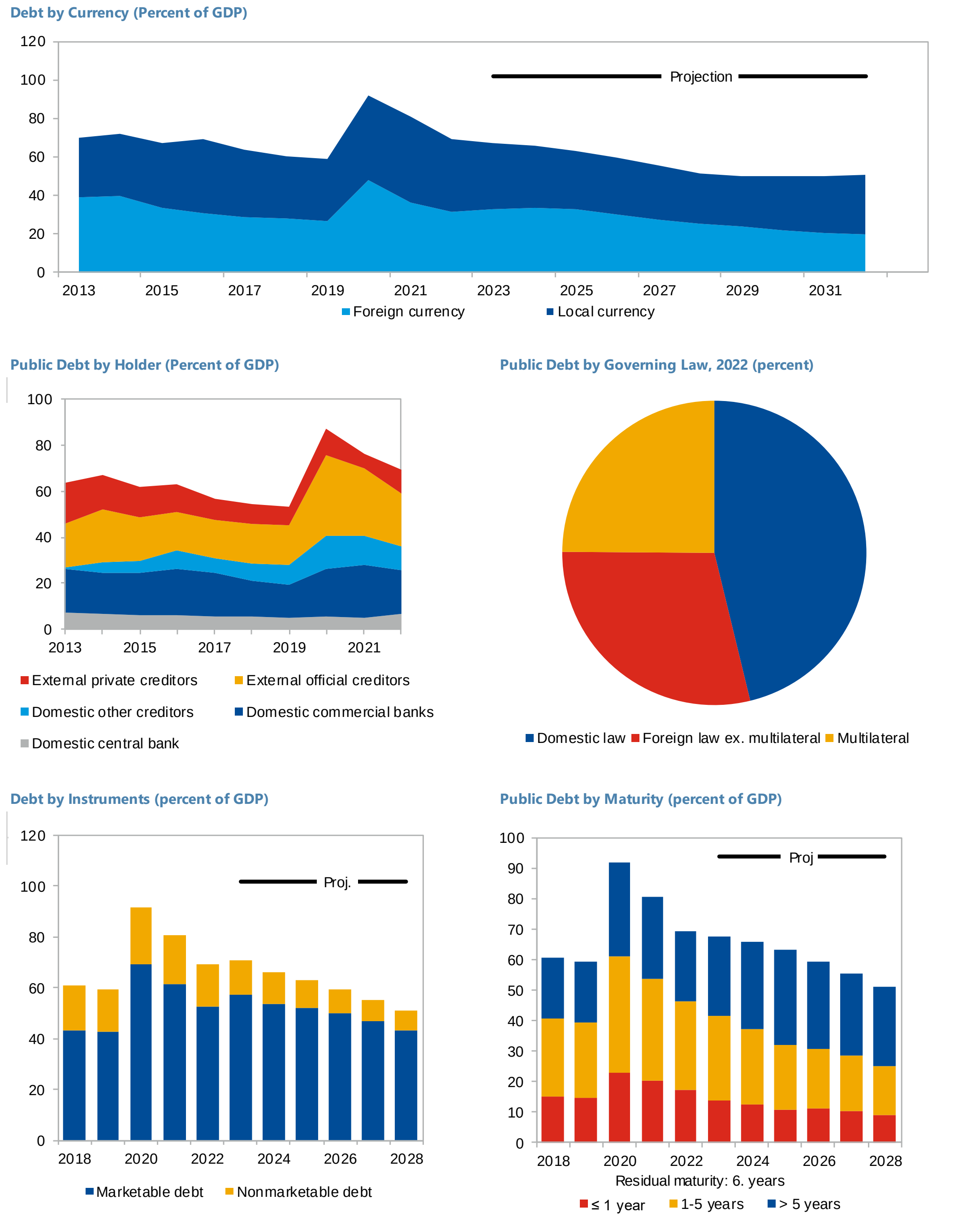
Sources: IMF staff calculations and authorities data.

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the general government. Government guarantees are included. There are no outstanding arrears.

Source: IMF staff.

Figure 3. Seychelles: Public Debt Structure Indicators



Commentary: The composition of domestic debt rose in recent years, and is expected to remain roughly the same over the projection period. Over the medium and long-term, market financing both from domestic and external financial markets will increase gradually. External creditors are largely multilaterals (IMF, World Bank and AfDB) and bilaterals (Paris and non-Paris club). There are also commercial creditors (e.g., TDB) and also bond holders. Banks are the largest domestic creditors.Government bonds held by the banking sector increased from 9.2 percent of their assets in 2021 to 11.6 percent in 2022. The potential for greater domestic bond financing to replace external financing could be constrained by the absence of a secondary market mechanism for government securities. Authorities are working with the Fund to improve secondary market mechanism.

Source: IMF staff.

Figure 4. Seychelles: Baseline Scenario

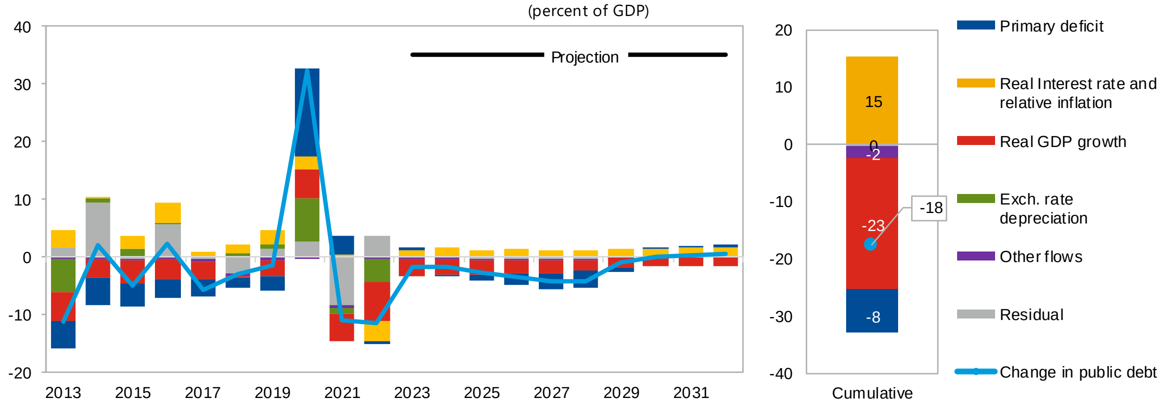
(Percent of GDP unless indicated otherwise)

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	69.2	67.6	66.0	63.1	59.6	55.3	51.2	50.1	50.0	50.3	50.8	51.5
Change in public debt	-11.5	-1.7	-1.6	-2.8	-3.6	-4.2	-4.1	-1.1	-0.1	0.2	0.6	0.7
Contribution of identified flows	-15.2	-1.9	-1.7	-2.5	-3.2	-3.9	-3.9	-1.2	-0.2	0.1	0.4	0.7
Primary deficit	-0.7	0.4	-0.2	-1.0	-2.0	-2.7	-3.0	-0.8	0.1	0.3	0.5	0.6
Noninterest revenues	33.7	35.8	36.3	35.8	35.8	35.5	35.3	34.1	33.5	33.0	32.8	32.5
Noninterest expenditures	33.0	36.1	36.1	34.8	33.8	32.8	32.3	33.3	33.6	33.4	33.3	33.2
Automatic debt dynamics	-14.1	-1.9	-1.2	-1.2	-1.0	-0.9	-0.6	-0.4	-0.3	-0.2	-0.1	0.1
Real interest rate and relative inflat	-3.5	1.0	1.5	1.3	1.4	1.3	1.3	1.3	1.4	1.5	1.6	1.8
Real interest rate	-2.3	1.5	1.6	0.9	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.7
Relative inflation	-1.2	-0.6	-0.1	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Real growth rate	-6.7	-2.8	-2.7	-2.5	-2.3	-2.2	-1.9	-1.7	-1.7	-1.7	-1.7	-1.7
Real exchange rate	-4.0	...	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Contribution of residual	3.7	0.2	0.1	-0.4	-0.3	-0.3	-0.3	0.1	0.1	0.1	0.2	0.0
Gross financing needs	16.19	16.4	15.5	13.6	11.2	10.9	10.5	11.4	12.7	13.7	14.3	15.2
of which: debt service	16.9	16.1	15.7	14.6	13.2	13.6	13.5	12.2	12.6	13.4	13.8	14.7
Local currency	14.5	12.4	11.3	10.8	9.3	10.4	10.6	9.3	9.9	11.0	11.8	12.8
Foreign currency	2.5	3.7	4.3	3.8	3.9	3.2	2.9	2.8	2.7	2.5	2.1	1.9
Memo:												
Real GDP growth (percent)	9.0	4.3	4.1	3.9	3.8	3.9	3.6	3.5	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	3.2	1.6	1.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.4
Nominal GDP growth (percent)	12.5	5.9	5.9	7.0	7.0	7.0	6.7	6.6	6.6	6.6	6.4	6.4
Effective interest rate (percent)	0.0	4.0	4.2	4.5	4.8	4.8	5.0	5.2	5.5	5.7	5.9	5.9

Contribution to Change in Public Debt

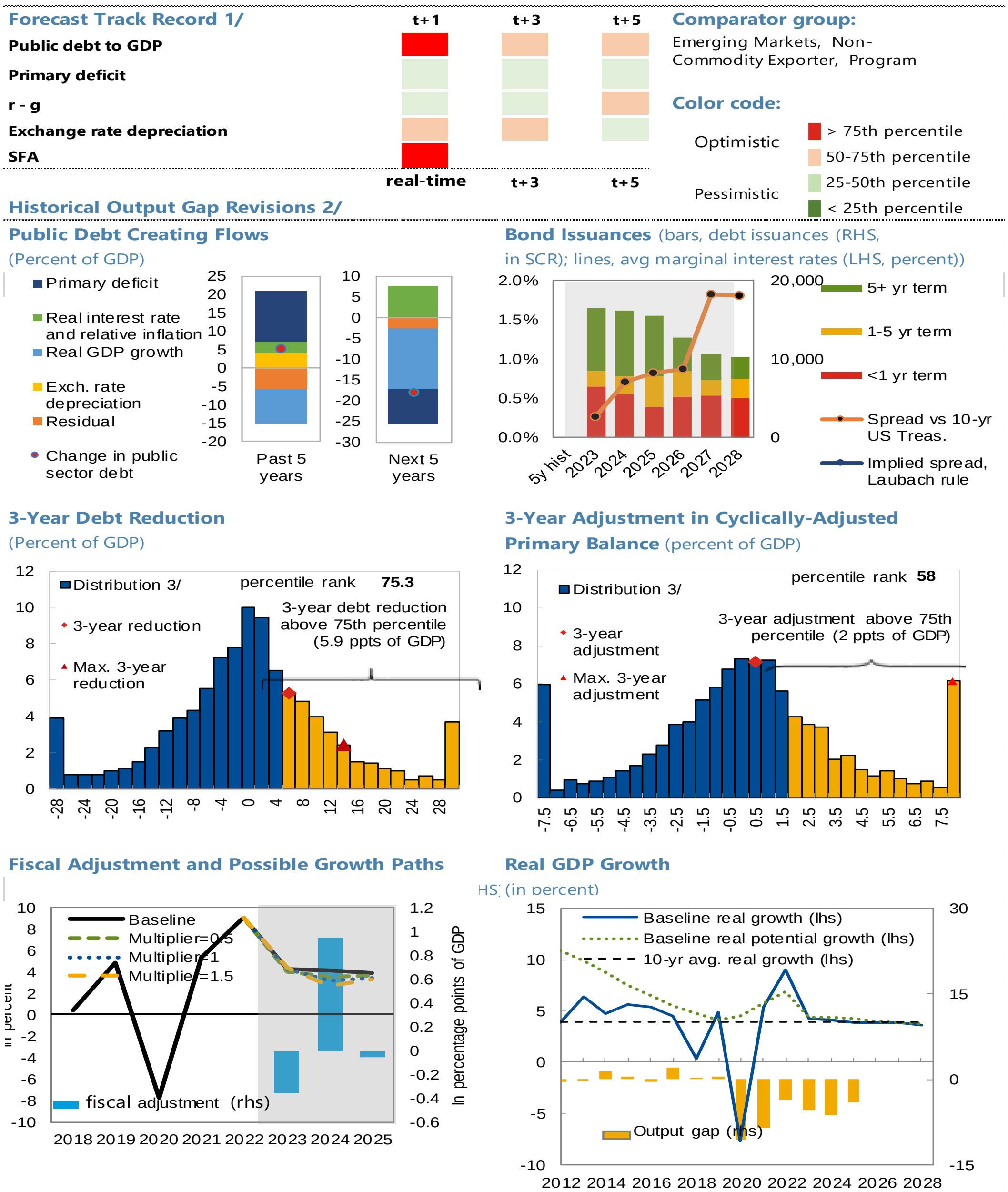
(percent of GDP)



Staff commentary: Public debt has been put on a downward debt trajectory after a temporary increase during the pandemic. Debt reduction is projected to continue to meet the authorities' medium term target of 50 percent of GDP and possibly even lower over the longer term, mainly driven by continued fiscal prudence and growth. Changes compared to previous DSA (July 2022) reflect better than expected primary balance in 2022 and higher expenditure anticipated for 2023.

Source: IMF staff.

Figure 5. Seychelles: Realism of Baseline Assumptions



Commentary: The materialization of a v-shaped economic recovery from the Covid pandemic combined with larger than expected fiscal consolidation have significantly improved public indebtedness. Debt reduction of over 20 percent of GDP over two years and the authorities' strong commitment to prudent fiscal management make Seychelles standout among other comparable countries. The country's reliance on tourism which caters high-end niche market complicates growth projections. Over the medium to long-term, the economy is vulnerable to climate change.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

Source: IMF staff.

Figure 6. Seychelles: Medium-Term Risk Analysis

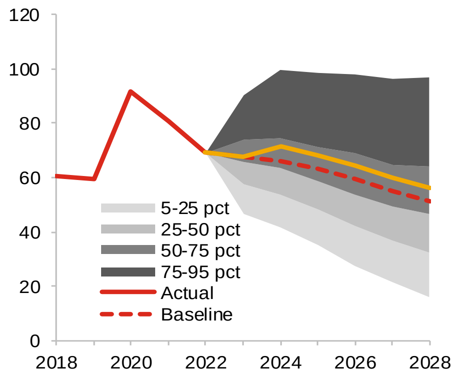
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

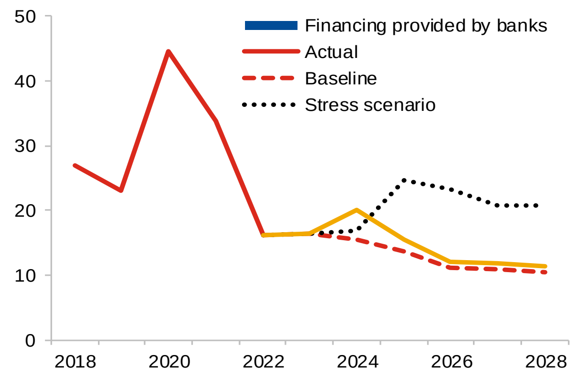
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	80.8	1.2	...	
	Probability of debt not stabilizing (pct)	5.1	0.0	...	
	Terminal debt level x institutions index	21.7	0.5	...	
	Debt fanchart index	**...**	**1.7**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	13.0	4.4	...	
	Bank claims on government (pct bank assets)	14.6	4.7	...	
	Chg. in claims on govt. in stress (pct bank asset	8.6	2.9	...	
	GFN financeability index	**...**	**12.0**	**Moderate**	

Legend: Interquartile range; Seychelles

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

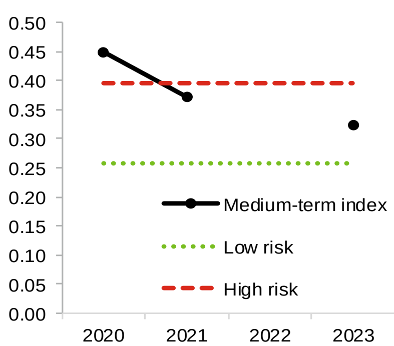


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threshol	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.2
Medium-term index (MTI)	0.3	0.4	...	0.3, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 27.3 pct.

Sources: IMF staff calculations and authorities data.

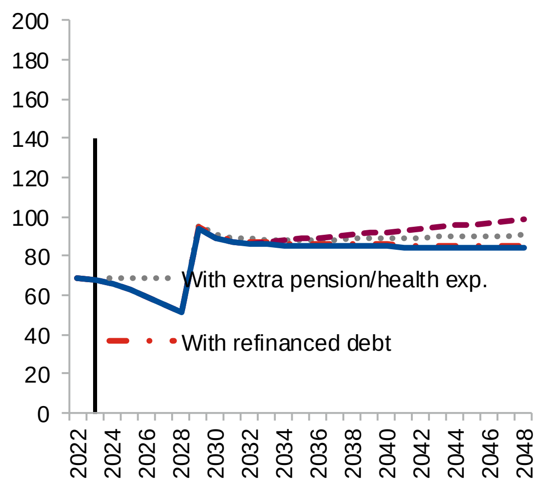
Commentary: Both of the medium-term tools indicate that risk is moderate. The fan chart analysis estimates risks to be moderate partly due to a high assessed probability of debt stabilization. The GFN module also indicates moderate risk for Seychelles in relation to its comparators. In a standard stress scenario, the natural disaster shock would elevate financing needs in the short term but the financing needs would stabilize albeit at higher level than in the baseline. In reality, due to geographical location, Seychelles has not experienced much natural diastasters, however the country is highly vulnerable to the rise in sea level from climate change.Engagement with the Fund through should help in addressing climate concerns.

Figure 7. Seychelles: Long-Term Risk Analysis

Topic	Vulnerability factors
Climate change	n.a.
Demographics	Large change in old-age dependency ratio
Long-term amortization	n.a.
Natural resource production	n.a.

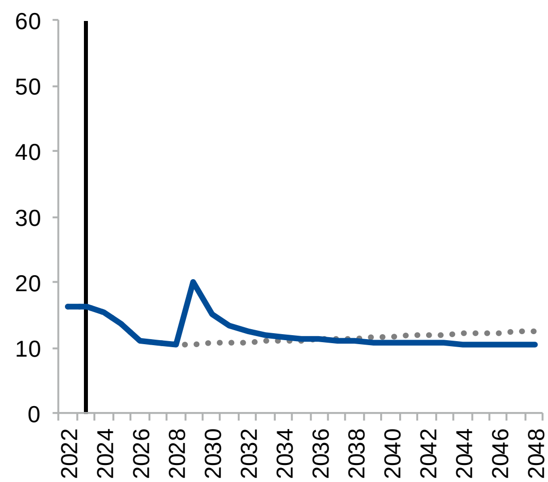
Long-Term Public Debt Projection

(percent of GDP)



Long-Term Gross Financing Needs Projection

(percent of GDP)



Commentary: Seychelles has not been subject to frequent natural diasters such as earthquakes or hurricanes due to its geographical location. However, over the medium to long-term, the country is highly vulnerable to climate change that is associalted with the rise in the sea-level. Over the long-run, Seychelles also faces risks from population aging. External financing (grants and concessional loans) to address climate changes and fiscal reforms to identify new sources of fiscal revenues and growth will be critical over the longer run.

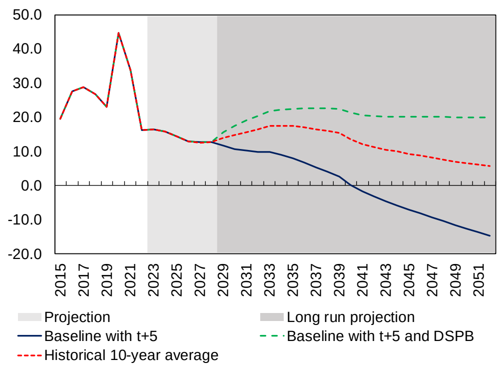
Source: IMF Staff.

Figure 8. Seychelles: Long-Term Risk Analysis

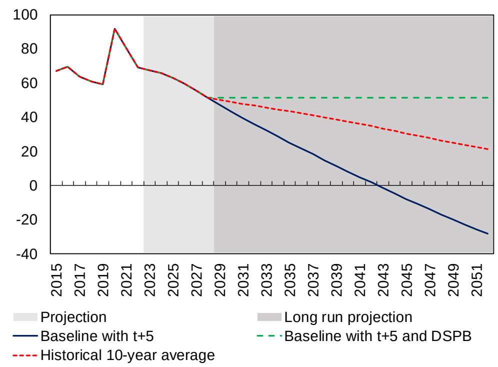
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



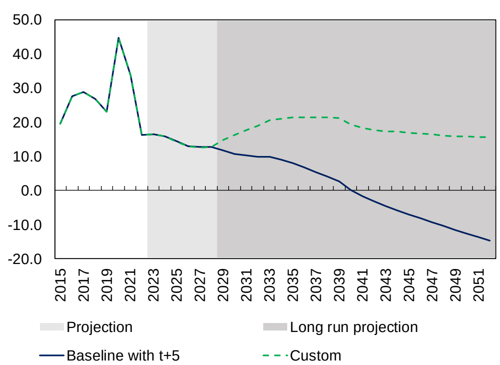
Total Public Debt-to-GDP Ratio



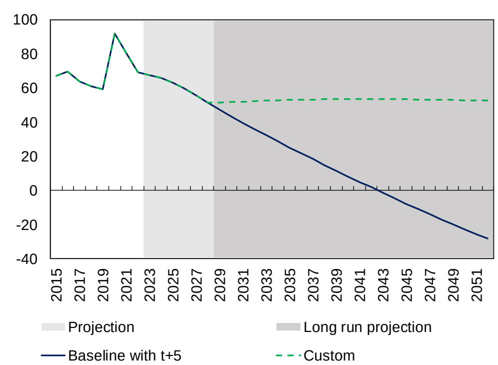
Custom

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	3.6%	2.0%
Primary Balance-to-GDP	3.0%	0.0%
Real depreciation	-2.9%	-1.1%
Inflation (GDP deflator)	3.0%	3.0%

GFN-to-GDP Ratio



Total public Debt-to-GDP Ratio



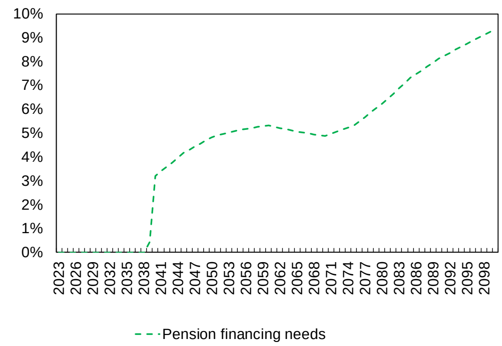
Source: IMF staff.

