IMF Country Report No. 23/402

SEYCHELLES

December 2023

FIRST REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; AND STAFF REPORT

In the context of the First Reviews Under the Extended Arrangement Under the Extended Fund Facility and the Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 3, 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 November 13, 2023.

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Washington, D.C.

PRESS RELEASE

PR23/424

IMF Executive Board Completes First Reviews of the Arrangements Under the Extended Fund Facility and the Resilience and Sustainability Facility for Seychelles and Approves US$12.3 Million Disbursement

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed today the first reviews of the Seychelles Extended Arrangement under the Extended Fund Facility (EFF) and the Arrangement under the Resilience and Sustainability Facility (RSF). The completion of the reviews allows for an immediate disbursement of about US$12.3 million to help strengthen macroeconomic stability, boost inclusive growth, and strengthen fiscal and monetary policy frameworks, while also supporting efforts to build resilience to climate change, exploit synergies with other sources of official financing, and catalyze private financing for climate-related investments.*
- *Seychelles' economic recovery has continued in 2023 as tourist arrivals move closer to pre-pandemic levels.*
- *The government has made significant progress in restoring macroeconomic balances and performance under the EFF and RSF programs are strong. But it will remain critical for the Seychelles to stay the course with respect to reducing public debt, rebuilding fiscal space, and increasing foreign exchange buffers.*

Washington, DC – December 4, 2023**:** The Executive Board of the International Monetary Fund (IMF) completed today the first reviews of Seychelles' economic performance under the 36-month EFF and RSF. The EFF and RSF were approved on May 31, 2023 in the amount of SDR 42.365 million (about US$56 million) for the EFF and in the amount of SDR 34.35 million (about US$46 million for the RSF). The completion of the review allows for an immediate disbursement of SDR 6.1 million (about US$8.13 million) under the EFF and SDR 3.1 million (about US$4.13 million) under the RSF. The Executive Board's decision was taken on a lapse-of-time basis.[1]

Seychelles' economic recovery continues, albeit at a more moderate pace than the sharp rebound observed in 2022. Tourist arrivals through September 2023 increased by 5 percent over the same period in 2022—reaching about 92 percent of pre-pandemic highs. Inflation has been on a downward trajectory, enabling the Central Bank of Seychelles to maintain its accommodative monetary stance. Year-on-year headline inflation became negative in May, reaching -2.4 percent by September. The external current account deficit narrowed to 7.1 percent of GDP in 2022 and is benefitting from the rise in tourist arrivals. Gross international reserves rose to US$708 million in September (3.6 months of imports), up from US$639 million at end-2022. Fiscal performance exceeded budget projections in the first half of 2023

[1] The Executive Board takes decisions under its lapse-of-time procedure when a proposal can be considered without convening formal discussions.

driven by lower capital spending and strong collections in some tax segments. Private sector credit growth reached 9.6 percent year-on-year by July.

Program performance remains strong. All end-June 2023 quantitative performance criteria (QPCs) and indicative targets (ITs) as well as all end-September 2023 ITs were met. Good progress was made toward structural benchmarks, although some were implemented with a delay or rescheduled to a later implementation date due to technical issues or capacity constraints. The single reform measure (RM) under the RSF for the first review was also met.

The outlook remains positive, but risks remain. Real GDP growth is expected to moderate to 3.8 percent in 2023 and is projected to rise modestly to 4.0 percent in 2024. Average annual inflation is projected to be -0.8 percent in 2023 and 0.3 percent in 2024 reflecting the moderation in food and fuel import prices since. The current account deficit is expected to decline to 5.4 percent of GDP in 2023, but to widen over the medium term as tourism growth stabilizes and imports increase with continued investment in capital projects. Foreign exchange reserves are now projected to reach US$733 million by end-2023, equivalent to 3.7 months of imports. Reserve coverage is forecast to increase gradually to around 4 months of imports over the medium term. Potential downside risks to this outlook include a rebound in international commodity prices and external shocks to tourism demand.

The authorities' near-term priorities are to support the ongoing economic recovery, continue to build fiscal and external buffers, and maintain macroeconomic stability. Over the medium-term, the authorities' measures aim to increase revenues and boost the efficiency of capital expenditure, with a focus on climate change mitigation and adaptation. In addition, the structural reform agenda prioritizes revenue administration, public financial and investment management, and governance, including digitalization and state-owned enterprise reform.