Figure 8. Seychelles: Long-Term Risk Analysis (Continued)

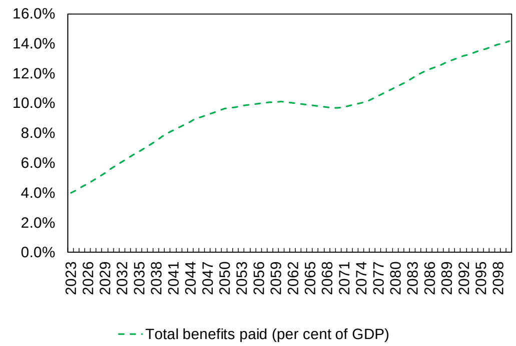
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	1.97%	3.37%	5.20%

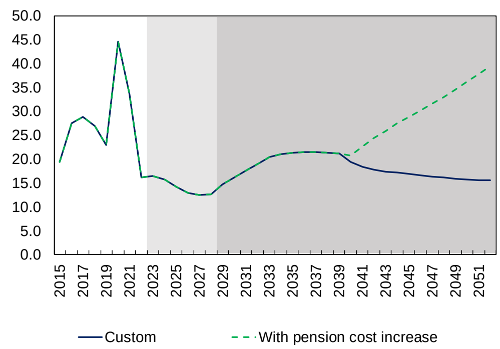
Pension Financing Needs



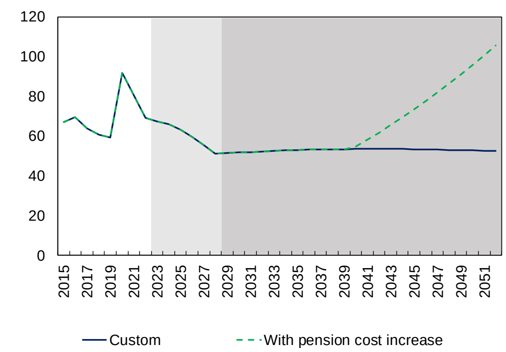
Total Benefits Paid



GFN-to-GDP Ratio



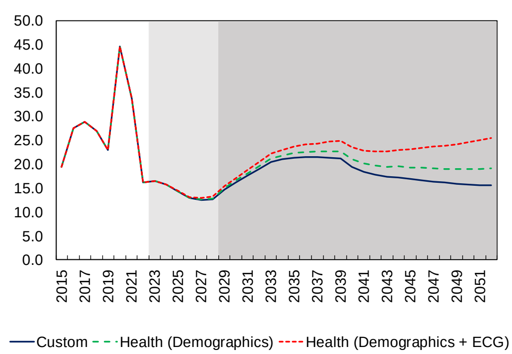
Total Public Debt-to-GDP Ratio



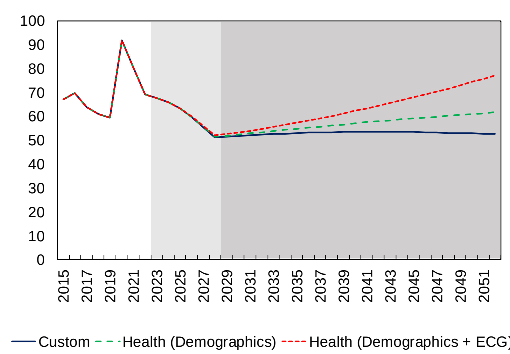
Comment: The authorities are cognizant of financing needs related to pension and are devising and implementing policies to address them. For example, the retirement age was increased from 63 to 65 in from 2023. The authorities explained that they are prepared to take any additional measures (e.g., raise pension contribution) to ensure financial sustainability of the pension system.

Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



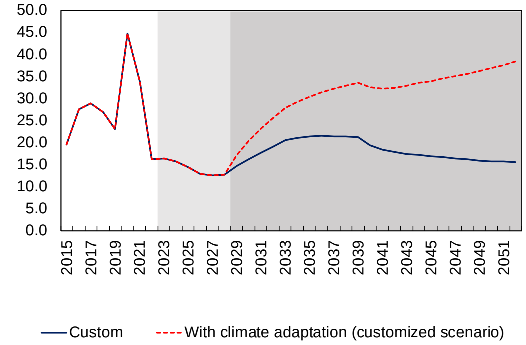
Comment: The health spending needs may be higher than what is suggested by the model, given the increasing share of population suffering from substance abuse and its long-term generational effect. The authorities are actively seeking external partners to build medical/health infrasture and to devise social programs to address this issue.

Source: IMF staff.

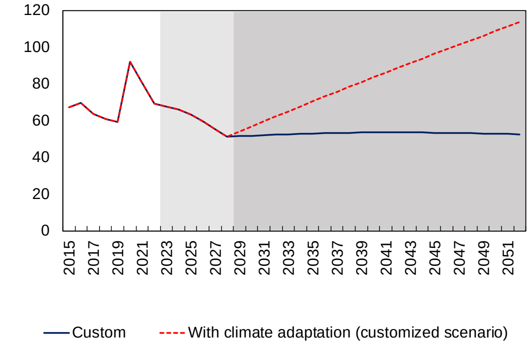
Figure 8. Seychelles: Long-Term Risk Analysis (Concluded)

Climate Change: Adaptation

GFN-to-GDP Ratio



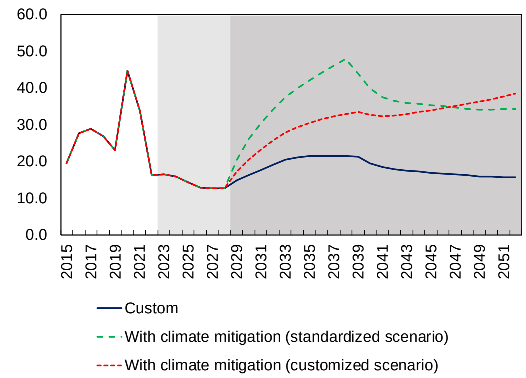
Total Public Debt-to-GDP Ratio



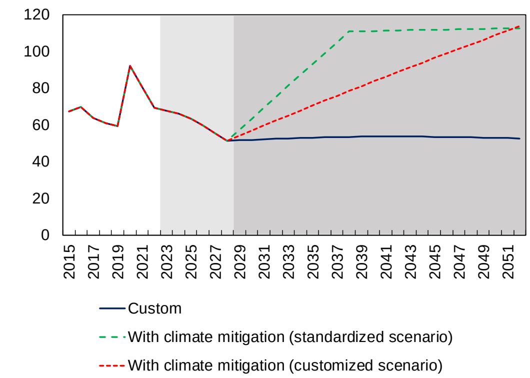
Comment: The authorities are actively engaging with the development partners to address the impact of climate change. Due to gerographical location, Seychelles has not been affected much by natural diasters such as earthquakes, tornados and hurricanes, however, the rising sea level poses siignificant threat to this island economy heavily dependent on tourism. The authorities are seeking Fund's financial assistance through RSF.

Climate Change: Mitigation

GFN-to-GDP Ratio

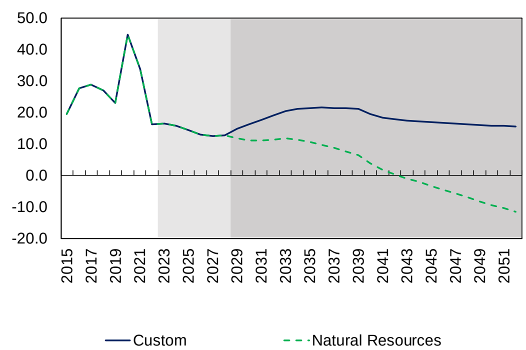


Total Public Debt-to-GDP Ratio

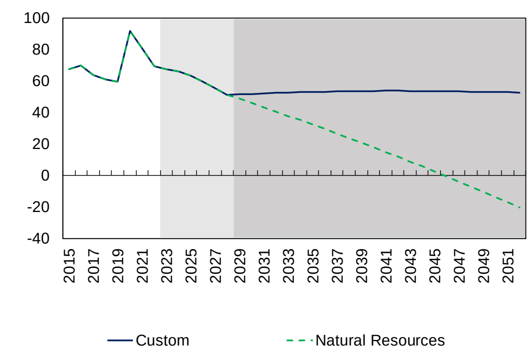


Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Source: IMF staff.

Figure 9. Seychelles: Decomposition of Public Debt and Debt Service by Creditor, 2022-24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ million)	(Percent total debt)	(Percent GDP)	(In US$ million)			(Percent GDP)		
Total	1215.2	100	66.1	336.3	225.9	172.3	18.3	11.5	8.3
External	575.5	47.4	31.3	57.7	72.7	80.7	3.1	3.7	3.9
Multilateral creditors[2]	389.1	32.0	21.2	18.2	25.3	32.4	1.0	1.3	1.6
IMF	120.9	9.9	6.6						
World Bank	135.9	11.2	7.4						
AfDB	76.5	6.3	4.2						
Other Multilaterals	55.8	4.6	3.0						
o/w: EIB	29.4	2.4	1.6						
o/w: BADEA	18.1	1.5	1.0						
Bilateral Creditors	81.3	6.7	4.4	13.7	15.3	16.4	0.7	0.8	0.8
Paris Club	44.8	3.7	2.4	6.5	8.8	9.8	0.4	0.4	0.5
o/w: France	23.7	2.0	1.3						
o/w: UK	5.5	0.5	0.3						
Non-Paris Club	36.6	3.0	2.0	7.3	6.5	6.6	0.4	0.3	0.3
o/w: China	14.0	1.1	0.8						
o/w: Saudi Arabia	12.2	1.0	0.7						
Bonds	74.1	6.1	4.0	23.6	22.3	20.9	1.3	1.1	1.0
Commercial creditors	31.0	2.5	1.7	2.1	9.8	11.0	0.1	0.5	0.5
o/w: Nedbank	10.0	0.8	0.5						
o/w: Habib Bank	4.6	0.4	0.3						
o/w: MCB	3.4	0.3	0.2						
o/w: TDB	13.0	1.1	0.7						
Domestic	639.7	52.6	34.8	278.6	153.2	91.6	15.2	7.8	4.4
Held by residents, total	n/a								
Held by non-residents, total	n/a								
T-Bills	161.4	13.3	8.8	261.3	73.6	0.6	14.2	3.8	0.0
Bonds	429.7	35.4	23.4	10.6	71.9	82.3	0.6	3.7	4.0
Loans	48.6	4.0	2.6	6.8	7.7	8.7	0.4	0.4	0.4
Memo items:									
Collateralized debt[3]									
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: External public guarantees	8.3	0.7	0.5						
o/w: Domestic Public guarantees	51.5	4.2	2.8						
o/w: Other explicit contingent liabilities[4]									
Nominal GDP	1838.9								

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for domestic and external guarantees which are reported under memo items.

2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Source: IMF staff.

Annex III. External Sector Assessment

The external position of Seychelles in 2022 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. Seychelles' current account deficit narrowed significantly in 2022 largely owing to strong recovery in the tourism sector. Also benefiting from prudent fiscal management that exceeded the program targets, Seychelles' external position improved significantly since the last external sector assessment. Going forward, authorities should continue to maintain flexible exchange rate regime and build external buffer against external shocks, while implementing structural reforms to diversify and improve overall competitiveness.

1. The current account deficit narrowed to 7.6 percent of GDP in 2022 from 11 percent in 2021 owing to a strong recovery in tourism sector. Tourist arrivals in 2022 reached 86 percent of the peak pre-pandemic arrival of 384,000. The recovery was also in part due to increase in visitors from new markets (e.g., Russia, UAE, and Israel) some of whom were higher spenders compared to arrivals from the traditional western European markets, resulting in increased average spending per arrival. On the import side, the higher international oil price had limited impact in Seychelles because the government-owned fuel importer had purchased a larger bulk of petroleum than usual in anticipation of oil price surges. The improved current account deficit was reflected in the financial account by a large increase of holding of foreign currency assets by the private sector. New external debt incurred in 2022 was provided mostly by multilateral IFIs with favorable borrowing terms, posing limited risks to future debt service and external sustainability.

2. The current account deficit is expected to widen to around 9.5 percent of GDP in 2023 despite a continued recovery in tourism arrivals. Tourist arrivals are expected to record a 5 percent growth in 2023. However, arrivals from Russia have declined due to the war in Ukraine, resulting in projected 14 percent lower spending per arrival compared to 2022, and register a fall in tourism earnings. While lower international fuel price would help, the current account deficit is projected to widen to around 10.5 to 11.5 percent of GDP over the medium-term reflecting the need for higher imports for infrastructural needs in areas such as climate change and green economy, health/medical, and housing sectors.

3. Seychelles' International Investment Position (IIP) indicates that its net international investment position improved in 2022. It increased to around -138 percent of GDP at end-2022 compared to -162 percent in end-2021. This was mainly driven by sharp recovery in tourism which resulted in appreciation of the local currency and narrowing of the current account deficit. FDI remains an important component of the financial account and continue to finance the current account deficit. At end-2022, direct investment was about 40 percent of gross assets and 69 percent of gross liabilities, while portfolio investment was about 20 percent of gross assets and about 3 percent of gross liabilities.

4. The EBA-lite current account (CA) model suggest that Seychelles' external position is moderately weaker than level implied by medium-term fundamentals and desirable policies. The EBA-lite CA model shows that Seychelles' adjusted CA balance is estimated at minus 3.6 percent of GDP in 2022, while the multilaterally consistent adjusted CA norm is minus 1.7 percent of GDP, suggesting a current account gap of minus 1.9 percent of GDP. Using the estimated current account elasticities, this implies a small overvaluation of the REER of 2.3 percentage points. On the other hand, the REER approach suggests the external position to be broadly consistent with fundamentals and desirable policies. (See Summary Table below).

Seychelles: EBA-lite Model Results, 2022

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-7.6**	
Cyclical contributions (from model) (-)	0.0	
COVID-19 adjustors (-) 2/	-3.5	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	**-3.6**	
CA Norm (from model) 3/	**-1.7**	
Adjusted CA Norm (for ES, NFA stabilizing CA)	**-1.7**	
CA Gap	**-1.9**	**0.9**
o/w Relative policy gap	1.4	
Elasticity	-0.8	
REER Gap (in percent)	**2.3**	**-1.0**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the
the pandemic on tourism which accounted for about 51 percent of GDP.
3/ Cyclically adjusted, including multilateral consistency adjustments.

5. **The exchange rate regime is classified as floating and foreign exchange interventions are aimed at addressing disorderly market conditions and maintaining an adequate level of international reserves**. In 2022, the authorities conducted foreign exchange auction once to purchase US$2.45 million in response to a significant influx of foreign currency. The Gross International Reserves (GIR) at end-2022 was US$639 million (3.6 months of imports), a decline of 9.0 percent compared to US$702 million at end-2021. This decline was due to lower inflows of financial support from multilateral creditors and donors and increased external debt service obligations. GIR are projected to maintain import coverage in the range of 3-4 months over the medium term.

6. **Staff recommends building further the external buffers.** Seychelles' international reserve holdings are assessed against standard reserve adequacy benchmark. Per the standard metric, staff estimates that international reserves at end-2022 to be within but at the lower end of the advisable range of international reserves. Given the country's high dependency on tourism and the high vulnerability of this sector to external shocks, staff recommends, and the authorities agrees on the need to build further the external buffers. In this regard, the authorities asked, and staff agreed on the need for technical assistance in effectively managing international reserves that takes into account Seychelles' country-specific circumstances.

Annex IV. Building Resilience to Climate Change

Seychelles is a tourism-dependent small island state. Due to its geo-economic conditions, the country is highly vulnerable to climate change risks, including erosion of habitable land, natural disasters, and loss of tourism assets such as quality beaches. These risks create essential infrastructure needs that will require additional resources for long-term public investment. On the mitigation front, Seychelles aims to be a leading contributor to global carbon sequestration efforts through its marine vegetation and ecosystem. Seychelles is receiving support from multilateral institutions and NGOs to attain these goals. With the support from the RSF, Seychelles is working to coordinate these efforts, enhance its policy framework, and build infrastructure to combat climate change.

A. Seychelles' Exposure to Climate Change Risk

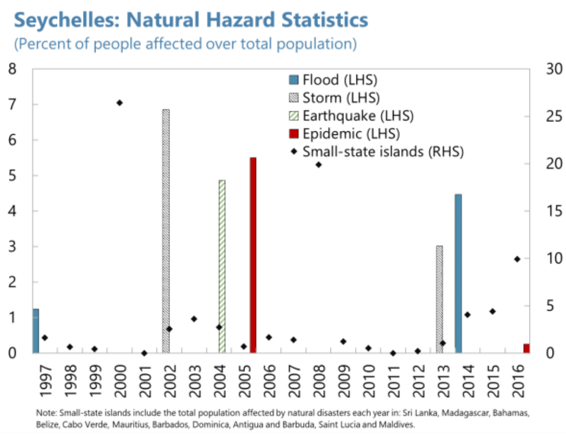
1. As a small island state, Seychelles is vulnerable to a multitude of climate change risks. Major risk areas include damage caused by temperature rises (coral bleaching and losses to fisheries) and sea-level rises (coastal erosion, losses to tourism and food insecurity). The last El Nino in 2016 reduced coral coverage on Seychelles' reefs from 50 percent to 5 percent at the time, with only a partial recovery since then. Coastal flooding, coastal erosion, and the effects of sea level rise constitute a vulnerability to the country's critical infrastructure as most roads, power stations, and food storage facilities are 2–4 meters above sea level. The country's key economic activities, such as tourism and fishing, depend on its coastal zones. Among comparable small island states, Seychelles ranks high in vulnerability (Figure 1).

2. Tourism, the largest economic sector, is particularly vulnerable to climate change. Tourism contributes directly or indirectly to over 20 percent of Seychelles' GDP. Most domestic service and manufacturing industries are interlinked to support the tourism sector. Climate change-induced increases in precipitation and natural disasters decrease tourism demand, hindering long-term growth prospects. The rising sea level due to climate change also reduces coastal areas available for tourism development. The deterioration of marine ecosystems caused by rising water temperatures further decreases the appeal of tourist destinations. In addition to the risks posed by climate change per se, the costs associated with transitioning to a climate-resilient economy could also have fiscal implications and impact the overall health of the economy.

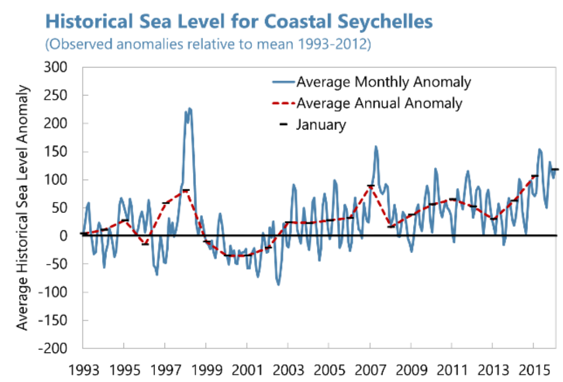
3. Adapting to climate change is estimated to require infrastructure investment on the order of $670 million through 2030. According to the Seychelles' Nationally Determined Contributions (NDCs) from July 2021, the total investment requirements for addressing climate change amount to US$331 million for mitigation and US$339 million for adaptation. The associated financing will have to come from both domestic and external sources. Seychelles has utilized innovative financing methods in the past, including the world's first Blue Sovereign Bonds and a debt-for-nature swap. While Seychelles has been successful already in raising external financing, channeling resources to climate-related projects has been challenging due to limited capacity to manage and execute them. The RSF aims to help address these challenges by encouraging reforms that strengthen the government's capacity such as establishing climate-smart PIM system, putting in place disaster risk financing strategy and green financing frameworks, as well as supporting the implementation of mitigation and adaptation measures.

Figure 1. Seychelles Exposure to Climate Change

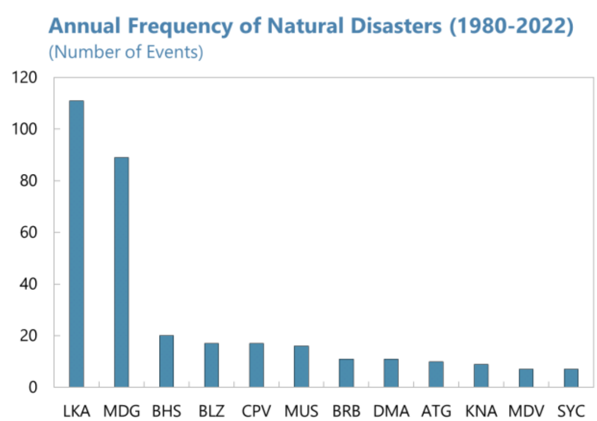
As a small island state, Seychelles is vulnerable to natural disasters.



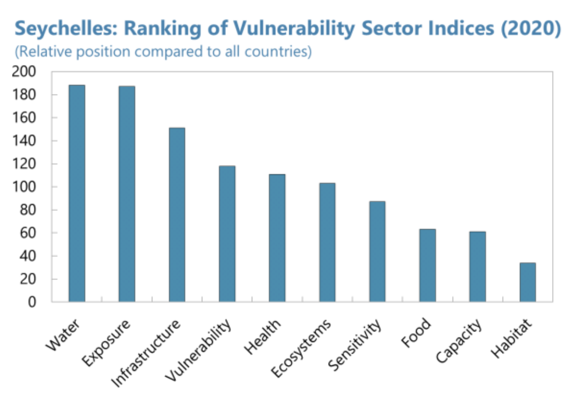
Coastal erosion, and the effects of sea level rise constitute a vulnerability to critical infrastructure.



Frequency of natural disasters is low compared to similar-sized island states.



Seychelles ranks high in vulnerability especially on water, infrastructure, and exposure.



Sources: World Bank, Climate Change Knowledge Portal, EM-DAT database, United Nations *World Population Prospects*, University of Notre Dame and IMF staff calculations.

B. Building Resilience with Adaptation Infrastructure and Macro Fiscal Implications [1]

4. **Accelerating investment in adaptation infrastructure could bolster Seychelles economy and simultaneously mitigate the negative impact of natural disasters as well as macroeconomic and fiscal risks**. The Seychelles authorities are currently planning an ambitious

[1] The DIGNAD model simulations and analysis were run by Eric Lautier (AFR) with support from Azar Sultanov and Cian Ruane (both RES).

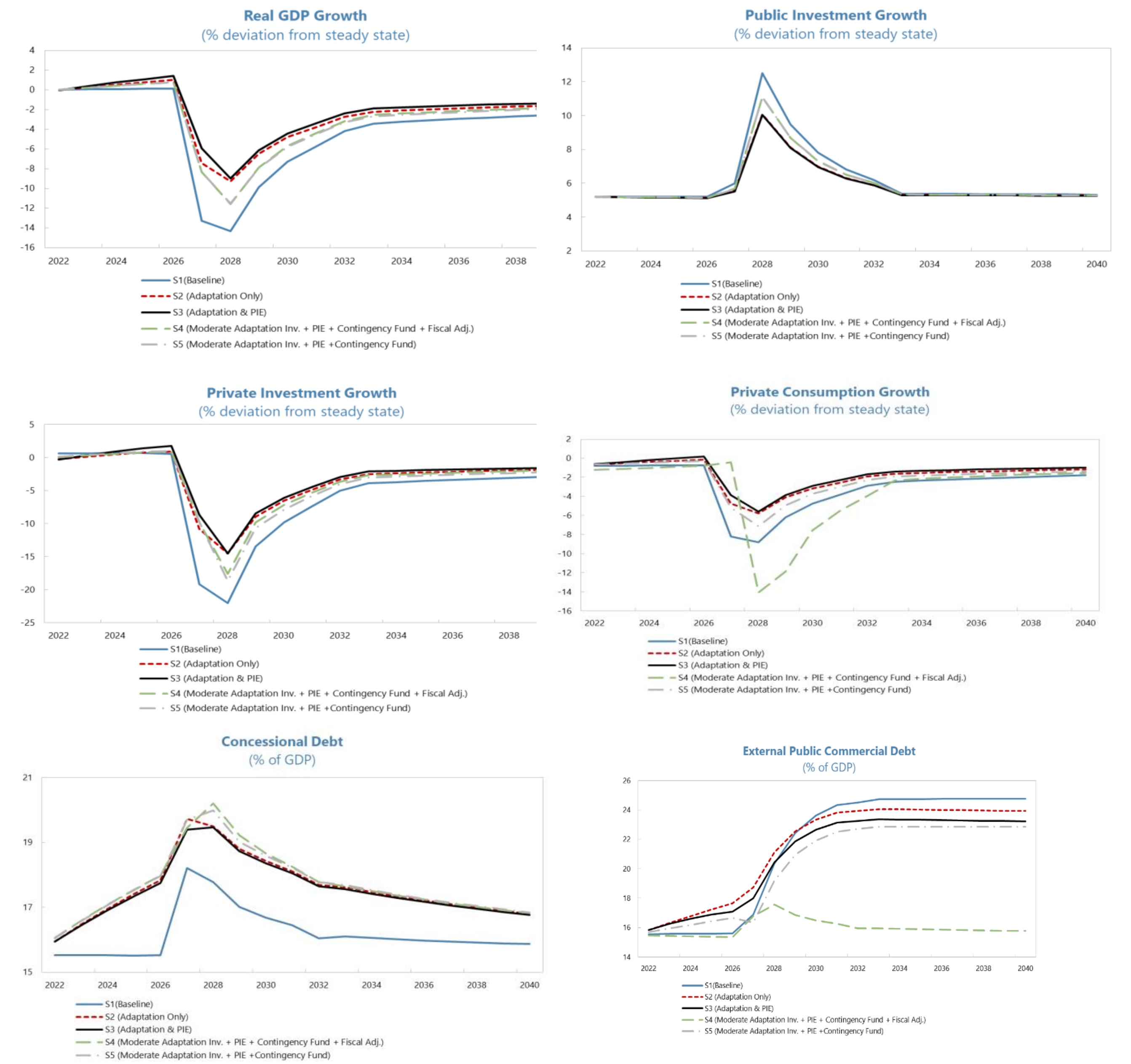
medium term capital investment program on average of about 6 percent of GDP a year. Allocating a quarter, 2 percent of GDP for five years, towards physical infrastructure designed to withstand natural disasters (known as adaptation infrastructure) could prevent 5.3 percent of GDP in output loss and enable a faster recovery using the IMF DIGNAD model (as shown in Figure 2 and detailed in Annex V). Furthermore, scaling up adaptation investment could support the country's economic green recovery from the pandemic boosting GDP growth by about 3.2 percent point over five years in the most ambitious scenario.

5. Investing in a contingency fund without adaptation infrastructure does not provide adequate protection. A contingency fund is an important tool to have in case of natural disasters, but it does not provide adequate protection on its own. In all scenarios a contingency fund underperforms compared to investment in climate adaptation infrastructure. In the most ambitious scenario, scaling up adaptation investment would prevent approximately US$103 million in output losses, compared to the contingency fund scenario with standard infrastructure. Averted losses would be more than double the size of the contingency fund US$48.5 million (2.5 percent of GDP). Over the medium term, adaptation investment also allows for a faster recovery, lower post-disaster reconstruction costs, smaller and less persistent output losses, reduces the need to mobilize resources from the population, and contributes to a less volatile consumption path. When coupled with a lower adaptation investment path (at 1 percent of GDP), simulation result show lower debt buildup due to the disbursement post-disaster and smaller reconstruction costs. The post disaster output shock is however higher than in the more ambitious adaptation infrastructure scenarios (2 percent of GDP) since more damage to the capital stock affects output and productivity.

6. Improved public investment management (PIM) and efficiency could further lessen the growth-debt tradeoff for adaptation investment. Seychelles has made significant progress in recent years in improving its PIM system, but a recent PIMA assessment assess the public investment efficiency gap around 25 percent. Strengthening PIM could help ensure that investment projects are selected based on their contribution to the country's development goals, their cost-effectiveness, and their ability to deliver the expected mitigation results. Output of the DIGNAD model, for an ambitious scenario with adaptation investment and PIM reforms show better macroeconomic outcomes from all other scenarios. With more of the initial public funds transforming in tangible climate resilient infrastructure, the economy increases resilience while lowering implementation costs, effectively getting higher returns, improving fiscal balances and strengthening the debt path. In practice, the execution of sizable public investment in adaptation will at least face the same challenges as other public investments with typically large efficiency losses because authorities are building capacity in this new area. It will therefore be paramount to ensure efficient selection, execution, and maintenance of investment projects.

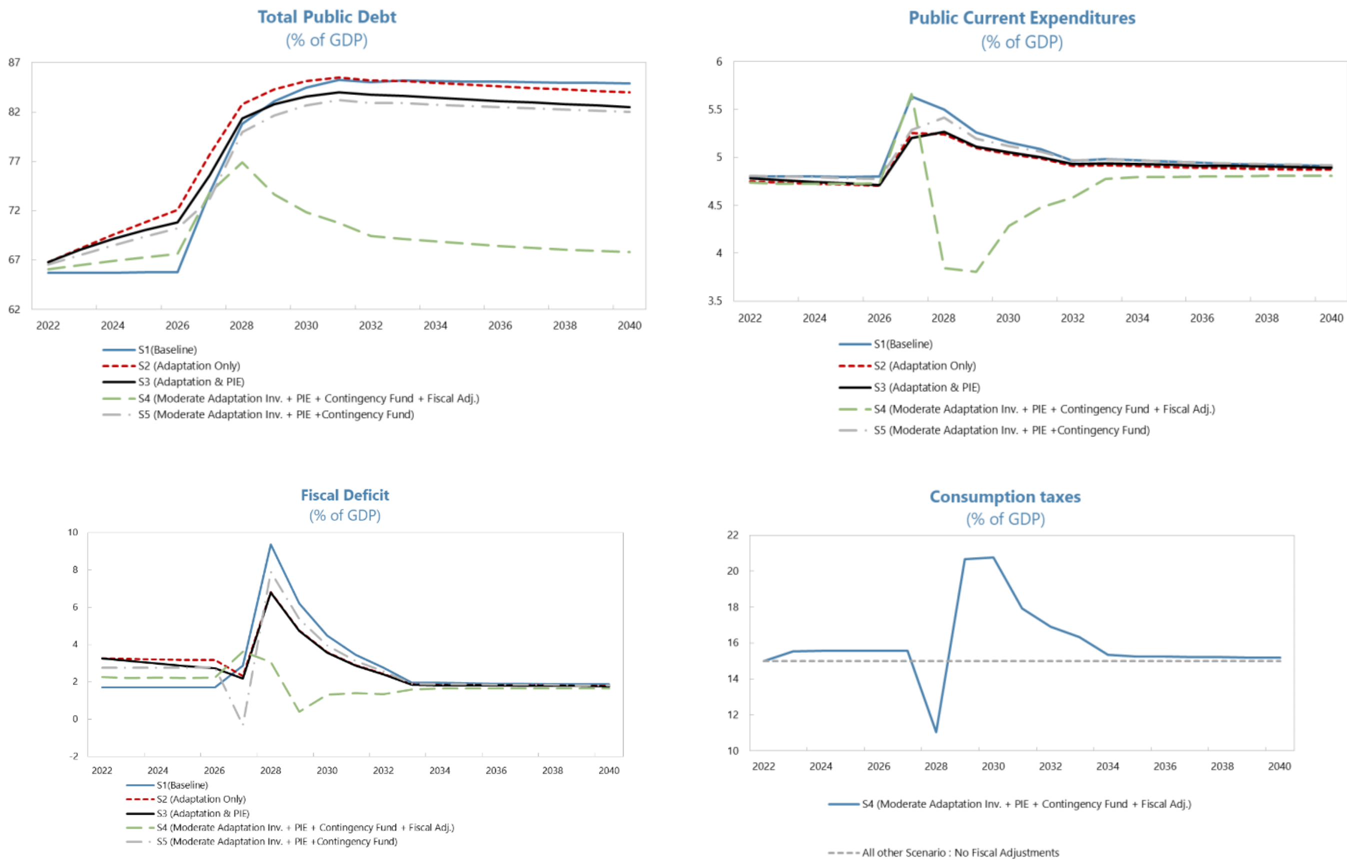
7. Building sufficient fiscal buffer and raising additional climate financing for adaptation investments through grants would mitigate impact on the fiscal space and total debt. In a scenario where financing is limited, fiscal instruments need to be used to cover the fiscal gap which leads to unfeasible increase in tax rates from 5 to 9 percent or cuts in non-infrastructure spending post disaster. To support its ambitious infrastructure investment agenda, Seychelles authorities should aim to mobilize more domestic financing and foreign grants. In fact, international support for climate adaptation investment can be a cost-effective alternative to disaster relief for international donors. Leveraging Seychelles good track record and innovative approach on climate financing, raising additional grants financing would help reduce the reliance on borrowing, preserve fiscal sustainability and limit the impact of external shocks on the country's debt sustainability. For more risk prone projects, financial solutions that blend public and private investment on concessional terms could also offer opportunities.

Figure 2. DIGNAD Model Simulation Output



Source: IMF staff calculations and authorities' data.

Figure 2. DIGNAD Model Simulation Output (Concluded)



Source: IMF staff calculations and authorities' data.

C. Policy Issues and Strategy

8. To address these vulnerabilities, Seychelles promulgated its national climate strategy and submitted its Nationally Determined Contribution (NDC) as part of the Paris Agreement. The NDC document covers a mitigation and adaptation strategy, accompanied by costed investment plans. Seychelles' NDC pledges to reduce greenhouse gases (GHGs) by 293.8 kt CO2e,[2] or 26.4 percent, below 'business as usual' (BAU) levels in 2030. The long-term goal is to achieve zero emissions by 2050. To fulfill its NDC commitments, Seychelles intends to primarily rely on renewable energy and enhancing energy efficiency to meet its emission reduction targets.[3] The NDC provides less detailed information on the adaptation plans for addressing climate change compared to the mitigation strategies.

[2] Kilotons of carbon dioxide equivalent.

[3] As of 2021, renewable sources accounted for 12.3 percent of the total electricity production. This includes 11.3 percent from solar energy and 1.0 percent from wind energy. The remaining 87.7 percent was produced from petroleum. (Source: Ember's European Electricity Review, IRENA).

9. Seychelles is working to integrate collective efforts from various multilateral institutions and global NGOs to attain these ambitious goals. Along with the IMF, the World Bank and African Development Bank have been the major partners for their external financing and capacity development (see Section D below). Seychelles is among pioneering nations that have effectively negotiated a debt-for-nature swap, leading to the creation of the Seychelles Conservation and Climate Adaptation Trust, which enables strategic investment in marine conservation and climate change infrastructure. Seychelles has formed partnerships with various international organizations and universities to leverage their resources and address its capacity constraints.

10. Despite the availability of concessional financing for climate-related projects, progress has been held back by implementation challenges and the limited availability of private sector financing. In this context, the authorities requested a Climate-Public Investment Management Assessment (C-PIMA) from the Fund, and the mission was carried out in January 2023. The C-PIMA report, along with the Climate Change Policy Assessment in 2017, revealed Seychelles' key barriers and challenges in addressing climate change. The four priorities identified are financial sector preparedness for climate change, public investment management, disaster risk management, and promoting climate adaptation and mitigation. These diagnostic tools provide essential inputs for the team to formulate reform measures that underpin the RSF program.

11. The C-PIMA identified several institutional gaps in incorporating climate considerations into the public investment management framework. Three key areas of concern were raised. Firstly, while national plans emphasize the importance of climate resilience, there is a need to directly align the mid-term national development strategy with the NDC. The under-execution of the capital budget, including spending on climate initiatives, has been a persistent issue in Seychelles due to the public investment bottleneck. Secondly, there are substantial gaps in the appraisal, selection, and budgeting process for climate-related investments, with no cost analysis or performance measurement. Lastly, the government conducts and releases fiscal risk assessments, but it was noted that the evaluation of climate change risks is only qualitative in nature.

12. Other areas of weaknesses include the financial sector's preparedness for climate change and the execution of disaster risk management plans, and climate change adaptation and mitigation. The involvement of the private financial sector is limited, and awareness of the issue is relatively low. The lack of a system for collecting data on banks' lending exposure to climate risks is a significant challenge. Although the readiness for natural disasters is relatively robust, there are still outstanding issues, such as the lack of climate considerations in building code legislation and the slow progress in operationalizing the disaster risk management fund. Due to the limited capacity as a small island, the implementation of climate change adaptation and mitigation investments is also a challenge. The RSF aims to enhance financial sector resilience to climate risks, support the authorities in mobilizing additional private climate financing, and promote climate adaptation and mitigation in critical sectors.

D. Governmental Initiatives

13. Seychelles has put climate change at the center of its sustainable development strategy. The Seychelles' National Agriculture Investment Plan (SNAIP, 2015-2020) provided a development strategy and investment plan for agriculture and fisheries. The Seychelles Marine Spatial Plan (SMSP) Initiative began in 2014 to address climate change adaptation, marine biodiversity protection and support the Blue Economy. The Government also developed the Seychelles Coastal Management Plan (CMP, 2019 – 2024) to protect coast with the support of the World Bank. Seychelles also plans to meet its 2030 emission reduction targets (NDC 2021) mainly by switching to renewable energy, improving energy efficiency, and e-mobility.

14. The CMP provides a framework for coastal erosion protection and risk management. Sea level rise and future occurrences of storms driven by climate change create vulnerability in the coastal regions. The CMP aims to protect the coastal zone by formulating priorities and actions to reduce coastal flood risk and coastal erosion. The CMP also provides an implementation agenda and an outline of the priority projects and their cost estimates. The total costs for the implementation of the plan are estimated to be US$13.2 million.

15. Seychelles' Blue Carbon Roadmap offers guidance to restore marine vegetation for climate change mitigation and to potentially sell carbon credits through market mechanisms. Mangrove forests, which occur across 1,700 ha of Seychelles' coastline, and seagrass meadows, which covers 143,000 ha, provide important opportunities for carbon sequestration. Combined, it is estimated that more than 65 million tons of CO2 can be held by the two vegetations, which is equivalent to the average CO2 emission by 15 million passenger vehicles annually. The authorities have developed a roadmap to use many climate-related financial mechanisms to fund the restoration of blue carbon ecosystems in Seychelles. Market mechanisms such as Voluntary Carbon Market to sell carbon credits, non-market mechanisms such as philanthropy giving, and financing support from multilateral development banks are in consideration.

16. Besides these major projects, the authorities have developed initiatives to promote climate financing and governance. This includes, developing establishing institutional arrangement for monitoring, reporting and verification of climate change actions, founding a clearing house mechanism to exchange climate change adaptation and mitigation information. The authorities are in contact with various international organizations and multilateral development banks to secure financial support and capacity development.

Selected List of Climate Change Projects		
Project Category	**Indicative Areas of Assistance and Duration**	**Government Priority**
Coastal Management Planning	Conduct coastal surveys in 13 priority sites listed in the Coastal Management Plan. Build capacity to monitor coastal data. Undertake feasibility study on coastal setbacks on the inner and outer islands.	High
Blue Carbon Roadmap	Advance Blue Carbon scientists and empower local scientists. Integrate Blue Carbon into National Policy Frameworks. Connect Blue Carbon projects to carbon markets and other finance mechanisms.	Medium
Climate Change Financing and Governance	Build capacity to develop project proposals. GCF Accreditation by a National Implementing Entity. Develop a National Climate Finance Policy. Establish Climate Finance Governance Arrangement to track and mobilize climate finance.	High
Source: Authorities data.		

E. Collaboration with Multilateral Partners

17. **Seychelles has closely worked with multilateral financial institutions and global NGOs to build integrated efforts for climate change resilience.** World Bank and African Development Bank (AfDB) are major partners in providing concessional financing and capacity development. Seychelles is also one of the first countries that have successfully negotiated debt-for-nature swap to establish a trust (Seychelles Conservation and Climate Adaptation Trust) and promote strategic investment in marine protection and climate change infrastructure. Seychelles has partnered with various global organization and universities to execute the resources and fill in its capacity shortfall.

18. **World Bank has provided financial support for climate change resilience through its Fiscal Sustainability and Climate Resilience Development Policy Operation (DPO) and Catastrophe Deferred Drawdown (CAT-DDO).** The Fiscal Sustainability and Climate Resilience DPO is designed to support the government's effort to achieve fiscal sustainability and build resilience for inclusive and sustainable growth. As prior actions for the program, Seychelles published the Physical Planning bill (which provides an administrative framework that enables the integration of climate risks in land-use planning decisions) and adopted the Fisheries Regulation. CAT-DDO is an emergency credit line that provides immediate liquidity to countries facing shocks related to natural disasters. Along with these financial supports, World Bank has offered capacity development, for example an operation on solar energy. The World Bank is preparing a follow up DPO which will have a strong focus on climate resilience.

19. **AfDB has established the Middle-Income Country Technical Assistance Fund (MIC-TAF) for Seychelles to support its transition towards renewable energy sources.** Seychelles is currently developing an Integrated Resource Plan as part of AfDB's MIC-TAF program, which will contribute to the revision of the energy policy. The plan aimed to revise the country's energy policy and set targets for both intermittent and non-intermittent renewable energy sources by the end of 2022. The Seychelles Energy Commission is responsible for implementing the plan and is currently in the Request-for-Proposal phase of the procurement process. Prior to the MIC-TAF, AfDB also provided a project loan for sustainable water.

Climate-Related Financial Supports from Multilateral Institutions

Institution	Program Name	Fund Size	Program Period
World Bank	Fiscal Sustainability and Climate Resilience Development Policy program	US$35 million	2022 - present
World Bank	Catastrophe Deferred Drawdown	US$7 million (credit line, already drawn during the pandemic)	2014 - present
AfDB	Middle-Income Country Technical Assistance Fund	*TBD*	*TBD*
AfDB	Mahe Sustainable Water Augmentation Project	US$20.6 million	2015- 2023

Annex V. Seychelles DIGNAD Simulation

1. The Model. The Debt, Investment, Growth, and Natural Disasters (DIGNAD) is an open-economy model for low-income or emerging countries. It includes natural disasters and resilient infrastructure, and examines the relationship between public investment, growth, financing strategies (external concessional, external commercial, and domestic), and fiscal reaction rules. In the model, natural disasters are expected to affect the economy through five channels: (i) damages to public capital, (ii) damages to private capital, (iii) a temporary productivity loss, (iv) a decline in public investment efficiency, and (v) a loss in credit worthiness. The model accounts for inefficiencies in public investment and absorptive capacity constraints and demonstrates the benefits of investing ex-ante adaptation in countries exposed to frequent natural disasters. While investing in adaptation infrastructure results initially in higher public debt, partly due to higher initial costs (20 percent), it improves resilience of the economy by reducing (i) the adverse impact of natural disasters on output, (ii) damages to physical assets, and (iii) post-disaster fiscal costs for rebuilding and lifeline support.

2. Model Calibration. The model is calibrated to the Seychelles economy with initial values mostly set according to data available at end-2022 and/or historical average. The level of standard capital infrastructure investment in steady state is in line with 2023 projected values at 5.3 percent of GDP. Public debt levels were taken from the latest debt sustainability analysis from February 2023. Seychelles has access to international capital markets, so the public external debt is split evenly between concessional debt and commercial debt (15.6 percent of GDP each). Private external debt is taken as the difference between total external debt and total public external debt. Grants and remittances are taken from a ten-year average using IMF historical data. The scale of the impact of the natural disaster has been calibrated to affect 20 percent of public and private capital stock, in line with other large climate disaster events. For instance, in Fiji, tropical Cyclone Winston wiped out over a third of the country's GDP. In Vanuatu the 2015 Cyclone Pam damages and losses were assessed at 60.8 percent of GDP.

3. Scenario Analysis. The experiments help address the following questions for Seychelles: (i) What are the gains associated with adaptation infrastructure in the face of a natural disaster? (ii) Can a contingency Fund reduce debt and accelerate the recovery? (iii) Can fiscal adjustment play a role in the recovery? (iv) How is the post disaster recovery impacted when the government finances the initial investment with international grants, rather than by private financing and public private partnership? (v) How does the outcome impacted by reforms to improve public investment efficiency? To illustrate the macro-fiscal implications, the following scenarios are simulated.

- **Scenario 1:** This is the baseline which assumes no policies changes from the steady state. The authorities invest standard capital infrastructure and do not scale up investment for adaptation infrastructure during years 1–5, then a natural disaster occurs in year 6.

- **Scenario 2:** Adaptation investment assumes an additional investment in adaptation infrastructure of 2 percent of GDP per year relative to the no additional investment scenario in years

1–5. The adaptation investment is expected to be financed through concessional public borrowing of about 0.6 percent of GDP of concessional debt corresponding to the RSF request amount (5 disbursement until 2026) and Grants (0.4 percent of GDP). The remaining financing supported by public private partnerships or private financing. There are no fiscal adjustments so public domestic and external commercial debt are also allowed to cover the remaining fiscal gap.

- **Scenario 3:** Adaptation investment assumes adaptation infrastructure of 2 percent of GDP per year relative to the no additional investment scenario in years 1–5. The adaptation investment is expected to be financed through concessional public borrowing of about 0.6 percent of GDP of concessional debt corresponding to the RSF request amount (5 disbursement until 2026). In addition, the authorities are stepping up efforts to raise climate financing and raising an additional 0.1 percent of GDP in grants per year to reach 0.8 percent of GDP in 2026. The remaining is financed by public private partnerships or private financing. There are no fiscal adjustments so public domestic and external commercial debt are also allowed to cover the remaining fiscal gap. Improved public investment management (PIM) efficiency associated with PIM reforms by 25 percent allows more of the initial capital to transform in tangible climate resilient infrastructure.

- **Scenario 4:** Adaptation investment assumes less ambitious adaptation infrastructure of 1 percent of GDP per year relative to the no additional investment scenario in years 1–5. The adaptation investment is expected to be financed through concessional public borrowing of about 0.6 percent of GDP of concessional debt corresponding to the RSF request amount (5 disbursement until 2026). Authorities also set up a contingency fund in parallel and contribute 0.5 percent of GDP per year financed by international grants. The contingency fund disburses 2.5 percent of GDP when disaster strikes. In this scenario the residual fiscal gap is covered by fiscal instruments conditional on exogenous paths for grants and concessional debt.