Seychelles: Selected Economic Indicators (2020-2028)

	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)	24,294	25,347	28,222	29,095	30,318	32,012	34,057	36,432	39,037
Real GDP (millions of Seychelles rupees)	23,810	24,410	26,593	27,604	28,695	29,822	30,983	32,178	33,411
Real GDP	-8.5	2.5	8.9	3.8	4.0	3.9	3.9	3.9	3.8
CPI (annual average)	1.2	9.8	2.6	-0.8	0.3	2.0	3.0	3.5	3.5
CPI (end-of-period)	3.8	7.9	2.5	-1.6	0.9	2.8	3.5	3.5	3.5
GDP deflator average	1.2	1.8	2.2	-0.7	0.2	1.6	2.4	3.0	3.2
Money and credit									
Broad money	27.0	-5.1	3.7	9.0	...	...	...	...	...
Reserve money (end-of-period)	40.4	11.1	-3.0	9.0	...	...	...	...	...
Velocity (GDP/broad money)	1.0	1.1	1.2	1.1	...	...	...	...	...
Money multiplier (broad money/reserve money)	3.9	3.3	3.5	3.5	...	...	...	...	...
Credit to the private sector [5]	20.2	-11.9	5.0	8.4	8.8	8.2	7.9	7.8	7.4
	(Percent of GDP, unless otherwise indicated)								
Savings-Investment balance									
External savings	12.3	10.1	7.1	5.4	7.1	7.4	7.9	8.6	9.2
Gross national savings	9.4	15.4	15.7	19.3	18.9	19.5	19.0	18.1	17.4
Of which: government savings	-11.9	-3.0	1.0	0.4	3.0	4.3	5.2	5.7	6.0
private savings	21.3	18.4	14.7	18.9	15.9	15.3	13.8	12.4	11.4
Gross investment	21.8	25.5	22.8	24.8	25.8	26.7	26.7	26.5	26.4
Of which: public investment [1]	4.3	5.2	2.4	4.3	5.3	6.1	6.1	5.9	5.8
private investment	17.5	20.3	20.4	20.5	20.5	20.6	20.6	20.6	20.6
Private consumption	43.6	45.9	49.7	43.0	43.5	45.6	46.6	47.9	49.1
	(Percent of GDP)								
Government budget [4]									
Total revenue, excluding grants	29.5	30.2	30.8	32.9	34.5	34.5	34.5	34.2	33.9
Expenditure and net lending	47.1	38.8	32.7	37.0	37.2	36.8	35.8	34.3	33.5
Current expenditure	41.3	33.5	29.8	32.7	31.6	30.4	29.4	28.6	27.9
Capital expenditure [1]	4.3	5.2	2.4	4.2	5.3	6.1	6.1	5.9	5.8
Overall balance, including grants	-16.8	-5.5	-1.3	-2.8	-1.5	-1.1	-0.5	0.6	1.0
Primary balance	-13.4	-2.9	0.8	0.0	1.1	1.1	1.6	2.5	2.9
Total government and government-guaranteed debt [2]	81.1	73.9	64.1	64.4	65.6	64.3	61.2	56.1	51.3
External sector									
Current account balance including official transfers									
(in percent of GDP)	-12.3	-10.1	-7.1	-5.4	-7.1	-7.4	-7.9	-8.6	-9.2
Total external debt outstanding (millions of U.S. dollars) [3]	5,049	5,261	5,391	5,583	5,825	6,029	6,157	6,252	6,111
(percent of GDP)	365.8	350.6	272.7	267.9	277.6	273.6	262.6	249.3	227.4
Terms of trade (-=deterioration)	10.7	-5.0	-8.4	-2.2	1.5	5.6	0.0	0.0	0.0
Gross official reserves (end of year, millions of U.S. dollars)	575	702	639	733	791	843	904	953	997
Months of imports, c.i.f.	3.8	3.7	3.4	3.7	3.7	3.8	3.9	4.0	4.1
In percent of Assessing Reserve Adequacy (ARA) metric	112	121	101	110	112	116	122	126	128
Exchange rate									
Seychelles rupees per US$1 (end-of-period)	21.0	14.7	14.1	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	17.6	16.9	14.3	...	...	...	...	...	...

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.