- **Scenario 5:** Adaptation investment assumes less ambitious adaptation infrastructure of 1 percent of GDP per year relative to the no additional investment scenario in years 1–5. The adaptation investment is expected to be financed through concessional public borrowing of about 0.6 percent of GDP of concessional debt corresponding to the RSF request amount (5 disbursement until 2026). The remaining is financed by public private partnerships or private financing. There are no fiscal adjustments so public domestic and external commercial debt are allowed to cover the remaining fiscal gap. Authorities also set up a contingency fund in parallel and contribute 0.5 percent of GDP per year financed by international grants. The contingency fund disburses 2.5 percent of GDP when disaster strikes.

Annex VI. Capacity Development Strategy for 2023–25

CD priority areas are aligned with the authorities' reform agenda aimed at securing economic stability and sustaining inclusive growth in view of the country's vulnerability to external shocks due to its small size and reliance on tourism. The pandemic's impact on the economy reinforced the need to strengthen macroeconomic management capacity through stronger public financial management and revenue administration, enhanced AML/CFT framework, improved monetary policy conduct, and better quality of key macroeconomic statistics. The small size of key institutions, high staff turnover, and capacity limitations could pose risks to achieving reform objectives. An intensification of hands-on training could mitigate this risk as well as CD delivery through resident advisors. Peer learning could also be a way to increase traction. The CD strategy aims to ensure adequate integration of CD recommendations with policy advice in the context of surveillance and program design. It also seeks to support effectiveness, and to avoid overlap of CD activities through enhanced coordination with IMF CD departments, AFRITAC South, and other CD providers. The main CD priorities and objectives are summarized in the table below.

Priorities	**Objectives**
Public Financial Management	Strengthen the credibility of medium-term budget planning, balancing fiscal consolidation, infrastructure building and climate change related investments; strengthen the identification, monitoring, and management of fiscal risks; enhance the efficiency of public investment; improve debt and cash management practices; improve coverage and quality of fiscal reporting; strengthen macro-fiscal forecasting capacities, improve the efficiency and integration of the IT systems.
Revenue administration and tax policy	Strengthen revenue administration and governance arrangements and strengthen Customs and tax administration core functions; assess the efficiency of VAT in a small island country and improve tax expenditure reporting.
Financial Integrity (AML/CFT)	Improve the AML/CFT supervision/regulatory framework by implementing a risk-based approach to supervision; reduce the reputational risk to which the offshore banking sector is exposed.
Monetary Policy Implementation	Strengthen the CBS staff's capacity for inflation forecasting and liquidity management; deepen the money market and improve the transmission mechanism of monetary policy in the context of an interest rated-based framework; develop the Emergency Liquidity Assistance (ELA) framework; develop the government securities; develop the market infrastructure; enhance the communication strategy/policy of the CBS.
Debt Management	Produce a comprehensive Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plan (ABP); strengthen processes for accurate debt recording, reporting and monitoring; develop the secondary market for government securities.
Financial Stability and Crisis Management	Implement a risk-based supervision system and upgrade other supervisory processes; amend the capital adequacy regulation; strengthen the legal basis and the mandate of the Financial Stability Commission (FSC).
Payments and Infrastructure	Advise and assist the central bank and other relevant authorities in developing and reforming the national payment system.
External and Real Sectors Statistics	Strengthen the compilation and dissemination of national accounts, price, and external sector statistics according to internationally accepted statistical standards.
Government Finance statistics (GFS)	Build capacity and improve the quality of fiscal and debt statistics.
Monetary and Finance Statistics (MFS)	Increase the scope of data to include credit providing nonbank financial institutions and payment companies in the scope of the monetary data and to assist with the compilation of financial soundness indicators in line with international standards (2019 FSI Guide).

Appendix I. Letter of Intent

Victoria,
May 16, 2023

Ms. Kristalina Georgieva,
Managing Director,
International Monetary Fund
700 19th St, NW
Washington, DC 20431
USA

Dear Madam Managing Director:

The Seychelles economy has performed well under the program supported by the Extended Fund Facility (EFF) approved on July 29, 2021, and all the performance criteria and indicative targets for end-December 2022 have been met. Real GDP growth in 2022 reached 9 percent, close to initial projection, on the strength of the recovery in the tourism sector, manufacturing and construction. At end-2022 the rate of consumer price inflation, at 2.5 percent on a year-on-year basis, was lower than expected. The external current account deficit, at 7.6 percent of GDP, was somewhat higher than expected, but the target of net external reserves was met. In public finances, the primary current expenditure was below budget and a significant shortfall occurred in capital expenditure. Thus, a primary budget surplus of 0.7 percent of GDP was achieved, as compared with an initial deficit target of 1.1 percent of GDP, and the public debt-to-GDP ratio fell to 69.2 percent at end-2022, from 80.8 percent at end-2021, in line with program objectives.

On structural reforms, the government implemented the envisaged reforms in the area of tax administration, treasury cash management, and debt management. The asset quality review of the banking system has been undertaken, and the bank resolution bill prepared as planned.

In light of the uncertainty in the international situation with the conflict in Ukraine and the need to firm up further public finances so as to reduce the public debt-to-GDP ratio toward the target of 50 percent over the medium term, and to reinforce the stability of the financial sector, the government has decided to request a successor arrangement under the EFF, replacing the existing arrangement that expires on March 29, 2024. Moreover, to undertake structural reforms to strengthen resilience to climate change and protect the environment, which is key to the long-term prosperity of the Seychelles, the government is also requesting an arrangement under the Resilience and Sustainability Facility (RSF).

The attached Memorandum of Economic and Financial Policies (MEFP) presents the economic and financial policies that the government intend to undertake in the period June 2023–June 2026, and the reform measures to confront climate change and strengthen our country resilience to climatic conditions.

In support of these policies, the Government of Seychelles is requesting a 36-month successor EFF arrangement in an amount equivalent to SDR 42.365 million, or 185 percent of Seychelles' IMF quota, and the cancellation of the existing arrangement. We are also requesting an arrangement under the RSF in the amount of SDR 34.35 million, or 150 percent of quota. A successor EFF arrangement is appropriate in our view given the still ambitious medium-term structural reform agenda. Use of the RSF is justified by the significant challenges that climate crisis poses to a small island state like Seychelles and our ambitious reform plan to confront these challenges.

The Government believes that the policies described in the attached MEFP are adequate to achieve the objectives underpinning these dual programs. However, if necessary, the Government stands ready to take any additional measures that may be required. In accordance with the Fund's policies on consultation, the Government will consult with the Fund on the adoption of these measures and in advance of any substantive revisions to the policies contained in the MEFP. The Government will also provide the Fund's staff with all the relevant information required to complete the program reviews and for it to monitor performance on a timely basis.

The Government will observe the standard performance criteria against the imposing or intensifying of foreign exchange currency restrictions, the introducing or modifying of multiple currency practices. Equally, we will not conclude bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, nor will we impose or intensify import restrictions for balance of payments reasons.

We also authorize the Fund to publish this letter, its attachments, and the Staff Report for the request of the two arrangements.

Sincerely yours,

/s/
Naadir Hassan,
Minister of Finance, National Planning and Trade

/s/
Caroline Abel,
Governor, Central Bank of Seychelles

Attachment I. Memorandum of Economic and Financial Policies

I. Background and Macroeconomic Outlook

1. Economic performance in 2022 was positive and marked the continued recovery of key sectors such as tourism, which recorded an 82 percent growth in arrivals. By the end of 2022, arrivals stood at 332,068, which is about 14 percent below the 2019 level. Also key to growth in 2022, is the ICT sector which remained strong, with data traffic increasing by about 30 percent over 2021. Construction activities have picked up with the building of some new hotels. However, a slowdown in canned tuna production has lowered the outlook for manufacturing activities. Given these performances, a preliminary GDP growth of 9 percent was estimated for 2022, which is lower than the initial 10.6 percent growth forecasted at the time of the last review.

2. A slowdown in GDP growth is expected in 2023 at 4.3 percent compared to the last review. Arrivals growth is now expected to be at 5 percent compared to 15 percent forecasted initially. Tourism earnings are expected to decline due to lower spending per arrival, reflecting economic and geopolitical issues in target markets, the complete re-opening of rival destinations, the increasing number of visitors to guesthouses, and the weaker Euro against the US Dollar (less USD upon conversion). The outlook on tourism earnings remains subject to downside risks based on global developments and industry-specific factors (e.g., flight connections). However, the ICT sector is predicted to remain strong with a growth of 15 percent, in line with rapid increases in data traffic. Steady recovery is also expected in transportation and storage activities at 10 percent.

3. The domestic currency strengthened against the major trading partners for the most part of 2022, supported by sustained inflows of foreign exchange. Despite the uptick in FX demand in the second half of the year partly driven by overall elevated international fuel and commodity prices, the annual average performance reflected a strengthening of the local currency for the year 2022. Such appreciating trend continued during the first two months of 2023.

4. Inflationary pressures moderated as the increase in international fuel and commodity prices abated towards the end of 2022 and going into 2023. In February 2023, the 12-month average inflation rate was 2.4 percent whilst the year-on-year inflation stood at 1.1 percent. The year-on-year change in consumer prices and the 12-month average inflation rate for December 2023 are projected at 2.2 percent and 1.4 percent, respectively.

5. Monetary policy remained accommodative in 2022. Despite the upbeat performance on the domestic front, the Bank remained mindful of the country's vulnerability to external shocks and considered it necessary to continue supporting the economy. The Monetary Policy Rate (MPR) remained at 2.0 percent, whilst the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) stood at 0.5 percent and 3.5 percent, respectively.

6. In February 2023, the average savings rate remained relatively unchanged whilst the average lending rate on rupee loans fell by 15 basis points relative to February 2022. However, due to an increase in interest rate on foreign currency loans, overall, the lending rate rose by 30 basis points. The movement in the latter was consistent with higher interest rates on foreign currency loans as a result of tighter global financial conditions. The cost of government borrowing increased marginally in the latter half of 2022, compared to the same period in 2021. In February 2023, the average yield on T-bills stood at 1.01 percent, 1.43 percent, and 2.16 percent on the 91-day bills, 182-day bills and 365-day bills, respectively.

7. Budgetary performance by the end of 2022 was, as a whole, better than the program forecast, with a primary surplus of 0.7 percent of GDP recorded. This was largely as a result of lower expenditures. Expenditures have remained below the forecast level, as a share of GDP, at 35.3 percent compared with 36.5 percent forecast at the third review, as capital expenditure has continued to remain below forecast due to under-execution of the domestic financing projects, while current expenditure has remained below the revised budget in view of the capacity to recruit in the labor market and under-execution of the different programs. Nonetheless, taxes were lower in 2022 by about 0.7 percent of GDP compared to 2021. Business tax accounted for almost 2/3 of the total tax under-performance. Business tax projections for 2022 were overestimated as a result of inflated collections in 2021 based on large FX gains in 2020. While the turnover of companies increased by 3 percent in 2021 over 2020, their taxable incomes were 26 percent lower, given a stable exchange rate. This resulted in large tax refunds in 2022. VAT remained buoyant, driven by increasing tourism arrivals and receipts. Total grants also fell below the previous forecast by SR 69.6m. For the year as a whole revenue excluding grant reached 33.3 percent of GDP, a marginal increase over 2021.

8. The current account deficit improved from 11.0 percent of GDP in 2021 to 7.6 percent of GDP in 2022. Such outcome was primarily due to an improvement in the positive net contribution of the services account– owing to higher tourism earnings relative to the previous year. For 2023, the current account shortfall is projected at 9.5 percent of GDP.

9. The Gross International Reserves (GIR) ended 2022 at US$639 million, a decline of 9.0 percent compared to US$702 million end-2021 whilst Net International Reserves exceeded its end-2022 target by 11 percent. The fall in GIR was mainly attributable to the lesser government FX inflows recorded in 2022 compared to 2021. Of note, the preceding year’s GIR outcome was heavily supported by inflows from external financing from the IMF, as well as budget support loans and grants from other development partners. For the year 2022, external financing was on a significantly lower scale, and this, together with the uptick in external debt repayments and the low level of international reserves accumulation from the domestic foreign exchange market, contributed to the reduction in GIR compared to 2021. CBS conducted only one foreign exchange auction (FEA) in 2022 and this was in February when US$2.45 million was purchased following a significant influx of foreign currency into the domestic economy. As for the Net International Reserves (NIR), it closed at US$472 million at the end of December 2022, surpassing the target of US$426 million by US$46 million.

10. As at end of February 2023, the banking industry remained well capitalised although NPL increased during 2022. All banks were above the prudential capital requirement of 12 percent.

On a year-on-year comparison, the industry's aggregated regulatory capital to risk weighted assets stood at 21.2 percent. On year-on-year basis, the ratio of non-performing loans (NPLs) to gross loans increased by 0.6 percentage point to settle at 7.1 percent as at end-February 2023. This was as a result of an increase in NPLs in the real estate, tourism, trade and residential development sectors. The banking sector recorded enhancement in the earning indicators with an increase in return on assets and return on equity to settle at 3.4 percent and 38.8 percent, respectively. The liquidity position of the banking sector remained strong with a liquid asset to total liabilities ratio standing at 47.2 percent at the end of February 2023, well above the minimum requirement of 20 percent. As for the industry's foreign currency risk exposure, the long position and short position rose by 0.3 percentage points and 0.1 percentage points to stand at 8.2 percent and -3.5 percent respectively. Both ratios remained well within the foreign currency exposure prescribed limits.

II. Program Objectives and Policies Under the EFF and the RSF

A. Real Sector Reforms (Diversification, Digitalization)

11. The ongoing reforms in the real sector aim to diversify the economy and promote digitalization, as detailed below:

- Promote the use of digital payments platforms for Government transactions by improving the efficiency of the platforms and making them more user friendly hence building the public's confidence in using the platforms. During the 1st quarter of 2023 the Government will be launching its action plan for improving Government's digital payments systems which includes awareness and sensitization on the use of the systems; establishing a standard procedure and coding to be adopted across government which will streamline the process for both the Government and the Public. This will also set the stage in preparing the country towards its move to a cash-lite society.

- The Tourism Master Plan is being executed as envisaged. In addition, with the assistance of the World Tourism Organization (UNWTO), Seychelles has developed a first tourism satellite account (TSA). The TSA will assist to measure the economic impact of tourism in a destination and find out exactly what tourism contributes to the gross domestic product (GDP). To better understand the dynamics of the tourism sector and its benefit to the economy the Government will seek assistance from its development partners to conduct a tourism study. The terms of reference for the study will be finalized by end-June 2023 *(structural benchmark)* with aim of having the study completed by end-June 2024 (*structural benchmark*).

B. Fiscal Policies, and Fiscal Structural Reforms

The Budget for 2023 and Beyond

12. Albeit external risks still prevail, public debt is projected to continue on its downward trajectory in 2023 and over the medium term. The better than forecasted fiscal consolidation in

2022 which resulted in a primary surplus of 0.7 percent of GDP, played a significant role in reducing the stock of public debt. By the end of 2022, the debt to GDP ratio stood at 69.9 percent. Going for another EFF program with the IMF will help to fill the financing gap in short to medium term. The government and government guaranteed debt would decline by about 1.8 percentage points, to 68.1 percent of GDP by the end of 2023. Despite the gradual decrease in overall debt stock over the medium term, guaranteed debt is projected to increase by about 0.7 percent average annually as Government provides guarantee to the Development Bank of Seychelles (DBS) to help boost economic activities. Given Seychelles vulnerabilities to external shock the Government remains committed to achieving a debt target of around 50 percent of GDP by 2030. This will ensure that Government has the require fiscal space to invest in climate related projects over the medium term.

13. The budget for 2023 aims at achieving a primary deficit of 0.4 percent of GDP. Revenue compared to 2022, excluding grants is targeted to increase by 0.9 percentage points to 34.3 percent of GDP, while current expenditure would increase by 0.5 percentage points to 38.7 percent of GDP, reflecting an increase in current and capital expenditure. On the tax revenue side, the majority of the increase would come from the introduction of the securities dealer's business tax and the new tourism taxes as announced in the budget. The environmental levy policy has been revised downwards by about SR 60m following further consultation with key stakeholders and a delayed implementation date. The tourism turnover tax remains on track and could potentially result in higher revenues than the SR 118 million initially forecasted. Government will also be introducing a salary increase in April 2023 after a salary freeze since 2019. Savings will occur in transfers to public enterprises, following the 2022 non-recurring transfer to Air Seychelles of SR 213 million. The home carers' scheme costing at around 1.1 percent of GDP under the benefits and approved programs of Agency for Social Protection (ASP) has been moved under wages and salaries and good and services because it has become a new agency. Capital outlays will increase by 2.4 percent of GDP, partly financed by grants. In the medium term the main investments would be for the construction of a new modern hospital on Mahe and the continuation of social housing projects.

14. Government will enhance its tax reforms over the medium term to ensure domestic mobilization of resources. The business tax amendment enacted at the end of December 2022 includes new provisions for transfer pricing. The World Bank is assisting us to finalize the general transfer pricing regulations to provide clarification of the new rules and their interpretations and also to explicitly indicate the actions that taxpayers are required to take in order to comply with the new legislation. The aim is to publish the transfer pricing regulations before the end of June 2023. The assistance from the WB is to conduct a tax gap exercise in relation to potential revenue leakage as a result of transfer pricing/profit shifting in the Seychelles. Such exercise is expected to be completed by end-June 2023. Following the assessment of the value added tax report by end of 2022 with the assistance of the FAD, further support will be required to amend the legislations based on the 2022 technical report, analyze further the tax expenditures with revenue and distributional implications of removing them in the medium term and in-depth examination of the taxation of digital services, especially from foreign suppliers, and how the VAT law can be strengthened to improve certainty in this area. The Cabinet is due to approve the legislative amendments to streamline VAT exemptions by December 2023 (*structural benchmark*). Government is also reviewing the taxation framework of the yacht industry to ensure compliance with the legislative framework. Over the medium term the Government will undertake a review of the income and non-monetary benefits tax to assess the implications of introducing tax return. Government recognized that there are revenue losses attributable to tax exemption, special credit or preferential tax rate. As part of the 2024 budget document Government will publish budgeted tax expenditure forecast (*structural benchmark for end-October 2023*). Subsequently, further assessment will be done during the year 2024 to incorporate a wider tax expenditure forecast for the 2025 budget.

15. Government will conduct a comprehensive review on the size and current structure of the public sector in the medium term. The Government will undertake a comprehensive functional review of the whole of government. The functional review process will start in January 2024 and be complemented by the digitalization agenda across government services. In the near term, Government will enhance managerial efficiency and focus on reviewing the role and functions of all departments and agencies to ensure maximization of current human resources and improve on service delivery. The strengthening of the monitoring and evaluation framework as part of the result-based management will ensure proper oversight of performance across Government. Targeted training will be provided for all public sector employees to ensure they have the necessary tools to deliver as per their mandate.

16. In its effort to be more transparent and streamline the public sector remuneration framework, in April 2023, Government introduced a new salary grid for public sector employees. Currently, Government is paying a number of allowances as per the Public Service Orders, Schemes of Service and Circulars issued. The current ratio between Basic Salary and allowances is 57:43. Based on the review, four allowances will be merged into the basic salary and they are: 5 percent supplementation allowance; Marketable Skills Allowance; Graduate Allowance and PSC Performance Allowance. After the above allowances have been consolidated into the basic salary, it is proposed that a 10 percent increase will be applied to each salary, with the minimum increase being SCR1,000.00. The new ratio will be 72:28. Further works will be undertaken over the medium term to synchronize any salary benefits and salary increase to performance as part of the result-based management framework.

17. The implementation of the new salary grid is expected to cost Government SR 171.9 million under wages and SR 23.8 million under goods and services in 2023. The full impact of the salary increase is reflected in the medium-term projection and a sum of SR 229.2 million under wages and SR 31.68 million under goods and services annually. In 2023, Government will re-introduce a freeze in recruitment in non-critical areas in order to ensure that the wage bill is contained and remains sustainable. The cleaning services to Government currently outsourced under goods and services will be moved under wages and salaries from 2024. In 2023 a sum of SR 24.7 million has been budgeted for the payment of compensation as one-off cost under goods and services in 2023 and wages and salaries will be increasing by around SR 65 million from 2024 onwards. This will save Government SR 5.1 million annually.

18. The Government remains committed to the digital transformation of the economy and the creation of an enabling environment for the uptake and usage of Digital Financial Services.

This includes revisiting the business processes in government with the aim of streamlining facilitation services offered and pursuing the digitalization agenda**.** The improvement in the processes and procedures aims to encourage new investors to start business and also to provide existing businesses with seamless access to services. This will be done in phases, with the immediate focus being the 8 key processes that are integral to the business sector and used more regularly. Work is underway for the processes to be integrated into the new investment portal and is expected to be completed by end of June 2023.

19. Significant investment in the medium term will go towards the digitalization agenda. In the effort to make Government more efficient, a total of SR 421.61 million has been allocated in the medium term to cater for several digitalization project. This includes provision for a new Integrated Financial Management Information System, a new Human Resource Management System and a new system for the Agency of Social Protection. Other initiatives as part of the digital economy action plan remains ongoing.

- Improve relevant legislative framework. A new Communications Bill which aims to address anti- competitive practices and provide a better legal framework for the telecom sector was recently approved by the Parliament. This Bill also provides for the creation of an independent ICT regulator. In addition, a new legislation which aims to address the protection of individuals with regards to the processing of personal data (Data Protection) is expected to be enacted by second quarter 2023.
- Promote use of digital platforms in public service delivery. During the last quarter of 2022 key platforms have come online, mainly the digital ID system, the online Business, Company & Association registration and the online License Application. The full implementation of the Health Information System has encountered delays and is expected to come online by end-2023.
- Enhance the level of digital skills to ensure inclusion and equal access to opportunities. Digital skills will be made compulsory in the national curriculum for all students at all levels of education. The Policy paper ICT in Education was approved by Cabinet in October 2022.
- Increase financial inclusion through the promotion of access to affordable financial products and services with the support of new legislations such as e-money.
- Improvement of payments systems infrastructure: Real Time Gross Settlement System (RTGS) to offer safe and secure real time funds transfer thus minimizing settlement risks. It is expected to come online by first quarter 2024.
- Develop digital entrepreneurial ecosystems in order to diversify and strengthen the economy.
- Human Resource Management System (HRMS)-In order to bring greater efficiency in the public service funds will be provided for the development of a HRMS. This will connect core HR and payroll, talent management, and people analytics to help deliver exceptional employee experiences. This is expected to come online in time for 2025 budget preparation.

Efforts Continue to Strengthen Tax and Customs Administration

20. The enhancement of the ASYCUDA World is underway. The system is being upgraded to accommodate new modules, such as Excise Warehouses, E-Payment, E-Government, Single Window, Express Courier, E-Manifest for Courier and also includes continuous technical training. The modules are being developed in phases and will be deployed as and when they are ready. The upgrade of the ASYCUDA system with new modules is expected to be completed for the E-Manifest modules, Express Courier and Excise warehouse modules by September 2023 (*structural benchmark*) with E-payment to be completed by December 2023. The Single Window platform is expected to be fully developed by the second quarter of 2024.

21. REX is a system based on self-certification introduced by the European Union to replace the EUR.1 certificate. A series of workshops have been conducted with non-government stakeholders, in particular those involved in the exportation of fish or fish products to the EU, to make them aware of this system. Designated Customs officers have also been trained to facilitate the implementation of this system which is scheduled to go live on 01 July 2023. Potential users (exporters or authorised agents) of REX will have to go through a two-stage application and registration process starting with pre-application on an EU website and registration at the Seychelles Customs which can be done in person or electronically. Once all the formalities have been successfully completed, the exporter is authorised to self-certify the origin of the products by including the appropriate statement of origin on the invoice, a delivery note, or any other commercial document describing the products concerned in sufficient detail to enable them to be identified.

22. Progress is being made to empower and enable taxpayers to timely meet their obligations through innovative and transparent processes by improving and diversifying its online services. It is part of SRC's strategy to improve the efficiency and effectiveness of SRC systems, namely the Client Management System (CMS). The aim is to simplify SRC business processes to reduce compliance time and cost and improve the ease of doing business. Maximizing revenue growth remains the core objective of the plan, with focus on the utilization of innovative practices and technology-driven products and services to ensure more efficiency and effectiveness in SRC operations. One step to improve ease of doing business with SRC is to implement a modern Tax Management System to replace the CMS. A modern tax system includes more automation, more digital solutions and less manual work. This will make SRC more efficient and effective and make it easier for taxpayers to interact with SRC. The registration module has been completed and went live in October 2022. SRC has also launched a new tax portal in December 2022 to facilitate online registration of businesses. Taxpayers can use the portal to register and de-register a business or activity, modify and update their information and monitor progress of their applications. The portal has a more modern look and feel and is more user friendly. Taxpayers are now not required to come to the SRC to be registered on the new portal compared to the old one. The portal is being extended to accommodate online filing in June and payment in December 2023. To improve communication between SRC and taxpayers in the future, they will be able to use the portal to view their account at SRC to know if they have any tax liabilities and also receive and view all notifications sent by SRC. They will also be able to automatically generate and download their tax clearance certificate.

23. The implementation of the new TMS entails adoption of new technologies and management practices to increase efficiency and effectiveness and to the ease of doing business. Much emphasis is being placed on streamlining bureaucratic practices, which will in turn provide more clarity, certainty, and consistency in the application of tax laws. The project will take into consideration efficient and cost-effective services, performance management, accountability frameworks, taxpayer engagement and improvement in the use of technology and monitoring of service standards. The SRC service standards will be reviewed and a number of KPIs will be incorporated in the new system as part of the Results Based Management framework. The project is currently in phase 3 with the designing and development of the core modules namely returns processing, payment processing and accounting. At present, the development team is finalizing the new framework to support dynamic configurations in order to reduce the need for programming while offering more flexibility in system configuration through the use of a workflow system. The consolidation of Web Portal and Back-office functions within the new portal also is aimed to reduce the development workload. The upcoming activities expected to be completed by end-June 2023 include:

- completing the development of the returns processing module and commencement of user acceptance testing;
- development of the payment processing and cashier system;
- technical discussion with banks and DICT on payment system integration;
- technical discussion with Pension fund for payroll and system integration;
- configuring and deployment of the new servers acquired for the TMS system;
- ongoing technical discussions with Ministry of Finance (treasury) regarding the system integration and financial reporting and reconciliation; and
- engage in public education regarding the use of the new bank account as well as the use of the portal and additional changes relating to filing returns.
- The key deliverables are to develop a modern Tax Management System that will result in increased revenue collection, increased use of digital service to lower compliance costs for taxpayers and subsequently improve voluntary compliance, increase the taxpayer registrations, and offer additional opportunities for taxpayer education.

24. SRC recognizes the need to modernize and simplify tax processes through business process reengineering to remove bureaucracy, increase automation of manual processes and promoting electronic interactions with clients. SRC has started its business process reengineering exercise; the process for registration, returns processing and payment have been completed and debt collection, audit and risk will be conducted in 2023 to 2024. The accounting user requirement is in its final draft. The processes are being reviewed to incorporate international best practices and increase automation with the aim of moving towards a paperless revenue administration in the future. This exercise is very important to identify duplications and streamline processes before it is automated as part of the new modules being developed in the new tax management system. As part of this exercise SRC is also looking at ways to integrate with other government systems to facilitate sharing and validation of information and to improve the ease of doing business.

25. SRC with support from GOPA are in the process of data cleansing for the registration module and started reaching out to the public to validate their information and provide missing information in order to meet the minimum requirements of the new TMS system. This registration data cleaning exercise will take time and the plan now is to complete most of this exercise by end of second quarter 2023. This is because there was a low number of taxpayers that came forward to update their information by end of 2022. Staff training and public awareness are ongoing to ensure all SRC staff and the public are fully equipped to use and support the new system and the new procedures. SRC received assistance from students from the School of Business Studies and Accounting to help with the data clean up exercise.

26. SRC will modernize the processing of tax returns and payment, with the aim of improving tax collection and ensuring that businesses meet their obligations. Voluntary compliance will be encouraged by conducting more educational outreach programs, making it easy for taxpayers to file and pay on-time, and measures will be taken to enforce filing and payment compliance and follow upon late-filers and payers. The tax system will be configured to send automatic reminders before due date and automatic notices after due for taxpayers that have not file and pay on time. SRC is also reviewing all the tax returns to make it simpler to facilitate compliance and this will be implemented in the new tax system. SRC has started its lodgment outreach on inner islands and Mahe, where the staff is assisting taxpayers with lodgment of tax returns, amongst other activities such as registration, deregistration, and information update. SRC has started piloting the Compliance Improvement Plan (CIP) with the aim to strengthen compliance. The CIP was developed with assistance from AFRITAC South and is expected to increase the overall tax compliance rate. The sector intervention strategy, during the first year of the CIP, will be focusing on the uniqueness of issues identified in sector 1 to 3 during the audit.

I. Wholesale/ retail sector will entail audit projects, awareness sessions and publishing of educational materials as a remedy to address weaknesses from the audit findings and any misinterpretation or wrong application of the law.

II. Tourism sector will start with the yacht category and every year this will be reviewed to include other categories namely but not limited to boat charter, short-term accommodation and restaurants. Again, targeted workshops to address the issues revealed in the audit will also be offered. Guidance notes specific to the yacht operation will additionally, be drafted for both internal and external use.

III. Financial Sector, precisely, Bureau de change will be targeted during the first year of the CIP and in the subsequent years other categories such as insurance and banks will be added.

In a sum, the compliance treatment actions will revolve around providing support through education and better services to facilitate voluntary compliance plus coercive actions such as audits and prosecution depending on the attitude of the taxpayer and the level of risk. On an overarching level, SRC has also re-designed its website making it more user-friendly, enabling taxpayers to easily access information hence, to better, understand their obligations.

27. SRC has received technical assistance from TIWB for Transfer Pricing. The TIWB initiative has the objective of enabling the transfer of tax audit knowledge and skills to tax administrations in developing countries through a real time, "learning by doing" approach. This will help SRC to effectively engage in international efforts to address the emerging gaps in international norms. The new legislative framework will be further supported by capacity building assistance (formal and informal training, conducting transfer pricing compliance) from an independent transfer pricing expert. The potential impact of the new transfer pricing legislation and regulations and capacity building for transfer pricing would be to strengthen and enforce the arms' length principle leading to a reduction in revenue loss as a result of transfer pricing/profit shifting and an increase in revenue collected from non-compliance with the transfer pricing legislation. This will be achieved through the development of a risk assessment framework and execution of an audit program.

28. SRC have also recruited a Technical Advisor (TA) to assist and provide guidance on practical audit casework including Transfer Pricing cases. The TA is also assisting with the review of the Intelligence framework, risk profiling and case selection and assisting the International Tax Unit with international tax issues, such as implementation of the BEPS Actions and Exchange of Information. The TA will also build capacity of SRC officers in these areas. A training plan has been developed in line with the capacity building initiatives; training of officers within the Audit and International Tax units have already started. SRC is also receiving specialized Audit trainings from the African Tax Administration Forum, namely for the Telecommunications and Financial Sectors. There is also ongoing training for Basic, Intermediate and Advanced Audit.

29. SRC is improving the system for Automatic Exchange of Information (AEOI) to be more efficient in exchanging tax information and in meeting OECD standards. New functionality for Financial Institutions (FI) onboarding has been developed and the system has also been integrated with the OECD CTS system to ensure full automation of the process. FIs will be able to register on the new platform and submit their files which will be downloaded, decrypted, validated and send a status message automatically by the system without the intervention of the staff from the International Tax Unit (ITU). The system will also be linked with the OECD CTS System so the staff will not need to upload the files for each country individually and manually into the CTS system but with the press of a button all the files will be send automatically. The full automation process will also be applicable for files received from other countries. The consultant is in the country to resolve all outstanding technical issues and is conducting a training with the staff for these new functionalities. He will also be providing training for the Exchange of Information Upon Request (EOIR) case management system and the AEOI audit program and tool. The EOIR case management system will facilitate tracking of cases for exchange of information upon request and the audit tool will facilitate and automate auditing of the information for AEOI. Five officers including the Manager of the International Tax Unit will benefit and thus will be able to prepare and conduct the audit as set out in the respective Action Plan. A CRS administration Compliance strategy will also be developed based on the data in the system. The due date for the finalization of the system is May 2023.

Expenditure Management and Efficiency of Public Spending

30. The GOS is taking steps to adopt a Medium-Term Fiscal or Budget Framework to bolster the sustainability of public finances. To strengthen the integration of planning and financing process Government is working with the UNDP to prepare an integrated financing framework which will guide resource mobilization going forward. The first step would be the development finance assessment to be completed by third quarter 2023. In August 2021, an AFRITAC South mission provided support in strengthening Seychelles macrofiscal forecast capacities including: (i) assessing fiscal risk and sustainability through a public sector balance sheet (PSBS) approach; and (ii) preparing debt scenarios to monitor the implementation of the government's medium-term fiscal strategy and the IMF EFF program targets. Additional support will be provided by AFRITAC South in the context of the 2024 budget to link the Medium-Term Debt Strategy and National Development Strategy. The Ministry of Finance is currently working with the Ministries, Departments and Agencies in improving the Public Sector Investment Plan (PSIP) over the medium term to be consistent with the budget framework. A new agency, Seychelles Infrastructure Agency was set up in January 2022, with the aim of improving the planning and execution of capital projects across Government. We are also working on the result-based management to ensure there is synergy between Government strategies with budget planning.

31. The Temporary Salary Support (TSS) and Temporary Energy Support (TES) programmes which was introduced as part of a series of measures in July 2022 to alleviate the potential impact on the most vulnerable groups of society is expected to close at end-March. However, ASP beneficiaries previously benefiting from the program will continue to be assisted until the revision of statutory benefits is completed. As at end-March 2023 a cumulative sum of SCR 71 million has been disbursed.

32. Reforms are ongoing in the social protection system in the form of a "Program for Results" (PforR). In light of the decline in the number of beneficiaries in the social welfare assistance (SWA) program, the World Bank assisted the Government with conducting a survey amongst past and present beneficiaries of social welfare programs. In order to improve accessibility to welfare services it is being recommended that there is greater awareness and outreach campaign as well as improved communication of the application outcome.

33. The Program development objectives remains to improve the efficiency and effectiveness of social protection programs in the Seychelles, while remaining above the floor on social expenditure established under the program. The analysis of social spending is going to be refined to better capture budget allocation towards human capital development. The focus in 2023 will be to:

- Improve fiscal sustainability of Retirement Pension through the enactment of the law increasing the retirement age for the Retirement Pension and Benefits to 65 years old beginning on January 1, 2023. The amendments of the legislations were enacted by end of December 2022.
- Improve efficiency and transparency of social protection programs through the following measures.

- ASP will adopt a revised socioeconomic needs assessment incorporating non-income dimensions of poverty.
- A comprehensive Review of ASP internal controls and payroll systems to check adequacy and adherence to the established country systems and controls has been conducted by PWC. The Government has provided funds in the 2023 budget for procurement of the IT system by ASP.
- Access to home care will be better targeted through the establishment of an Agency to allow citizens experiencing a considerable decline in capacity to receive care and support by those officially recognised by that Agency as being capable of rendering care. Trained caregivers within HCA, ASP, and MOH are providing home care to at least 60 percent of new high-need HCP beneficiaries.
- Adopt an interdisciplinary approach to social protection by coordinating across MDAs and establishing a social registry which can be used to coordinate services across the MDAs, by end March 2024.

34. The Government is committed to improve the efficiency of government spending. In line with IMF TA recommendations, a comprehensive review of the legal framework for public procurement in Seychelles, started in 2021 and the first phase was enacted at the End-December 2022. IMF TA will be provided during the year 2023 to undertake additional review of the public procurement act and the public finance management act. This will ensure consistency in some of the provisions of all three legislations and introduce new provision based on the ongoing reforms taking into account the digitalization agenda. We will also adopt a Public-Private Partnership framework including climate-related investment and approve relevant legislation by end of December 2024. With the assistance of the World Bank, the Public Expenditure and Financial Accountability (PEFA) assessment will be undertaken during the first quarter 2024. Once completed, we will prepare an action plan for Cabinet of Ministers' endorsement by June 2024 to correct on any deficiencies identify by the PEFA assessment. The World Bank is also assisting with the public expenditure review for the education and health sector. This is expected to be completed by July 2023.

35. We will enhance the Program Performance Based Budgeting framework to improve expenditure forecasting. With the support of the World Bank, the Government will be rolling out the Zero-Based Budgeting in five Portfolio for the budget process 2024-2026, which shows the clear link with an MDA's strategic priorities, interventions, activities and budget. This is expected to result in a re-alignment of expenditure to strategy. The MoFNPT will provide standard cost for some common use items for consistency of unit cost when calculating the cost of different activities while using the Zero-based costing template.

36. In order to improve PFM, we will be installing a new IFMIS platform by January 2025. This should strengthen capacities to manage public finance business processes and also link up with the emerging national payments platform prepared by the central bank. A budget for the new IFMIS is included in the 2023 budget and over the medium term. The IFMIS task team is currently reviewing the System Requirements Specifications documents with the assistance of AFS. The review will also determine cross-cutting functional requirements and interface system requirements such as the SRC, debt management, Payroll and asset management systems. The review of the systems requirements should be completed by end of April 2023 and the requirements determined following which the team will work on the tender documents. The tender for the procurement of the core system is expected to be launched in June 2023 and the contract is expected to be signed by December 2023. The contextualization and validation of the modules will be done in phases with the budget preparation and management module being done first with the objective of preparing the 2025 in the new system. The configuration of other modules which includes budget execution, accounting and reporting modules will then follow.

37. A budget for the new IFMIS was included in the 2023 budget and over the medium term. The IFMIS task team is currently reviewing the System Requirements Specifications documents prior to procuring the CORE system. This is being done with the assistance of AFS.

38. Improving cash flow forecasting practices is essential since the current deviations in the cash flow forecasts are considered too large. We have in our medium-term priorities a commitment to improving spending efficiency, including through strengthening cash management. The issuance of a ministerial circular in October 2022 to reduce the deviation between the forecast and the outcome in the monthly cash flow plan is evidence of this commitment. With the creation of the Cash Flow Unit (CFU) within the Ministry of Finance, the Government will ensure that by the end of May 2023, the CFU will be staffed with the competent staff to deliver on its mandates. The CFU will work closely with the Ministries, Departments and Agencies to receive the information on large payments beforehand and include in the cash flow plan. The CFU will improve on the consolidated and comprehensive cash flow plan template to expand the classification details for expenditure and at the same time as the actuals are entered revised forecasts should be included into the Cash Plan. The CFU will ensure the forecasting errors are systematically analyze and discuss with the different stakeholders to improve the cash flow plan. Those improvements in the cash flows forecasts will also inform debt management and borrowing planning for the Debt Management Division (DMD) and liquidity management for the Central Bank of Seychelles (CBS) to support the monetary policy. With these added objectives improved methodologies, better coordination and management of data and timely responding to stakeholder needs will be important for the effectiveness of the cash flow forecasting.

39. The Government is committed to improve the efficiency of public investment funding. Investment in public infrastructure remain a priority for Government in order to increase economic growth and improve the conditions of the public infrastructure. Seychelles undertook its first Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA) assessment during the first quarter of 2023 with the assistance of the IMF's Fiscal Department and the World Bank. The PIMA has identified several causes for the under-execution of capital projects, including weakness in the national and sectoral planning processes, challenges and gaps in the appraisal and selection processes for projects entering the budget, and limited capacity for preparing and analyzing this information across the government. Maintenance budgeting and planning could also be improved, particularly by updating fixed asset registers and making this information available in the Fixed Asset Management System. We submitted an action plan for the endorsement by the Cabinet of Ministers on 3rd May 2023 with the aim to improve the under execution of capital investment and to also address the identifying gaps in the public investment management institutions.

40. The Public Investment Management Policy will be reviewed by the end of June 2023. The main changes will include an update of the requirement for project appraisal, a review of the thresholds for determining major projects and ensure that major projects go through a rigorous appraisal process. In addition, the revise policy will also incorporate the routine maintenance methodologies. By the end of 2024, the Government is expected to have developed a well detailed database of all appraised projects which will be used for financing of projects. In order to ensure value for money in public investment management, the PFM Act will need to be reviewed to include the ex-post independent reviews of all major and strategic capital projects.

41. Priority would be given to strengthen maintenance budgeting and planning by updating the fixed asset register. The Accounting Manual requires MDAs to maintain asset registries, and to compile government annual financial statements in line with cash-basis International Public Sector Accounting Standards. In practice, asset registries are neither comprehensive, nor are they regularly updated. Poor information on asset registries makes it difficult to have certainty about the stock, conditions, and value of public assets. This has a negative impact not only on fiscal accountability, but also on effective asset management, including maintenance and assets at risk of climate change. Government will identify major and critical fixed assets managed by MDAs and give priority to update their asset registries and to uploading this information in the Fixed Asset Management System to inform decision making.

42. The Government will adopt maintenance standards for routine and capital maintenance and the program classification will be used to better measure maintenance costs. No standard methodologies are in place for estimating the need and related cost of routine or capital maintenance, and maintenance spending is only partially measured in the budget. There are no national standard methodologies for maintenance that are adaptable to specific classes of assets. We will develop routine and capital maintenance methodologies for MDA assets and a revised program classification to identify routine and capital maintenance will be adopted.

C. Minimizing Risks of SOEs

43. The government has taken steps to strengthen management of state-owned enterprises and reduce transfers from the budget. The transfers to state-owned enterprises are being reduced significantly from 2.0 percent of GDP in 2020 to 0.16 percent forecasted for the year 2023. The new Public Enterprise bill was gazetted in October 2022 and will be discussed in the National Assembly during the month of May 2023. The new legislation will make provisions for the efficient governance of Public Enterprises and the monitoring of their performances and provides a harmonized and coherent framework for their establishment, governance, and operation. The Public Enterprises Monitoring Commission (PEMC) will publish a Public Enterprises' Annual Report in accordance with the new legislation to ensure more transparency in the fiscal affairs of the enterprises (*structural benchmark for end-June 2023*). The annual report will present the overall financial performance, including outstanding debt, of the Public Enterprises based on their audited financial statement and will publish six months after the closing of the financial year. In addition, the new legislation will clarify the accountability and the relationships between board members and those charged with governance and management of Public Enterprises, Responsible Ministers, the Minister responsible for Finance and the Commission. The Public Enterprises Monitoring Commission (PEMC) through an independent audit firm will conduct governance audit and operational assessment of five key public enterprises by December 2023. The key public enterprises to be audited are Public Utilities Corporation (PUC), Seychelles Petroleum Company (SEYPEC), Air Seychelles, Island Development Company Limited, and Seychelles Trading Company Ltd (STC). Government will work with SEYPEC on the tanker replacement strategy in order to address any potential risk.

44. The Ground Handling activities at Seychelles International Airport is considered by the Government of Seychelles as an important strategic asset. In order to ensure that the Ground Handling operation at the Seychelles International Airport is not jeopardized in any manner whatsoever in the future, a new Company, the Seychelles Aviation Handling Company has been created and will be the legal owner of the ground handling assets. The new Company will lease the ground handling assets to Air Seychelles through a lease agreement. Asset transfer from Air Seychelles to Government has already taken place. The framework for the main conditions of the lease agreement with Air Seychelles and the asset transfer from Government to the Seychelles Aviation Handling Company will be signed by September 2023. The lease agreement which will include an admin fee, an initial investment payment and a monthly lease payment by Air Seychelles to the new Company will be signed by end-September 2023.

45. Government received assistance from the U.S. Treasury Office of Technical Assistance to review executive compensation at state-owned enterprises with a focus on ensuring greater transparency, equity and consistency in setting pay. The draft assessment report recommends implementation of a comprehensive job grading scheme, such as the Hay Method, to enhance transparency, equity and consistency. We will work with PEMC to set consistent and transparent criteria for salary packages of state-owned enterprises. The Government will publish information about state-owned compensation by end of June 2023, thus advancing transparency.

D. Public Debt Management Strategy

46. Seychelles has made significant progress in terms of Debt Management over the past three years. Quarterly debt bulletins are being published to improve access to information and promoting accountability and transparency. To keep investors better informed of Government strategy, quarterly borrowing and issuance plans are being approved by the National Debt Committee and published. This is strongly being supported through a revamp in the Government's Medium Term Debt Management Strategy (MTDS) as well as its published Annual Borrowing Plan (ABP). As part of modernizing its legal framework on public debt, Government will revise the relevant acts to provide more flexibility to debt management and promote debt sustainability. As part of the settlement agreement signed in December 2022 between the Libyan and Seychellois authorities, the Government paid off the outstanding principal amount from the escrow account in January 2023. The remaining penalty interest will be paid in two equal installments in 2023.

47. The Government continues in its effort to develop the domestic market. It has diversified the domestic instruments being used which was primarily concentrated through T-Bills issuances to meet cashflow requirements. Government is now issuing T-Bonds on a quarterly basis which has helped to lengthen the weighted average maturity of the domestic debt stock by almost one year and reduced refinancing risks. Given the evolution of the domestic market, the possibility of issuance of 10-year bonds will be explored. The issuance of bonds will be supported through the initiation of trading reforms in government securities and development of repo market. An action plan was published by the relevant stakeholders to formalize the way forward (*structural benchmark for end-March 2023*). The Government will continue to rely on external concessional financing in the medium term to reduce its borrowing cost.

E. Monetary and Exchange Rate Policy

48. Although the accommodative monetary policy stance is expected to remain unchanged in 2023, the Central Bank remains cognisant of domestic and external developments that may alter the inflation outlook and therefore stands ready to adjust its policy if necessary. In line with plans to provide forward guidance, the Financial Indicators Expectations Survey was conducted with the Banking sector as of the first quarter of 2023. The outcomes indicate that their expectations are aligned with that of the Bank on inflation outlook. The survey with households is expected to be carried out in the second half of the year, with the support of the National Bureau of Statistics. The aim is to collect and collate information on forward-looking macroeconomic variables to reinforce the anchoring of inflation expectations.