INTERNATIONAL MONETARY FUND

SEYCHELLES

November 13, 2023

FIRST REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. The Seychellois economy continues to recover as tourist arrivals move closer to pre-pandemic levels. Inflation is on a downward trajectory due to decreased global food and fuel prices. The government's primary fiscal position is expected to be near balance in 2023, stronger than expected at the outset of the EFF/RSF program. External balances have improved. The current account deficit is projected to decline to 5.4 percent of GDP in 2023 and foreign reserves to rise to an equivalent of 3.7 months of imports. The ratio of public and publicly guaranteed debt to GDP is expected to fall to about 64 percent of GDP by end-2023, compared to 81 percent in 2020. The authorities are advancing with reform measures agreed under the RSF.

Outlook and risks. The outlook is positive, but risks are skewed to the downsize. Growth is expected at 4.0 percent in 2024 and stabilize around that level over the medium term. The inflation outlook has been revised down in the wake of lower food and fuel import prices. However, any rebound in global commodity prices would present a significant downside risk to inflation and foreign reserves. Climate change, increased competition in the tourism industry, and any dampening of global tourism demand are also important risk factors.

Program performance. Program performance has been strong. All end-June 2023 quantitative performance criteria (QPCs) and indicative targets (ITs) were met. Good progress was made toward EFF Structural Benchmarks (SBs). Out of 10 structural benchmarks, four were met on time. Four others were implemented with minor delays and two were re-set due to capacity constraints, legislative schedules, or technical issues. The RSF reform measure envisaged for this review (RM1) was implemented as scheduled.

Policy recommendations. As a small island state vulnerable to external shocks and climate change, it remains critical for the Seychelles to stay the course with respect to reducing public debt, rebuilding fiscal space, and increasing foreign exchange buffers. It is also important that the authorities increase the efficiency of public investment and continue to support the most vulnerable segments of the population.

Staff's views. Considering the authorities' strong program implementation and policy commitments going forward, staff recommends completion of the first review.

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

The discussions in Victoria took place during September 21–October 3, 2023; the in-person team consisted of Todd Schneider (head), Aissatou Diallo (resident representative), Taehoon Kim, Eric Lautier (all AFR), Jung Yeon Kim (SPR) and Mario Mansilla (MCM). Leonardo Pio Perez (AFR) participated virtually. Luisa Malcherek (LEG) participated virtually in relevant meetings. The team was supported by Andrew Esparon (local economist). Danielle Bieleu (AFR) assisted with the preparation of this report.

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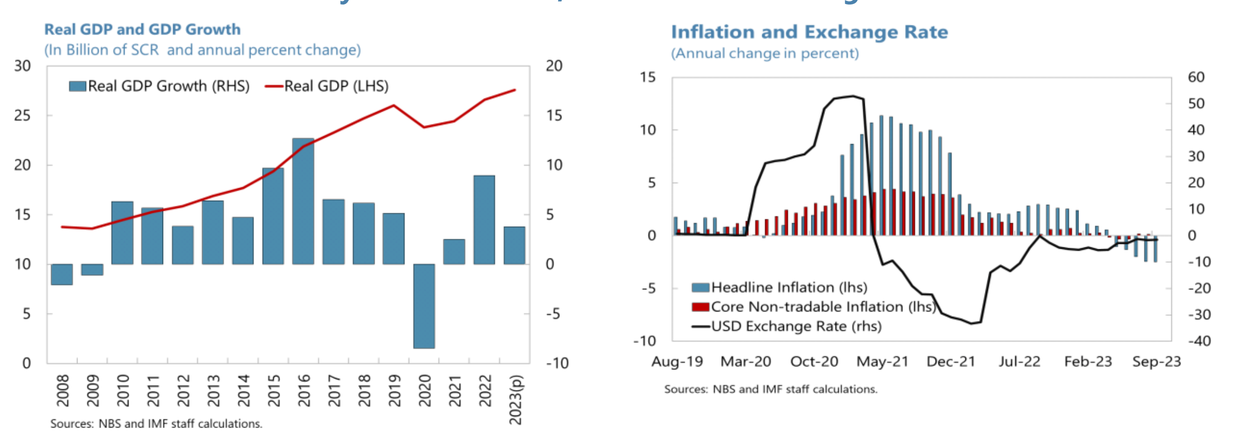
CONTEXT AND RECENT DEVELOPMENTS

1. Seychelles' economic recovery continues, albeit at a more moderate pace than the sharp rebound observed in 2022. Tourist arrivals through September 2023 reached 254,320—an increase of 5 percent over the same period in 2022 and about 92 percent of pre-pandemic highs. Sharp economic slowdowns in some traditional markets in Europe continue to have a dampening effect compared to pre-pandemic years, but are being offset by arrivals from Russia, the Middle East, and Asia. (Figure 1). In non-tourism sectors, information and communication grew by 16 percent year-on-year in Q2 2023, driven partly by demand for broadband data from tourists, while financial and insurance activities increased by 33 percent. Employment increased by 4.2 percent year-on-year in Q2 2023, with a 12.0 percent rise in accommodation and food service activities. Average earnings increased by 3.3 percent over the same period.

2. Inflation has been on a downward trajectory, enabling the Central Bank of Seychelles (CBS) to maintain its accommodative monetary stance. Year-on-year headline inflation became negative in May, reaching -2.4 percent by September. Core inflation dropped to -0.7 percent. The steepest declines were observed in housing, electricity and utilities (-8.5 percent), and transport (-5.9 percent), reflecting the pass through of lower imported fuel prices. The service sector, including health, also saw negative year-on-year inflation (-5.3 percent). The recent easing of international fuel and food prices has contributed to consumer price inflation shifting to negative territory this year, which was unanticipated at the start of the program (Figure 2). With inflation negative and the exchange rate relatively stable, the CBS has maintained the policy rate at 2 percent since mid-2021 while gradually absorbing excess liquidity via deposit auctions.

Seychelles: Growth, Inflation and Exchange Rate



3. Seychelles' external balances have improved with the continued recovery in tourist arrivals. The current account deficit narrowed to 7.1 percent of GDP in 2022 and is projected at 5.4 percent by end-2023—considerably lower than the 9.5 percent deficit projected at the start of the program and reflecting better-than-expected tourism revenues. On the other hand, recent hikes in global interest rates have increased debt servicing costs, including for loans from multilateral creditors. The CBS has taken advantage of increased foreign exchange liquidity in the first half of this year to intervene and accumulate reserves. Gross international reserves rose to $708 million in September (3.6 months of imports, 106 percent of ARA metric), from $639 million at end-2022 (101 percent of ARA metric). The exchange rate has appreciated marginally against the US dollar (1.6 percent since September 2022). In NEER and REER terms, the rupee appreciated by 2.5 percent and 9.3 percent, respectively from September 2022 to September 2023. Notably, a REER appreciation close to 38 percent compared to December 2019 suggests some potential loss of competitiveness.

Seychelles: Visitor Arrivals and Tourism Earnings
(Number of arrivals and Thousands of SCR)

Sources: Central Bank of Seychelles and NBS.

4. Fiscal performance exceeded budget projections in the first half of 2023 driven by lower capital spending and strong collections in some tax segments. In H1 2023, the primary balance, including grants, showed a surplus of 1.2 percent—well above the projected deficit of 0.2 percent. Strong business and income tax collections offset weaker VAT performance. Nontax revenue fell, due mainly to delays in dividend disbursements and lower grant receipts. Collection of the new environmental levy[1] will have a one month lag due to initial collection difficulties linked to new processes and lack of online filing. Overall revenue came in about 0.8 ppt of GDP higher than budgeted at SR 4.3 billion, which compares to a program target of SR 3.8 billion. Current expenditure aligned with expectations, inclusive of a 10 percent salary increase in April. However, capital expenditure in H1 was 0.4 percent of GDP lower than budgeted, reflecting ongoing issues in public investment management.

5. Financial sector developments suggest normalization, but vulnerabilities remain. Credit to the private sector—led by construction and retail segments—grew by 9.6 percent y-o-y in July 2023. This compares to 5 percent at end-2022 but remains below pre-pandemic growth rates. The credit stock (about 32 percent of GDP) is now just above the pre-pandemic level. However, in terms of currency composition, credit in rupee has recovered its share of total credit, increasing to 81 percent in July 2023, compared to 77 percent in July 2022, due to the interest rate differential versus foreign currency credit. The average lending rate has increased marginally in 2023, to 9.62 percent in August 2023, 30 basis points higher than at end-2022. Commercial banks remain well capitalized, liquid, and profitable (Table 5). However, nonperforming loans (NPLs) were still

[1] Effective August 1, 2023, the Seychelles implemented a daily environmental levy on hotel stays of SR 25 (equivalent to about $2).

relatively high at about 7.8 percent of gross loans in September 2023—roughly the same level as at end-2022 but well above pre-pandemic levels (around 3 percent in 2018-2020).