49. The transmission of interest rates remains weak. To address the challenges in the transmission mechanism, CBS endeavours to implement the recommendations from the technical assistance received from MCM of the IMF in April 2022 to strengthen CBS monetary policy operations and to develop the money and FX markets. The CBS has already started absorbing excess liquidity since January 2023. The CBS recently developed a reform plan for strengthening monetary policy operations which will be made public by end-July 2023 (*structural benchmark*). As part of the reform plan, CBS will re-operationalise its Repo instrument by end-December 2024 (*new structural benchmarks*) with the support of the IMF technical assistance.

50. CBS remains committed to a floating exchange rate and will only intervene to facilitate orderly conduct of the market and reserve accumulation. The economic outlook is anticipated to remain positive in 2023, and although tourism activity could be impacted by external developments, the sector is expected to remain the main driver of growth and source of foreign exchange. It is expected that market-clearing conditions will prevail in the domestic market. CBS will continue to only purchase from the market on an opportunistic basis for reserve accumulation based on transparent market auctions.

51. Given that the country is a net importer and is highly vulnerable to external shocks, CBS recognizes the need to accumulate more reserves. To ensure that the level of international reserves remains adequate to meet the country’s external obligations, the CBS will increase its foreign exchange buffer when opportunities arise, as determined by specified market indicators.

52. The partnership with the Reserves Advisory & Management Partnership (RAMP) of the World Bank was renewed in October 2022, with the signing of a new three-year Advisory and Investment Management Agreement (AIMA). Similar to the previous one, the new engagement under the partnership includes both technical advisory and an investment management mandate for US$100 million.

F. Efforts to Improve Real Sector Statistics

53. The National Bureau of Statistics faces several constraints which adversely impact on its capacity to produce and deliver timely and quality statistics to meet user needs. This has affected the compilation of the 2021 national accounts and resulted in substantial post publication revision of real GDP growth from 2.4 percent to 5.4 percent. NBS is receiving Technical Assistance from the IMF with the aim to strengthen internal capacity in the compilation and dissemination of real sector statistics. This includes enhancing the quality and integrity of data, sources of data, reviewing methodology amongst others. Moreover, there is a need to improve real sector statistics, namely enhancing the quality and coverage of national accounts statistics. Given the systemic importance of real estate, we will explore the possibility of developing a framework for the compilation of a residential property price index (RPPI) with the support of international partners.

G. Modernizing the Financial System and Ensuring Financial Stability

54. CBS has enhanced its monitoring of the banking system by collecting additional information relating to restructured and rescheduled loans. To boost financial sector resilience, CBS continues to closely monitor and assess the asset quality of banks in the aftermath of the unwinding of policy measures including withdrawal of forbearance on asset classification and has completed an assessment of the impact of the unwinding measures on the asset quality of banks. As at December 2022, total outstanding forborne loans had decreased by SR 410 million to stand at SR 2,589 million in comparison to SR 2,999 million in June 2022, accounting for 24.77 percent of total loans and advances. As the industry most impacted by the pandemic, tourism continues to account for the highest share of forborne loans with 41.88 percent as at December 2022, followed by Mortgage loans sector with 12.33 percent and private household with 7.21 percent. Non-performing forborne loans on the other hand has increased by SR 180.46 million from June 2022 to settle at SR 508.51 million as at end of December 2022. This was an increase of 55.01 percent of which was primarily driven by higher NPLs in the Tourism sector. A follow-up stress test study with a forward-looking analysis will be conducted by end-September 2023 (*structural benchmark*) to assess the overall resilience of the banking sector to potential shocks which may result in a deterioration in the asset quality.

55. As part of its continuous monitoring, CBS is conducting an analysis of the increases in the levels of NPL and its possible impact on the capital adequacy ratios of individual banks. CBS will consider the appropriate enforcement actions to address increasing NPLs which would include meetings with banks' management and Board of Directors on remedial measures as well as restriction on dividends and other capital distribution as well as injection of additional capital. As part of its assessment CBS will ensure that banks are providing appropriate provisioning in relation to their NPLs.

56. CBS remains committed to ensuring a stable and well-capitalized banking system and has intensified its effort to ensure the effectiveness of its supervisory processes. Dialogue with the banking industry is continuing and CBS stands ready to take relevant and timely enforcement actions where necessary in view of the recent increase in NPLs. If any bank becomes undercapitalized, CBS will use the set of relevant early intervention measures. Within CBS' usual regulatory framework, viable but undercapitalized banks would be required to submit capital plans while nonviable banks would be subject to reorganisation or liquidation by the Central Bank.

57. CBS intends to strengthen its supervisory framework such that it is more risk-sensitive, objective, forward-looking and continuous. This is with the implementation and adoption of the risk-based supervision (RBS) framework, which integrates Basel II Pillar 2 requirements. The review and necessary modifications are ongoing, to ensure that the RBS model is simplified to produce resourceful information, effective in the CBS's supervisory mandate. Banks have started submitting their Internal Capital Adequacy Assessment Process (ICAAP) as per the Basel II Pillar 2 requirement. An IMF/Afritac South mission assisted the CBS in developing capacity to undertake effective supervisory assessment of banks' ICAAP submissions as part of its Pillar 2 framework. CBS is working on a strategy to effectively implement its new RBS framework and the need to undertake regular and comprehensive off-site analysis and regular on-site examination into its supervision. In this context, in accordance with its examination plan for 2023, CBS will conduct five onsite examinations. The examinations will include horizontal as well as limited scope and will cover an assessment of assets quality of banks.

58. During 2022, CBS engaged with the Attorney General's Office to draft amendments to the Financial Institutions (Capital Adequacy) Regulations 2010 to incorporate Pillar 1 of Basel II. The drafting is at an advanced stage and is expected to be finalized during the first half of 2023. As regards to Basel II Pillar 3, CBS expects to issue disclosure guidelines by the end of 2023.

59. CBS is strengthening the legal basis of the Financial Stability Committee (FSC). The first full draft of the Financial Stability Bill has been prepared and the next step is dissemination to stakeholders for their review. The draft Financial Stability Bill is expected to be finalised by June 2023 for onward transmission to the Attorney General's Office. A draft macroprudential framework and toolkit has been developed to address the build-up of systemic risks in the banking sector. Nonetheless, technical assistance is being sought from IMF to finalise the framework and to build the necessary capacity to ensure its effective operationalisation.

60. CBS remains committed to having a robust crisis management and resolution framework. Work is under way to enhance the crisis management and bank resolution framework. The Cabinet of Ministers approved the updated policy paper on bank resolution in October 2022. CBS has subsequently received technical assistance from IMF on high level policy matters and implementation of bank resolution in January 2023. CBS will also be receiving technical assistance from IMF to review the draft legislation in April 2023. The Bank Recovery and Resolution Bill is expected to be approved by Cabinet in September 2023 (*structural benchmark*) and gazetted by December 2023. The legislation will strengthen the early intervention measures and clarify the different stages of enforcement actions (namely normal supervisory enforcement actions, early intervention and resolution). We will engage with the judiciary to explore options for ensuring that foreclosures happen in an appropriate time frame.

61. The CBS remains committed to implementing the safeguards assessment recommendations. While slightly delayed, the CBS, in consultation with the IMF, will submit amendments to the CBS Act to the Cabinet by end-June 2023 (*structural benchmark*), which would strengthen governance and oversight, enhance institutional and personal autonomy, and safeguard financial autonomy. The CBS is also considering to incorporate provisions for the Emergency Lending Assistance (ELA) for liquidity support to solvent and viable banks in the proposed amendments to CBS Act.

62. CBS will strengthen its legislative framework for the National Payment System such that it remains aligned with international standards and best practices. The reviewing of National Payment System Act (NPSA) 2014, along with supporting regulations, ensure that deficiencies identified while administering the Act are addressed and its regulatory framework is comparable with international standards and best practices. The amendments also serve to align with the ongoing efforts being made as regards the Government's Digital Economy Agenda. The policy paper for NPSA amendments was approved by the Cabinet of Ministers in February 2023 and the drafting instructions has been submitted to the Attorney General's Office for the necessary drafting of the amendment Bill.

63. CBS continues to make progress on the agenda to modernize the National Payment System in order to achieve a payment system environment that is convenient, affordable, reliable, efficient and safe. With the support of technical assistance being received from the US Office of Technical Assistance (OTA), CBS staff has been undertaking peer learning exchanges with other central banks that are more experienced on the subject matter to assist in formulating the way forward in regard to establishing the entity to manage payment system infrastructures in the country. CBS anticipates to finalize the way forward during Q2 2023. In regard to the sun-setting of cheques, work is ongoing to align CBS' timeframes for the project with that of the digital projects of the government to ensure that all stakeholders have effective and convenient alternative facilities in lieu of cheques. Furthermore, to provide for a conducive environment for affordable and reliable network connection, CBS in collaboration with Department of Information and Communication Technology (DICT) have commissioned a diagnostic study to assess the affordability and reliability of internet and network connection. The study commenced in February 2023 with an in-country visit scheduled to be undertaken in April 2023 for the consultants to test the quality of service through field testing. The report on the outcomes of the study is expected to be published in Q3 2023.

64. In an effort to enhance the operation of critical financial market and payment infrastructures, CBS endeavors to implement a Central Securities Depository and a Real Time Gross Settlement System. The request for proposal for the aforementioned has been issued in April

2023 and the systems will be implemented alongside the new core banking system which are all scheduled to go live in 2024.

65. CBS is in the process of finalizing the establishment of a regulatory sandbox for financial products and services within its regulatory ambit. The objective is to create a flexible regulatory environment whilst promoting competition and encouraging innovation within the financial services landscape. Engagement is ongoing with the Attorney General's office to finalize the legal considerations surrounding the operationalization of the sandbox in Q2 2023. In the interim that the framework is being finalized, CBS is working in collaboration with key stakeholders on the creation of an innovation hub/incubator to enable firms to engage with competent authorities on regulatory issues and seek guidance on the conformity of innovative financial products and services with regulatory requirements.

66. CBS remains committed in enhancing financial literacy and financial capabilities of the general public. There is ongoing education and awareness initiatives within the ambit of the National Financial Education Strategy and Digital Financial Literacy program to educate the general public on healthy financial behaviors with particular focus on the benefits, risks and their responsibilities vis-à-vis digital payment products and services. CBS continues to work on the issuance of supporting Regulations to be issued under the Financial Consumer Protection Act in line with its efforts in strengthening financial consumer protection and general consumer empowerment. Emphasis thus far has been placed on three main Regulations, namely, Complaints Handling, Credit Granting and Debt Recovery and Fees and Charges. The Regulations are expected to be published in 2023.

67. A new Credit Information System and the supporting legal framework to allow for more comprehensive credit worthiness assessment to be undertaken is to be implemented in 2023. The system has already been developed and audited to assess its efficacy, security aspects amongst others. The new system and accompanied legal framework are expected to be in place in Q2.

68. We are committed to improving the effectiveness of our regime for anti-money laundering and combatting the financing of terrorism (AML/CFT). Work is ongoing to implement the recommendations of the Eastern and Southern Africa AML Group (ESAAMLG) in the 2018 Mutual Evaluation Report, where the country received 10 Low ratings in the 11 effectiveness criteria (Immediate Outcomes), including on AML/CFT supervision and entity transparency. A follow-up report was submitted for discussion in the ESAAMLG meeting in April 2023 detailing improvements in 5 of the 11 technical compliance shortcomings, for which an upgrade was received. The five FATF recommendations (5,19, 25, 28 and 34) relates to Terrorist Financing offence, Higher-risk countries, Transparency and Beneficial Ownership of Legal Persons, Regulation and Supervision of Designated Non-Financial Business or Professions (DNFBPs) and Guidance and Feedback respectively. In 2023, we will continue to address the remaining six technical compliance shortcomings for discussion in the ESAAMLG's next meeting in March 2024.

69. We are also undertaking the second National Risk Assessment (NRA) on money laundering and terrorism financing. The NRA aims to review the primary money laundering and terrorism financing risks in the country through a comprehensive analysis. This will then guide the national AML/CFT strategy, implement mitigating actions to address the identified threats and vulnerabilities, and prioritize resources to effectively fight against money laundering and terrorism financing. Using the World Bank's self-assessment tool, the NRA is being led by government officials with the participation of private sector stakeholders. The NRA is expected to be completed by end-September 2023, and thereafter, the National AML/CFT Committee will submit an action plan to address the deficiencies identified in the NRA for endorsement by the Cabinet of Ministers.

70. Tackling regulatory arbitrage of the activities involving Virtual Assets (VA) and Virtual Asset Service Providers (VASP) is another priority reform. In July 2022, the Government completed the National Risk Assessment of VA/VASPs in line with FATF Recommendation 15 to identify, assess, and understand the ML/TF risks from VA/VASPs. In this NRA, Seychelles' exposure to ML/TF risks to VA/VASP was assessed as very high, owing to the absence of a regulatory framework. As a consequence, the National AML/CFT Committee is finalizing the course of action that aims to tackle regulatory arbitrage and enable mandatory identification, registration and licensing of VASPs. It will also provide a risk-based supervisory approach to ensure that measures to prevent or mitigate ML/TF are proportionate with the identified risks. The policy and legislative framework will be submitted to Cabinet of Ministers by end-June 2023.

71. We are also progressing in ensuring that beneficial ownership (BO) information of legal persons and legal arrangements established in Seychelles is adequate, accurate and up to date.

- **Compliance Rate.** As end-February 2023, 6,988 of the 45,381 international business companies (IBCs) of good standing or around 15 percent have not submitted the BO information on to the central BO database of the Financial Intelligence Unit (FIU). The FIU monitors the rate of BO information submissions and publishes quarterly statistical report with the National AML/CFT Committee. The next quarterly report will be published by end-May.
- **Inspection Report.** In March 2023, the Financial Services Authority (FSA) submitted its 2022 Inspection Report on Beneficial Ownership on resident agents to the National AML/CFT Committee. A redacted version of the report containing non-confidential information was published in May 2023. The FSA on-site inspections conducted were important to ascertain the level of compliance of legal persons, legal arrangements and resident agents with the AML/CFT Act, 2020 ("AML/CFT Act") and the Beneficial Ownership Act, 2020 ("BO Act").
- **Discrepancies.** Based on the report, 96 percent of the 1,443 inspected entities (IBCs, limited partnerships, trusts and foundation) had a Register of Beneficial Owners (RoBOs) filed with their respective resident agents. The FSA conducted a comparison exercise in between the BO information kept on the central BO database and the BO information kept in the RoBOs held at the resident agents. Out of the entities inspected, 21 percent of the BO information in the RoBOs were exact matches to the BO information in the central BO database with the FIU. The discrepancies observed included incomplete data submitted, different nature of interest held by the BO, and multiple entries, among others.

- **Sanctions.** At the time of the on-site inspections conducted in 2022, the BO Act did not provide for any sanctions for failure to file the beneficial ownership information with the resident agent, and thus, no sanctions were imposed on the inspected entities. This shortcoming has been rectified with the December 2022 amendments to the BO Act that provide a penalty of SCR150,000 (US$12,000) for failing to submit declaration of beneficial ownership. Public consultations are currently taking place to revise implementing regulations and issue guidelines to be enacted by end-June.

72. We will advance in verifying the accuracy of the BO information in the central BO database and ensure its accessibility. With technical assistance from the EU Global Facility for AML/CFT, we will issue by end-July 2023 revised BO Guidelines for effective collection and verification of BO information in the central BO database held by the FIU. We will ensure that the FIU has effective access to all relevant databases for purposes of verifying the information in the BO database, and establish mechanisms for processing reports on information discrepancies found in the BO database. By end-December 2023, the BO Act will be amended to broaden access to the central BO database held by the FIU and provide limited BO information to financial institutions and other reporting institutions with AML/CFT obligations and all persons with legitimate interest. To improve the accessibility, the National AML/CFT Committee will complete by end-September the IT BO Database Workflow that will underpin a new digital platform that provides direct and complete access to all supervisory authorities and law enforcement agencies to the central BO database.

73. Launch of Second Round Supplementary Peer Review on Transparency and Exchange of Information on Request (EOIR) for Seychelles. The Republic of Seychelles has been removed from Annex I of the European Union's (EU's) list of non-cooperative jurisdictions for tax purposes (the "EU blacklist") following the Economic and Financial Affairs Council of the EU meeting on the 5th of October 2021. This follows key steps taken in reforming Seychelles' territorial tax regime to address the concerns of the EU, in conjunction with addressing concerns of the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum). The only remaining step needed to enable Seychelles to be removed from Annex II of the list of non-cooperative jurisdictions (the "EU grey list") for criterion 1.2 (tax transparency) is obtaining a Largely Compliant status in the forthcoming Supplementary Review. In accordance with the 2016-2025 Schedule of EOIR Reviews, the commencement of the supplementary second round peer review of the Seychelles started on the 1st of October 2022, which will cover the Seychelles' legal and regulatory framework for transparency and exchange of information on request for tax purposes as well as the practical implementation of that framework. In accordance with the 2016 Methodology, the first step of the review was for the Seychelles to fill in the EOIR Supplementary Review Questionnaire for the Second Round of EOIR Reviews covering the period from 1 April 2019 to 31 March 2022. It is currently planned for the draft report to be submitted to the Peer Review Group for consideration and discussion at the PRG meeting of June 2023. Once this process is completed, the EU Economic and Financial Affairs Council will consider that report to remove Seychelles from Annex II of the list of non-cooperative jurisdictions (the "EU grey list") for criterion 1.2 (tax transparency).

H. Climate Change Reforms

74. The government recognizes that climate change has significant macroeconomic implications and has made significant strides on adaptation and mitigation responses. We have committed to ambitious climate change goals and are in the process of scaling up climate finance to support the implementation of Nationally Determined Contributions (NDCs). In the updated NDC submitted to the United Nations Framework Convention on Climate Change in 2021, we set a greenhouse gas emission reduction target of 26.4 percent below a business-as-usual emission level by 2030 and a net-zero emission target by 2050. To achieve the 2030 target, it is estimated that as much as US$670 million is required by 2030 to fund the implementation of climate adaptation and mitigation activities. Building environmentally sustainable and climate resilient economy is a main element of the NDS 2019-2023 and will continue to be a key pillar of the new NDS, soon to be finalized. We have geared up adaptation response, including implementing the Coastal Management Plan, the Marine Spatial Plan, the National Integrated Emergency Management Plan, and Strategic Land Use Development Plan, and started to integrate climate considerations into the public investment management and budget processes.

75. Mobilizing climate finance to address adaptation and mitigation challenges is among our top priorities. Seychelles is a pioneer in the field of climate and sustainable finance. Seychelles issued the World's first sovereign blue bond in 2018 and raised US$15 million to finance sustainable use of marine resources. In 2017, Seychelles became the first country to successfully undertake a debt for nature swap—the debt restructuring initiative resulted in mobilizing US$21.6 million worth of adaptation financing for coastal management, fishery sector research and the implementation of the Marine Spatial Plan, while raising additional funding of US$5 million from the private sector. At the same time, the government has begun to tap various sources of international climate funds such as the Green Climate Fund (GCF) and the Global Environmental Facility (GEF), as well as climate-related financial support from multilateral development banks and bilateral donors. The government has recently brought on board a climate finance advisor who would further support scaling up of climate finance. While the government has been making efforts, the climate financing gap remains large and more needs to be done in this regard.

76. The government is committed to climate-resilient and green public investment. The government will integrate climate considerations in the Public Investment Management Framework. While climate-related public investment is well coordinated across the central government and there are relatively well-established frameworks for climate-related risk management, there are important gaps in the appraisal, selection, and budgeting for climate-related public investments. Addressing these gaps would help to create a robust climate-sensitive public investment management framework, providing a foundation for Seychelles to further attract international climate finance and catalyze green private sector investment. To this end, the Ministry of Finance, National Planning and Trade (MoFNPT) will integrate priority NDC objectives in the forthcoming National Development Strategy 2023-2027 (*Reform Measure for end-September 2023*) and in portfolio-based sector plans. The MoFNPT will conduct a PIM policy revision to include methodologies that incorporate climate-related issues in project selection criteria and project appraisals, and apply the updated project appraisal to at least two major infrastructure projects (*Reform Measure for end-September 2024*). We will also develop a Public-Private Partnership (PPP) framework that reflects climate-related risks and integrate it in the Public Financial Management Act and the Public Procurement Act, with the aim to use this the PPP approach to leverage private climate finance (*structural benchmark for end-March 2025*).

77. The government will mainstream climate elements into the budget and fiscal risk management. The ongoing improvements to the Program Performance Based Budgeting (PPBB) framework and its alignment with the priorities of the new NDS is an opportunity to strengthen the planning and budget framework, as well as to integrate climate change dimensions into the budget. As part of the FY2025 budget, the MoFNPT will identify climate-related expenditures including those with positive and negative climate effects in the PPBB, and will also prepare scenarios of long-term fiscal sustainability analysis under different climate scenarios and publish the results in the Fiscal Risk Statement (*Reform Measure for end-October 2024*). The current fiscal risk analysis will be significantly enhanced by incorporating a comprehensive mapping of fiscal risks from climate change and natural disasters, quantifying the fiscal risks through long-term fiscal sustainability analysis in the context of different climate scenarios and quantifying the discrete risks to infrastructure and public assets from the hazards analyzed in the coastal management policy.

78. The government is committed to enhancing financial sector resilience to climate shocks and catalyze additional private climate finance. The government will establish a climate finance mobilization strategy and framework to unlock public and private finance. The government will develop an all-encompassing climate finance strategy that considers different financing instruments and will ensure that there is a robust pipeline of climate investment projects (*Reform Measure for end-September 2024*). The government is committed to putting in place an implementation framework that clearly sets out institutional mechanisms and financing modalities, and to securing funding for at least one major adaptation or mitigation project (*Reform Measure for* end-*October 2025*). The government will strengthen the management of climate-related risks in the financial sector. Specifically, the Central Bank of Seychelles will initiate the implementation of climate-related risk disclosure for banks, including issuing guidelines, establishing data repository and reporting template, and publishing disclosure reports of at least two major commercial banks (*Reform Measure for end-March 2025*), and undertake a climate stress testing for the overall financial system based on a macro-prudential approach (*Reform Measure for end-September 2025*). These initiatives will be done following the international standards and best practices such as those developed by the Network for Greening the Financial System (NGFS) and the Task Force on Climate-Related Financial Disclosures (TCFD). Together, they will support banks and financial institutions in managing physical and transition risks and help steer private investment toward climate resilient and green investments.

79. To transition and diversify the economy, the government is fully committed to the NDC and will step up adaptation and mitigation actions to support it. Renewables will be at the center of economic recovery strategies to advance economic, social and climate priorities for a sustainable post-covid recovery. The government will scale-up renewable energy investment through the new Electricity Act and its operating regulations, and will use this opportunity to increase private sector climate investment through innovative approaches such as distributed electricity generation and renewable energy independent power producers (IPPs). The government will ensure that framework to support rates determination under the net billing and gross metering schemes, the renewable Power Procurement Plan, a competitive selection process of renewable energy IPPs, and a framework for multi-year electricity tariff system are in place for effective implementation (*Reform Measure for end-April 2025*). The government also intends to adopt an e-mobility regulatory framework to scale up the adoption of electric vehicles and supporting infrastructure. The government will approve the new draft building legislation that integrate climate adaptation and mitigation aspects (*Reform Measure for end-March 2024*) and will adopt a comprehensive national Disaster Risk Financing Strategy (*Reform Measure for end-March 2025*). The government is fully committed to its long-term climate goals—transitioning away from fossil fuels, while it is critical for the economy to diversify revenue sources to promote overall economic resilience and sustainability. The government will ensure that the recently signed oil exploration is carried out with highest international environmental and governance standards and under Seychelles' strict environmental laws, and that this activity does not compromise the country's ambitious NDC.

80. The government will introduce additional green fiscal incentives to promote climate resilience and environmental sustainability. There are currently several fiscal initiatives that are in place. Goods imported to be used in the process of "conservation, generation or production of renewable energy or environment friendly are exempt from the payment of Value added Tax. The photovoltaic (PV) financial rebate scheme launched in May 2014 has been put in place as an incentive to encourage residential and commercial premises to install PV systems connected to the national electricity grid on their rooftop to power their homes and businesses. Resources for this scheme have been exhausted and expected to be replenished in 2024. In addition, all duties including environment levy were removed on electric vehicles in 2015. Further incentives are being worked on to encourage the importation and use of electric and hybrid vehicles. The government will review its fiscal regime and introduce other incentives to promote climate change and environmental related investment (*Reform Measure for end-March 2026*). Potential measures fiscal measures include congestion fees, feebates, environmental levy, and/or price incentives for waste reduction. Funds for additional support for green finance initiatives between 2025-2027 are SR 90m, this is under the social programmes of government and will be targeting individuals.

81. Program Monitoring. The EFF program implementation will be monitored through semi-annual reviews, quantitative performance criteria and indicative targets, continuous performance criteria, and structural benchmarks. The first review is set for December 2023 based on end-June 2023 quantitative targets and the second review is set for June 2024 based on end-December 2023 quantitative targets. The quantitative targets and structural benchmarks are set out in Tables 1 and 2 of the MEFP respectively. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, which also defines the scope and frequency of data to be reported for program monitoring purposes. For RSF arrangement, progress in the implementation of policies will be monitored through Reform Measures. These are detailed in Table 3 of the MEFP.

Table 1. Seychelles: Proposed Quantitative Performance Criteria under New EFF, 2023–24[1]

(In millions of Seychellois Rupees, unless otherwise indicated)

	June 30, 2023	September 30, 2023	December 31, 2023	March 31, 2024	June 30, 2024
	Performance Criteria	IT	Performance Criteria	IT	IT
A. Quantitative performance criteria[2]					
Net domestic financing of the government (ceiling)[3]	-8.0	-14.0	-20.0	-51.7	-103.4
Primary balance of the consolidated government (floor)	-64.8	-84.8	-99.8	11.2	22.4
Total revenue (floor)[4]	3790.2	6632.9	9475.5	2039.1	4078.3
Net international reserves of the CBS, millions of US dollars (floor)[5]	474.0	475.8	477.7	483.2	488.6
B. Continuous quantitative performance criteria (ceilings)					
Accumulation of new external payments arrears	0.0	0.0	0.0	0.0	0.0
Accumulation of new domestic payments arrears	0.0	0.0	0.0	0.0	0.0
C. Indicative targets (ITs)					
Net change in public and publicly guaranteed domestic and external debt (ceiling)	236.8	414.3	591.9	138.5	277.0
Priority social expenditure (floor)[2]	712.0	1246.0	1601.9	356.4	712.9

Sources: Seychelles authorities; IMF staff estimates and projections.

[1] The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

[2] The performance criteria are cumulative from the beginning of the calendar year.

[3] If the amount of disbursed external budgetary assistance (including RSF) net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto. If the amount of disbursed external budgetary assistance (including RSF) net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears. The NDF refers to the central government.

[4] If nominal GDP is lower than projected, the revenues floor will be adjusted by the amount equivalent to the nominal GDP shortfall in percentage terms.

[5] The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans (including RSF) and non-project cash grants exceeds (falls short of) the amounts assumed in the program. The floor will also be adjusted upwards (downwards) by the amount that external debt service payments fall short of (exceed) the amounts assumed in the program. The floors will also be adjusted upwards by the amount of the new SDR allocation to Seychelles if the IMF makes a new allocation of SDRs to its membership.

Table 2. Seychelles: Proposed Structural Benchmarks Under New EFF, 2023–25

Actions	Timing	Objective
Fiscal and Public Financial Management Policy		
The upgrade of the ASYCUDA system with new modules is completed for the E-Manifest, and Express Courier modules.	End-September 2023	Strengthen revenue mobilization.
Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff.	End-December 2023	Strengthen revenue mobilization.
Publish annual reporting of budgeted tax expenditure as a part of the annual budget exercise, in consultation with IMF staff	End-October 2023	Increase transparency on Tax expenditure
Cabinet adoption of a roadmap and timeline of actions necessary to improve the efficiency of public investment, including for climate-related investment, based on the January 2023 PIMA.	End-September 2023	Improve the efficiency of public investment.
The MoFNPT develops and adopts a Public-Private Partnership (PPP) framework and explicitly include climate-related risks, while integrating this in the Public Financial Management Act and the Public Procurement Act.	End-March 2025	Improve the efficiency of public investment.
Publication of SOE Annual Report.	End-June 2023	The annual report will present the overall financial performance of the Public Enterprises based on their audited financial statement and will publish eight months after the closing of the financial year.
Monetary Policy and Financial Stability		
Submit amendments to the CBS Act, in consultation with IMF staff, to Cabinet.	End-June 2023	Finish implementing the 2021 safeguards assessment recommendations. The amendments aim to, inter alia, (i) strengthen governance and oversight; (ii) enhance institutional and personal autonomy; and (iii) safeguard financial autonomy.
Implement the use of repo operations by CBS for liquidity management	End-December 2024	Operationalize recent IMF TA recommendations to strengthen the monetary policy operating framework.
Adoption of a reform plan for monetary policy operational reforms and make it public.	End-July 2023	Establish a timeline for the implementation of IMF TA recommendations to strengthen the monetary policy operating framework and instruments, including the adoption of repos and the development of the interbank market.
CBS to complete a study on NPLs by including a forward-looking analysis.	End-September 2023	Improve the study conducted by CBS on the impact of unwinding of forbearance measures extended during the pandemic on bank asset quality, through a forward-looking analysis, including stress testing.
Cabinet approval for draft Bank Resolution Bill aligned to provide an adequate institutional framework and effective powers for dealing with bank resolution and managing a crisis, thus contributing to financial stability, while limiting the use of public funds and addressing moral hazard concerns.	End-September 2023	Address shortcomings from previously approved cabinet policy paper for bank resolution and to align with ongoing revisions to the Financial Institutions Act, 2004 as amended and Insolvency Law, as well as cater recent developments stemming from the current crisis. Includes identification of consequential amendments in subsidiary legislations, with the objective of providing the regulators the necessary powers to effectively resolve troubled financial institutions.
State-Owned Enterprises (SOEs)		
Finalize ringfencing the ground-handling operation in Seychelles Airport by transferring the corresponding assets to Seychelles Aviation Handling Company and signing the lease agreement with Air Seychelles.	End-September 2023	Ensure that the ground-handling operations at the Seychelles International Airport, considered an important strategic asset, remain protected from creditors.

Table 2. Seychelles: Proposed Structural Benchmarks Under New EFF, 2023–25 (Concluded)

Actions	Timing	Objective
Real Sector Reforms		
Finalize the terms-of-reference for a study to better understand the dynamics of the tourism sector on the overall economy and its revenue potential.	End-June 2023	Conduct a tourism study, with the assistance of development partners, to better understand the dynamics of the tourism sector and its benefit to the economy. The study would cover all economic activities related to tourism, including accommodation, food and beverage services, recreation and entertainment, transportation, and travel services.
Complete the study on the dynamics of tourism on overall economy and on revenue potential.	End-June 2024	
Source: IMF staff.		

Table 3. Seychelles: Proposed Phasing and Reform Measures under RSF (May 2023–May 2026)

	Reform Measures (RMs)	Tentative Target date	Analytical Underpinning	Capacity Development Support Needs
Reform Area 1. Enabling Climate-Smart Infrastructure Investment and Fiscal Management				
RM1	The Ministry of Finance, National Planning, and Trade (MoFNPT) integrates priority climate adaptation and mitigation objectives stipulated in the National Determined Contribution (NDC) in the forthcoming National Development Strategy 2023-2027, to ensure that investment decisions are consistent with the outcomes expected in the NDC.	**Sep-2023 (1st Review)**	Critical area identified in C-PIMA	
RM3	The MoFNPT updates the Public Investment Management Policy to include (i) the requirements for the use of methodologies to identify net GHG emission, emission reduction alternatives, and climate resilience of projects in ex-ante project appraisals and (ii) project selection criteria that are fully aligned with the NDC; and (iii) applies the updated project appraisal to at least two major infrastructure projects.	**Sep-2024 (3rd Review)**	High priority reform identified in C-PIMA; a top priority identified by the authorities to facilitate access to climate finance	FAD support needed
RM4	As part of the FY2025 budget process, the MoFNPT (i) identifies climate-related expenditures, including those with positive and negative climate effects, in Program Performance Based Budget (PPBB) and reports a summary climate statement in PPBB document, and (ii) conducts long-term fiscal sustainability analysis under different climate scenarios, assess the main discrete fiscal risks related to climate change.	**Oct-2024 (3rd Review)**	High priority reform identified in C-PIMA; climate finance tracking a top priority identified by the authorities	WB is providing support on zero-based; FAD support needed for both item (i) and (ii).
Reform Area 2. Financial Sector Resilience and Climate Finance Mobilization				
RM5	To scale up climate finance, (i) the cabinet adopts a national climate finance mobilization strategy that comprehensively covers the financing instruments to unlock international climate finance from public and private sources; and (ii) the MoFNPT, together with relevant sector ministries, develop and submit a pipeline of appraised climate-related projects for recommendation by the Inter-Ministerial Committee and approval by the MoFNPT as part of the budget process.	**Sep-2024 (3rd Review)**	A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input
RM6	The Central Bank of Seychelles (CBS) (i) issues guidelines for banks on reporting and disclosure of climate-related risks in accordance with international standards, (ii) establishes a data repository and reporting template for banks' lending exposure to climate-related risks, and (iii) publishes a summary climate risk exposure report which includes at least two major commercial banks.	**Mar-2025 (4th Review)**	Important reform area based on Climate Change Policy Assessment	To confirm if MCM support needed
RM9	The CBS adopts and implements a stress testing framework incorporating climate-related risks, and publishes a financial sector climate stress testing exercise starting with a macro prudential approach.	**Sep-2025 (5th Review)**	Important reform area based on Climate Change Policy Assessment	USOTA already providing support, to confirm if MCM support needed
RM10	In accordance with the national climate finance mobilization strategy adopted in RM5, (i) the cabinet adopts an implementation framework including institutional mechanisms, financing modalities, and necessary guidelines; and (ii) the MoFNPT, together with relevant sector ministries, secure* funding for at least one major adaptation or mitigation project that contributes directly to the NDC. (*funding secured in the budget and/or loan agreement signed)	**Oct-2025 (5th Review)**	A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input.

Source: IMF staff.

Table 3. Seychelles: Proposed Phasing and Reform Measures under RSF (May 2023–May 2026) (Concluded)

	Reform Measures (RMs)	Tentative Target date	Analytical Underpinning	Capacity Development Support Needs
Reform Area 3. Climate Mitigation and Adaptation Policy and Disaster Risk Financing				
RM2	The cabinet of ministers approves the new draft building legislation that integrate climate adaptation and mitigation aspects.	**Mar-2024 (2nd Review)**	Critical Area identified in C-PIMA	
RM7	The MoFNPT, together with the Disaster Risk Management Division, develop and adopt a comprehensive national Disaster Risk Financing Strategy (DRSF) considering complementary instruments that meet the financing needs.	**Mar 2025 (4th Review)**	Critical Area identified in C-PIMA	
RM8	To scale-up renewable energy in the context of the new Electricity Act and the NDC, (i) the Utility Regulatory Commission (URC) adopts and implements a rates determination framework for renewable energy sources under the net billing and gross metering schemes and publishes the cumulative installed capacity of distributed renewable energy in accordance with the Distributed Generation System Regulations, (ii) the Ministry of Agriculture, Climate Change, and Environment (MoACCE) adopts a Power Procurement Plan from independent power producers (IPPs) that is consistent with the Integrated Electricity Plan, and the URC approves a competitive selection process for renewable energy IPPs in accordance with the IPP Regulations, and (iii) the URC approves an implementation framework for a multi-year tariff system for end-use electricity tariffs that are cost-reflective and publishes tariff trajectory in accordance with the Electricity Tariff Setting Regulations.	**April-2025 (4th Review)**	Based on discussion with the authorities during PIMA mission; Top priority reform identified by the authority	WB providing technical input to sub-regulations.
RM11	The MoFNPT introduces green fiscal and tax incentives to promote positive environmental outcomes and reduce greenhouse gas emissions to support the NDC (for example, congestion fees, feebates, environmental levy, and/or price incentives for waste reduction).	**Mar-2026 (6th Review)**	Top priority reform identified by the authority; Important reform area based on Climate Change Policy Assessment	

Source: IMF staff.

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Seychelles' economic and financial program supported by the Extended Fund Facility (EFF). It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

I. Definitions

- Unless otherwise indicated, "government" is understood to mean the central government of the Republic of Seychelles and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government's budget.

- Consolidated government debt is understood to mean central government plus public guarantees.

- "External debt" is defined as debt denominated in any currency other than the Seychellois rupee (SCR). (1) The performance criterion or indicative target will include all forms of debt. The definition of "debt" is set out in paragraph 8 (a) of the Guidelines on Public Debt Limits in Fund-Supported Programs attached to the Executive Board Decision No. 16919-(20/103), adopted October 28, 2020. For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(2) awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

II. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

1. Net domestic financing (NDF) of the government is defined as the sum of: (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of shares of public enterprises, that is privatizations, Treasury bills, and other securitized obligations issued by the government and listed in rupees in the domestic financial market, and any Central Bank of Seychelles (CBS) credit to the government, including any drawings on the rupees counterpart of the Special Drawing Rights (SDR) allocation.

2. The data deemed valid within the framework of the program will be the amounts for net bank credit to the government and for the net amount of Treasury bills and bonds issued in rupees on the domestic financial market, calculated by the CBS, and the amounts for nonbank financing calculated by the Treasury of Seychelles.

3. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives. Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all public external debt (defined as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external arrears.

4. Adjustors: Net domestic financing of the government will be adjusted downward (upward) if net external budgetary assistance, including the Resilience and Sustainability Facility (RSF), exceeds (falls short of) the program projections.

5. For the purpose of monitoring, data will be provided to the Fund by the authorities on a monthly basis with a lag of no more than four weeks from the end-of-period.

B. Floor on the Primary Balance

6. The primary balance is defined as total revenues and grants minus primary expenditure and covers non-interest government activities as specified in the budget. The primary balance will be measured as cumulative over the fiscal year, and it will be monitored from above the line.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds. Revenues will also include grants. Capital revenues will not include any revenues from non-financial asset sales proceeding from divestment operations.

- Central government primary expenditure is recorded on a cash basis and includes recurrent expenditures and capital spending. Primary expenditure also includes transfers to State-Owned Enterprises (SOEs). All primary expenditures directly settled with bonds, or any other form of non-cash liability will be treated as one-off adjustments and recorded as spending above-the-line, financed with debt issuance, and will therefore affect the primary balance.

7. Adjustors: The primary balance target will be adjusted upward (downward) by the surplus (shortfall) in disbursements of grants relative to the baseline projection.

8. For the purpose of monitoring, data will be provided to the Fund by the authorities monthly with a lag of no more than four weeks from the end-of-period.

C. Floor on Total Revenue

9. Total government revenue includes tax and nontax revenue, as shown in the fiscal table, but excludes external grants, revenue of autonomous agencies, and privatization receipts.

10. The government revenue floor will be adjusted downward by the amount equivalent to the shortfall in nominal gross domestic product, in percentage terms, compared to the program projections.

11. For the purpose of monitoring, data will be provided to the Fund by the authorities on a monthly basis with a lag of no more than four weeks from the end-of-period.

D. Floor on Net International Reserves

12. Net International Reserves (NIR) of the CBS are defined as the difference between reserve assets and reserve liabilities with a maturity of less than one year. Note that, NIR exclude blocked assets. Blocked assets mostly consist of commercial banks foreign deposits and project accounts. Since those assets are controlled and readily available to the CBS to meet BOP needs, they are included in gross international reserves (GIR).

13. Reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBS's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures, forwards, swaps, options et cetera), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

14. Reserve liabilities are: (1) all foreign exchange liabilities to residents and nonresidents with original maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, options, et cetera); and (2) all liabilities outstanding to the IMF (only the total outstanding use of Fund Credit and loans is included in reserve liabilities).

15. Adjustors: The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans, including the RSF, and non-project cash grants exceeds (falls short of) the amounts assumed in the program. The floor will also be adjusted upwards (downwards) by the amount that external debt service payments fall short of (exceed) the amounts assumed in the program. The floors will also be adjusted upwards by the amount of the new SDR allocation to Seychelles if the IMF makes a new allocation of SDRs to its membership.

16. For the purpose of monitoring, semiannually, at each test date for program quantitative targets, the net international reserves data submitted by the CBS to the IMF will be audited by the CBS' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date.

E. Non-Accumulation of New Domestic and External Arrears (continuous)

17. Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period unless the payment arrangements specify a longer payment period. The Ministry of Finance records and updates the data on the accumulation and reduction of domestic payments arrears.

18. The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program. The accumulation of any new domestic payments arrears will be reported immediately by the government to Fund staff.

19. The government undertakes not to accumulate any new external public payments arrears, with the exception of arrears related to debt that is the subject of rescheduling. External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, including contractual and late interest, on the external debt of the government or external debt guaranteed by the government. The performance criterion on the non-accumulation of new external public payments arrears will be continuously monitored throughout the program. The accumulation of any new external payments arrears will be reported immediately by the government to Fund staff.

20. Standard continuous performance criteria include: 1) prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions; 2) prohibition on the introduction or modification of multiple currency practices; 3) prohibition on the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and 4) prohibition on the imposition or intensification of import restrictions for balance of payments reasons.

III. Indicative Targets

A. Net Change in Public and Publicly Guaranteed Domestic and External Debt

21. The public and publicly guaranteed domestic and external debt is defined as the public debt and includes the central government debt plus domestic and external guarantees provided by the government.

B. Floor on Government Social Spending

22. The indicative floor on social spending will apply to the expenditures incurred by the government on the following plans and programs that are intended to have a positive impact on education, health, social protection, housing and community services and recreational activities:

- Goods and services: day care scheme under IECD; breakfast and lunch under education and dedicated fund; home care giver transferred to family affairs, SPTC Bus refund for students.
- Capital project: vulnerable home repair.
- Social program of government: Housing finance scheme, home improvement/re-roofing scheme for pensioners, youth employment scheme, temporary financial assistance.
- Transfers to public enterprises: SPTC- refund of bus fare for elderly, disability and workers special.
- Benefits and approved programs of agency for social protection: all budget lines under this code.

IV. Program Reporting Requirements

23. Performance under the program will be monitored from data supplied to the IMF by the authorities. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement under the EFF.

V. Data and Information

24. The Seychelles authorities (government and CBS) will provide Fund staff with the following data and information according to the schedule provided.

The CBS will Report

Weekly (within one week from the end of the period):

- Daily reserve money data.
- Foreign exchange reserves position.
- A summary table on the foreign exchange market transactions.
- The results of the liquidity deposit auction, primary Treasury bill auctions, and secondary auctions.

Monthly (within four weeks from the end of the month):

- The monetary survey in the standardized report form format.
- The foreign exchange cash flow, actual and updated.
- Financial soundness indicators.
- Stock of government securities in circulation by holder (banks and nonbanks) and by original maturity and the debt service profile report.

The Ministry of Finance Will Report

Monthly (within two weeks from the end of the month):

- Consolidated government operations on a commitment basis and cash basis in the IMF supported program format and in GFSM2001 format.
- The detailed revenues and expenditures of the central government and social security fund.
- Import and export data from the customs department.
- Public debt report reconciled with the cash operations to minimize any statistical discrepancy.
- Consolidated creditors schedule on domestic expenditure arrears of the government.

Quarterly (within one month from the end of the quarter):

- Accounts of the public nonbank financial institutions.

25. The government and CBS will consult with Fund staff on all economic and financial measures that would have an impact on program implementation and will provide any additional relevant information as requested by Fund staff.

INTERNATIONAL MONETARY FUND

SEYCHELLES

May 17, 2023

SEYCHELLES—REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

1. **Seychelles is highly vulnerable to climate change due to increased frequency and intensity of climate-induced disasters in combination with sea level rise and other oceanic impacts**. As a small island state, Seychelles is exposed to a disproportionately high economic, social, and environmental impact arising from climatic shocks and natural disasters. The country's location, topography and landscape make it vulnerable to tropical cyclones, tsunamis, storm surge, extreme rainfall, flooding, landslides, rockslides, and forest fires. Risks of landslides and coastal erosion make infrastructure more vulnerable to damage while increased salinity of aquifers and soil are likely to impact food security and water supply. Likewise, the impacts of climate change are felt throughout the country's Exclusive Economic Zone (EEZ), be it through increased sea temperatures, acidification, deoxygenation, and related phenomena. These extreme weather shocks are further exacerbated by the medium to long term effects of climate change and present significant risks to the country's sustainable development and blue economy agenda.

Seychelles' ranking in the University of Notre Dame Global Adaptation Initiative (or ND-GAIN)[1] regarding vulnerability and readiness scores indicate that it is on the road to responding effectively to climate change, but adaptation needs and the urgency to act are high priorities.

2. The concentration of population and development in narrow coastal areas, and on a limited number of islands, has put increased pressure on the environment and ecosystem. Over 90 percent of the population, as well as economic activities are located on the narrow coastal plateau of Mahé Island. Coastal zones also hold most of the country's natural capital, further increasing the vulnerability to climate change. Slow onset sea level rise and ocean acidification would be key risks for fisheries and tourism, due to Seychelles' heavy reliance on these sectors. Seychelles is particularly marked by the massive coral bleaching events which took place in 1998 and 2016 (due to abnormally warm waters) that eradicated an estimated 90 percent of the live coral cover around the three main islands. An increase in global temperatures of 2 degrees Celsius will therefore be catastrophic to the existing corals and related coastal ecosystems, which provide coastal protection and critical habitat for most marine species. The increased frequency of extreme rainfall, coastal flooding, and other natural hazards have contributed to reduced productivity in agriculture and has led to adverse health impacts due to extreme heat events.

3. Seychelles' NDC estimates the magnitude of financing needed for coastal resilience and climate change mitigation at around US$ 670 million (covering both the immediate and long-term). This is roughly 30 percent of GDP in 2023, and almost half of Seychelles' existing estimated public and publicly guaranteed debt stock (estimated at around 65 percent of GDP in 2023). Furthermore, the COVID-19 crisis has eroded the already constrained financial capacity or fiscal space for investments needed to address coastal vulnerability or reorient immediate investment priorities. Current coastal management financing falls short of investments needed to meet priority risk reduction actions and adapt to climate change. Recent pre-feasibility studies, indicate that immediate financing needs could vary between US$15.4 million and US$33 million (or between 1 to 3 percent of GDP). Actual estimates are likely in the higher range, given the Industrial Policy currently under preparation, which puts greater impetus on diversification of the economy, with commitment towards a circular economy approach to industrial development. In recent years, Seychelles has been hit once by a major natural disaster which imposed economic damage of over 3 percent of GDP, putting the country at 26th among 33 small states worldwide in vulnerability to natural disasters (2 percent of GDP is the average annual cost of natural disasters for small states). The average annual loss from floods is estimated at US$2.5 million, (roughly 0.24 percent of Seychelles' GDP). Natural disaster impacts are further exacerbated by the long-term effects of climate change from sea level rise, and sea temperature warming, which present significant risks to the country's economy and sustainable development agenda. Past events, such as the 2013 flood at Point Laure, resulted in a total estimated loss of 0.77 percent of GDP. Infrastructure damages accounted for the largest share of losses, followed by losses to the productive and social sectors.[2] Communities and the government have noted that these events,

[1] The ND-GAIN ranks Seychelles as the 65th most vulnerable country to climate change and 74th in terms of the country most ready to improve resilience out of 182 countries.

[2] WBG (2013). Seychelles Damage, Loss and Needs Assessment (DaLa) 2013 Floods.

especially coastal erosion, are becoming more frequent, intense, and impactful for critical public infrastructure, beaches, agriculture, residential properties, and tourism assets across the main islands. At the same time Seychelles faces three main barriers to climate adaptation: (i) scarce developable land, (ii) lack of capital to implement projects, and (iii) limited technical capacity.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

4. The Government of Seychelles is strategically integrating climate change adaptation into its policy framework with the Seychelles' National Climate Policy (NCCP) as a guidance document.[3] The NCCP defines guiding climate principles including principles for climate justice and highlights relevant legal acts[4] needed to further integrate climate change objectives and actions. It also lists existing policies that contribute to climate change adaptation and/or mitigation. The overall NCCP vision is to achieve a sustainable, climate resilient, and low-carbon Seychelles.

5. In 2019, the Government of Seychelles developed the first national Coastal Management Plan (CMP)[5] to address coastal flooding, erosion, and ecosystem degradation at several sites around the country. The plan delineates strategic investments and institutional capacity building on coastal adaptation, although implementation remains limited and only a few adaptation interventions have been operationalized in the last few years. The country's ongoing investment in Marine Spatial Planning, funded in part under the Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3) Project, build in part on the CMP but more remains to be done.

6. Commitments for Climate Change Adaptation. **Given the high priority of adaptation related climate risks, Seychelles is focused on increasing its resilience, through areas identified in its updated Nationally Determined Contribution**. The updated Nationally Determined Contributions (NDCs) now also includes adaptation contributions. Specific commitments are focused on targets to safeguard the Blue Economy and Blue Carbon ecosystems, which have been identified as key to diversification of the economy. In that regard, several broad national policies, roadmaps and strategies since 1992, including the 2019-2023 National Development Strategy include reforms to: (i) regulate coastal planning and infrastructure at the national and local level to prioritize the consideration of "blue" Nature-based Solutions (NbS) for climate resilience; (ii) protect Blue Carbon ecosystems, to increase the carbon sink from seagrass and mangrove systems, by at least 50 percent

[3] Government of Seychelles (2020). Seychelles' National Climate Change Policy, Ministry of Environment, Energy and Climate Change, Seychelles.

[4] The specific legal acts are Constitution of Seychelles 1993; Environment Protection Act 1995; National Parks and Nature Conservancy Act 1969; Disaster Management Act 2014; Energy Act 2012; Town and Country Planning Act 1972; and Fisheries Act 1987. The NCCP currently claims that climate change aspects need to be integrated but does specify how this will be done.

[5] World Bank and Ministry of Environment, Energy and Climate Change of Seychelles (2019). Seychelles Coastal Management Plan: 2019–2024. Washington, DC: World Bank; Victoria, Seychelles: Ministry of Environment, Energy and Climate Change of Seychelles.

by 2025, and 100 percent by 2030; (iii) implement the Marine Spatial Plan, based on participatory, as well as an integrated, and multi-sector approach to support the health and sustainable long-term use of Seychelles' ocean waters (particularly the 30 percent marine protected areas within the Seychelles' Exclusive Economic Zone). Seychelles is focused on meeting these objectives and is exploring ways to develop a mechanism to bring its blue carbon credits to market. Seychelles commits to continue integrating climate change considerations into plans and strategies across all key sectors by 2030.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce GHG Emissions.

7. Seychelles' greenhouse gas emissions are low with insignificant contribution to the worldwide emissions. Yet, the country is taking steps for comprehensive Climate Change Mitigation. The updated Seychelles NDC presents opportunities to align the climate and development agendas to promote sustainable growth. Seychelles' NDC aims to reduce its greenhouse gas emissions by 293.8 $ktCO_{2e}$ in 2030 (26.4%) compared to the business-as-usual scenario and targets net zero emissions by 2050. For the past few years, emissions have been steadily increasing to over 610 $ktCO_{2e}$ (2019) in total and a per capita emission of 6.2 metric tons. Seychelles has commitment to use renewable energy for water supply mobilization by 2030 and to secure a sustainable and resilient water management system. The country has also committed to ensure sewage systems and wastewater treatment facilities include nutrients and energy recovery. The key implementation targets focus on modernizing the entire electricity sector, increased electricity generation from renewable sources, improved energy efficiency across sectors, a shift from fossil fuel engineered transport to electrified transport and individual active mobility, enhanced resource rehabilitation and land mitigation measures. The mitigation contributions include the long-term commitment to achieve a decarbonized economy by 2050 and to boost electricity generation from renewable energies, including marine energy technologies, bio-energies, such as biomass and waste-to-energy, and the use of environment friendly intermittent energy storage technologies. However, it must be noted that Seychelles' efforts at oil exploration, and the possibility of oil exports, could potentially impact the country's contribution to global emissions.

D. Other Challenges

8. Due to its remote location and comparatively small economy, Seychelles faces significant challenges in developing and sustaining specific capacities needed for climate action. To support Seychelles' efforts at addressing these challenges, the World Bank Group, prepared in close consultation with the government, private sector, and other development stakeholders a Country Partnership Framework (CPF) FY18-FY23, aligned to the country's vision for inclusive and sustainable prosperity. The CPF is organized around the two mutually reinforcing focus areas of shared prosperity and inclusion and public-sector performance. This entails retooling the fisheries and tourism to focus on sustainability and inclusion, along the lines of the government's flagship Blue Economy Program, with the aim of strengthening the management and resilience of natural resources. The CPF supports a shift in focus towards building the human capital of the bottom 40 percent of the population to enable them to participate in new expanding opportunities.

9. In view of the financing needs, and the tight fiscal space, mobilizing private capital for the mitigation and adaptation agendas is a key challenge. To effectively mobilize both domestic and international private capital to address climate risks, it will be important to strengthen: (i) financial preparedness and rapid response to climate shocks, to protect household investments and welfare, including human capital from climate shocks; (ii) financial sector resilience, to also ensure it is well capitalized, based on a data driven assessment of financial sector's exposure to climate shocks. To achieve these two key actions, it will be critical for Seychelles to first implement the *Disaster Risk Management Fund* and adopt a national *Disaster Risk Financing Strategy*, as key part of the solution to address climate change. Second, strengthening financial sector resilience and stability will require data collection, strategies, and stress tests (including climate shock related) of bank assets to strengthen financial sector resilience to climate shocks.

E. World Bank Engagement in the Area of Climate Change

10. The World Bank has been actively engaged in supporting Seychelles' efforts to improve Seychelles' coastal resilience and adapt to climate change since 2013[6]. Seychelles was the first African country to partner with the World Bank through a Development Policy Financing with a Catastrophe Deferred Drawdown Option (Cat DDO), to strengthen its climate adaptation. Under a follow-on second series Cat DDO, the World Bank provided comprehensive technical support to the Government of Seychelles to develop the Seychelles Coastal Management Plan 2019-2024 (CMP), endorsed in 2019 and informed by previous JICA-led technical studies, among others. This comprehensive plan aims to help maintain and protect the coastal zone to reduce coastal risk, support healthy ecosystems and enable sustainable coastal economic development. For implementing the CMP, the World Bank: (i) provided support for a pre-feasibility study to identify effective coastal interventions in priority areas; (ii) developed a concept and pilot approach for the "Blue Barrier"; (iii) prepared a coastal management and adaptation finance assessment; and (iv) provided assistance to build technical capacity, drawing on an assessment of institutional and capacity gaps, including a certificate course on coastal management and adaptation, delivered collaboratively with the University of Seychelles and the Government, as well as a training on risk-based land use planning. Finally, the World Bank is currently working with the Government on improving its solid waste management, reducing marine pollution, and exploring its blue carbon potential.

11. Seychelles has made significant progress in developing disaster preparedness and response, with technical support from the World Bank. World Bank support has focused on Seychelles' efforts to adopt an "all hazard" approach to disaster risk management (through the National Integrated Emergency Management Plan (NIEMP) as required by Seychelles' legal mandate, with District Emergency Plans realigned to the NIEMP). This includes mainstreaming responsibilities for assessing hazards and risks, and for emergency preparedness and response (EP&R), across all Ministries, Departments and Agencies (MDAs), with recognition of the important contribution of non-

[6] https://www.worldbank.org/en/news/press-release/2014/09/26/seychelles-world-bank-funding-to-help-improve-emergency-and-economic-resilience.

governmental organizations (NGOs) and the private sector. Bank support also includes technical assistance to Seychelles in reducing vulnerabilities to climate shocks, through enhanced disaster and business continuity plans. In particular, the COVID pandemic highlighted Seychelles' utter dependence on a single port and international airport infrastructure, which have been highly vulnerable to sea level rise, storms, and flood events that impacted tourism and disrupted food sources and other critical supplies. In recognition of this vulnerability, the World Bank is continuing its assistance, under the Southwest Indian Ocean (SWIO) Climate Risk and Early Warning System (CREWS) program. Bank support has included helping Seychelles develop continency and business continuity plans, including the roles and responsibilities of Government responders. Capacity building is also being provided to all MDAs and Critical Infrastructure operators on enhanced disaster resilience.

12. Through the multi-year *Fiscal Sustainability and Climate Resilience Development Policy Loan* (DPL) program, the Bank is providing financial resources in support of transformative regulatory reforms to enhance climate resilience. For example: the Physical Planning Bill set into law the integration of hazard and climate risks in land-use planning decisions, which established a policy and legislative framework that aims to ensure that any new development of land will not increase flood risk and accounts for impacts of sea-level rise and coastal erosion. The World Bank is also working with the Government of Seychelles to update their land-use regulations to incorporate hazard and climate risks, improve physical resilience, and ensure the integration of the principles of 'safe' locations and 'climate change resilient' design in a comprehensive manner. Under the DPL series, the World Bank is also providing technical guidance on climate smart management of the fisheries sector.

13. The Government of Seychelles has recently also requested support in mobilizing climate financing and transitioning to renewable energy. Following on the recently approved Electricity Bill and Utilities Regulatory Commission (URC) Bill, the Bank will support government in developing and operationalizing secondary regulations for mobilizing private capital to facilitate the energy transition. In the next phase of reforms, Bank technical support focuses on government efforts to prepare a project pipeline and pre-feasibility studies, focused on utility-scale renewable energy projects, as well as analysis of distributed renewal energy's (DRE) potential impact on the financials of the public utility including the tariff structure, to balance private and public participation while maintaining service reliability. Bank support will also include technical assistance in the development of carbon finance.

14. The World Bank continues to build on its decade long engagement with Seychelles to strengthen the country's resilience to climate change and is coordinating closely with the RSF program of the International Monetary Fund (IMF). To minimize areas of overlap and duplication, the World Bank and IMF teams have ensured there is close coordination in the design of their respective (DPL and RSF) programs. Within that context, the IMF and Bank teams have coordinated closely in undertaking diagnostic work (through the PIMA/climate-PIMA and the ongoing World Bank public expenditure review), to prioritize reforms needed to strengthen the climate related aspects of Seychelles' public investment management processes. These diagnostics inform the areas of reform focus for the RSF and the DPL.

Statement by the Executive Director, Mr. Nicholl and Ms. Choi, the Advisor of the Executive Director on Seychelles
Executive Board Meeting
May 31, 2023

1. **Our Seychellois authorities would like to thank the IMF's Executive Board, Management, and staff for the continued support of the Seychelles.** They value the close engagement with the Fund and appreciate the constructive discussions held with Mr. Ahokpossi, the mission chief, and his team regarding the arrangements under a new Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF). Also, they welcome the work and collaboration from both the World Bank and African Development Bank's staff with the mission team and authorities.

2. **Seychelles, a small island country heavily dependent on tourism, was hit hard by the pandemic.** The EFF program that started in 2021 has played a crucial role in preserving macroeconomic stability, supporting fiscal consolidation efforts, and securing additional financing. As a result, macroeconomic vulnerabilities were successfully reduced, and the authorities were able to decrease the debt-to-GDP ratio to 69 percent by 2022; while building international reserves and implementing important structural reforms.

3. **The authorities have committed to maintaining the hard-won macroeconomic stability and advancing reforms.** To continue this momentum, they are pursuing the new arrangements under the 36-month EFF and RSF, along with targeted capacity development. The new EFF and RSF arrangements will continue to support the authorities in pursuing a deeper structural reform agenda in a more inclusive and sustainable way, especially given the challenges of climate change.

Recent Economic Developments

4. Post-pandemic economic recovery has been robust and growth is now expected to stabilize. Real GDP growth for 2022 is estimated to be 9.0 percent, and for 2023 it is expected to flatten at 4.3 percent. The successful vaccination campaign during the early stage of the pandemic and pent-up demand; this led to a sharp recovery in tourist arrivals. At the beginning of the recovery, only high-end hotels received visitors—visitor levels are now recovering for small establishments. Construction activities have picked up with the construction of new hotels. The ICT sector has remained strong with data traffic having increased. With a strong economic recovery, the current account deficit has stabilized. The estimated current account deficit was 7.6 percent of GDP in 2022, a strong improvement compared to the 14 percent of 2020.

5. Fiscal performance has exceeded the program forecast. The primary balance in 2022 was better than anticipated, with a surplus of 0.7 percent of GDP, mainly due to a reduced pace of execution for some projects. The primary fiscal balance in 2023 is expected to be -0.4 percent of GDP. The authorities are committed to achieving a debt target of 50 percent of GDP by 2029.

6. Inflation pressure is stable. The annual average inflation rate was 2.6 percent in 2022 reflecting the lagged effects of currency appreciation as well as base effects after high inflation in 2021. As the increase in international fuel and commodity prices abated towards the end of 2022 and into 2023, the inflation rate is expected to remain stable at 1.4 percent in 2023. The foreign exchange rate, which is the primary determinant of inflation for Seychelles, has strengthened against major trading partners since 2022, supported by sustained inflows of foreign exchange due to the strong performance of the tourism industry; this has reduced inflation pressure.

7. The overall outlook remains positive, but Seychelles remains vulnerable to potential external shocks. With the country's heavy reliance on tourism, elevated external risks would negatively impact the outlook. As a small and open economy, further external financing has the potential to weaken Seychelles' external position and a significant depreciation of the currency may lead to renewed inflation pressure. Seychelles' heavy dependence on natural environment also makes the country susceptible to the effects of climate change.

Fiscal Policy

8. The authorities are dedicated to continuing their ambitious fiscal consolidation. Under the EFF program, the authorities have been undertaking budgetary reforms to enhance public financial management capabilities and executing liability management. Reforms have led to a more balanced primary balance and a reduction in the cost of financing. The authorities are maintaining this momentum, focusing on addressing the country's underlying structural challenges while creating more fiscal space and rebuilding fiscal buffers.

9. The authorities will continue tax reforms over the medium term to widen the tax base and modernize the tax management system. To limit the revenue loss from transfer pricing and widen the current tax base, the authorities introduced a new Accommodation Turnover Tax and a Tourism Environmental Sustainability Levy. The general transfer pricing regulation on business tax is also to be finalized by June 2023, assisted by the World Bank. The legislative amendments to streamline VAT exemptions are expected to be approved by December 2023. The authorities are diversifying online services to encourage taxpayers to meet their obligations in time. Administrative practices are being streamlined to provide more clarity, certainty, and consistency in the application of tax laws.

10 The authorities are also implementing measures to improve the efficiency of public expenditure management. A Public Investment Management Assessment (PIMA) was conducted in January 2023; this revealed several causes for the under-execution of capital projects and limited capacity for preparing and analyzing information across the government. The authorities submitted an action plan for Cabinet endorsement. Additionally, the authorities are working with the UNDP to develop an integrated financing framework to strengthen planning and financing processes.

11. Efforts for a targeted approach to enhance the social spending system are continuing. The authorities introduced a temporary salary and energy support program based on income level from July

2022 to March 2023 to support the most vulnerable groups in society. The authorities plan to adopt an interdisciplinary approach by coordinating across different ministries and establishing a social registry by March 2024 to identify needs and coordinate social services. They are also planning to adopt a revised socioeconomic needs assessment that incorporates non-income dimensions of poverty to improve effectiveness of social protection programs.

Monetary Policy and Financial Stability

12. The authorities continue to maintain an accommodative monetary policy to support the economy, while improving monetary policy effectiveness. The Central Bank of Seychelles (CBS) is closely monitoring inflation dynamics and is ready to take a data-dependent action together with appropriate forward guidance. Modernization of the monetary policy framework will improve the transmission mechanism by reintroducing Repo instruments to absorb excess liquidity from the market. This reform plan, based on the Fund's Technical Assistance; they will be ready by December 2024. The authorities are preparing amendments to the CBS Act to strengthen governance and oversight, enhance institutional and personal autonomy, and safeguard financial autonomy of CBS.

13. CBS is committed to maintaining a flexible exchange rate regime and an adequate buffer of reserves. CBS will increase its foreign exchange buffer whenever opportunities arise and maintain its reserves above the structural benchmark, and it is planning to elaborate its FX intervention strategy. With financial support from the Fund and other development partners, reserves rapidly increased in 2021. In response to a strong supply in early 2023, the central bank purchased Euros from the FX market; the strategic move not only increased reserves but diversified the reserve portfolio.

14. CBS is dedicated to maintaining a stable and resilient banking system and has intensified its efforts to improve supervisory procedures. Seychellois banks continue to meet the prudential capital requirement and report strong earnings. The recent surge in non-performing loans (NPLs), primarily concentrated in one bank with a high-risk business model, is being closely monitored by CBS. CBS is developing risk assessment tools as early warnings and collecting additional information on restructured and rescheduled loans. It is also preparing the Bank Recovery and Resolution Bill to be approved by the Cabinet.

Structural Reforms

15. The authorities are fully committed to implementing comprehensive medium-term structural reforms aimed at enhancing the growth potential of the economy. The authorities are drafting a 5-year National Development Strategy including economic, health and education agenda. They are making steady progress in enhancing transparency, governance, and building trust among stakeholders, advancing information on beneficial ownership to ensure legal arrangements established in Seychelles are comprehensive, accurate and regularly updated.

16. The authorities are striving to enhance the competitiveness of their tourism industry. Continued efforts have been made to diversify the tourism market geographically and to offer a wide range of services while enhancing local value chains with tourism at the center. The Tourism Master Plan, which provides the roadmap for the sector's growth with pro-tourism business development policies and appropriate investment strategies, is being implemented as scheduled. To gain a better understanding of the tourism sector's dynamics and its economic benefits and vulnerabilities, the authorities will request assistance from development partners to study on tourism which is expected to be completed by June 2024.

17. The authorities are investing in a Digitalization Agenda to improve government efficiency and diversify economic structure. Government budget allocations have been made for various digitalization projects, such as an Integrated Financial Management Information System, a Human Resource Management System, and an Agency of Social Protection system. The authorities have improved the legislative framework for the telecom sector to address anti-competitive practices and create an independent ICT regulator. The authorities are also working to improve payment system infrastructure and the digital entrepreneurial ecosystem to minimize operational risks and foster related industries.

RSF and Climate Change Policy

18. Seychelles is highly susceptible to climate change, such as climate-induced disasters and sea level rise, so the authorities have demonstrated strong commitment in managing associated risks. The country's tourism and related industries depend heavily on the natural beauty and unique biodiversity of the islands. The fisheries sector, which is the second biggest contributor to the economy, relies on the sustainable management of marine resources. Therefore, Seychelles has been at the forefront of global efforts to promote sustainable development. In 2018, Seychelles issued the world's first sovereign blue bond to finance sustainable use of marine resources. Additionally, Seychelles successfully completed a debt for nature swap in 2017, mobilizing $21.6 million for adaptation efforts. Seychelles was the first pilot country which completed a Climate Change Policy Assessment (CCPA, jointly conducted by IMF and World bank) in 2017. PIMA and Climate-PIMA assessments were conducted in early 2023, which along with CCPA and Nationally Determined Contributions (NDC) results served as the basis for the design of RSF reform measures.

19. Building on the steps taken to date, the authorities have committed to a comprehensive set of reform measures under the RSF. The climate policy efforts which had been individually planned and conducted by the authorities and other development partners were reorganized and refined based on the diagnostics, generating 3 pillars and 11 reform measures. The authorities have been keen to effectively implement the reform measures and identified the areas where the capacity development is needed, by discussing with staff during the mission. Fund support will provide confidence in the ambitious policy package being implemented.

20. As a small country with small nominal quota, the authorities are requesting access of 150 percent of quota (SDR 34.35 million) under the RSF to initiate the key reforms and are striving to maximize the catalysis effect of RSF. Seychelles' financing needs are substantially large given Seychelles' vulnerabilities to climate risks. Considering the comprehensive package of reform measures to address climate-related challenges, this access request can be justified. The authorities are eager to maximize the catalytic potential of RSF, tapping multilateral development banks, bilateral donors, and international climate funds such as the Green Climate Fund and Global Environmental Facility. Additionally, the authorities have hired a climate finance advisor and will adopt a national climate finance mobilization strategy to unlock financing from public and private sectors.