OUTLOOK AND RISKS

6. The outlook remains positive, but risks remain. Real GDP growth is expected to moderate to 3.8 percent in 2023—about 0.5 ppt lower than projected at program start, reflecting weaker growth in agriculture and service sectors in Q1. Growth is projected to rise modestly to 4.0 percent in 2024, and then stabilize around that level over the medium term. Average annual inflation is projected to be -0.8 percent in 2023 and 0.3 percent in 2024 — a notable decline relative to program approval and linked to the moderation in food and fuel import prices since the beginning of the year. The current account deficit is expected to decline to 5.4 percent of GDP in 2023, but to widen over the medium term as tourism growth stabilizes and imports increase with continued investment in capital projects. Reflecting the narrower current account deficit, foreign exchange reserves are now projected to reach $733 million by end-2023 (compared to $655 million at program start), equivalent to 3.7 months of imports. Reserve coverage is forecast to increase gradually to around 4 months of imports over the medium term. Credit growth is expected to accelerate to 8.4 percent in 2023, from 5 percent in 2022, converging to the economy's nominal growth over the medium term.

7. Downside risks include a rebound in global commodity prices and external shocks to tourism demand (Annex I). Projections for global fuel prices are highly uncertain due to geopolitical tensions emanating from the war in Ukraine, conflict in Israel and Gaza, and the extension of oil production cuts by OPEC and Russia. Increasing competition in the global tourism industry, coupled with slowing growth in Seychelles' traditional European source markets pose further risks.[2] Should a decline in tourism emerge, the resulting drop in FX inflows could weaken the rupee and pass through to inflation. On the domestic side, financial stability risks may arise from high large exposures, credit concentration, and high NPLs. With respect to climate change, Seychelles remains vulnerable to sea level rise and natural disasters via damage to coastal infrastructure and tourism.

PROGRAM PERFORMANCE

8. Quantitative performance under the EFF has been strong. All end-June 2023 quantitative performance criteria (QPCs) and indicative targets (ITs) were met (Table 1 of the MEFP). The QPCs on the primary balance of the consolidated government and on net international reserves of the CBS were met by wide margins.

9. Progress on structural reforms has been good, with some delays linked mainly to capacity constraints, the legislative process, or technical issues (Table 2 of the MEFP). In July,

[2] Forward-looking indicators, such as booking numbers and cancellation rates, suggest that these risks are currently relatively small.

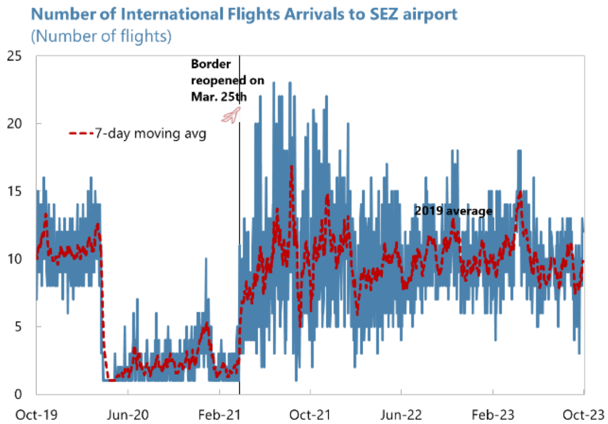
the authorities published the 2021 SOE Annual Report, and amendments to the CBS Act were approved by Cabinet (both SBs for end-June 2023, implemented with delay). Cabinet approved an action plan to improve the efficiency of public investment based on the January 2023 PIMA (SB end-September 2023). The CBS Board approved the plan for monetary policy operational reforms, which was published in the Monetary Policy Report (SB end-July 2023). Also, both the terms-of-reference for a study on tourism dynamics (SB end-June 2023) and the upgrade of the customs system (SB end-September 2023) were completed as scheduled. Three SBs for end-September that were not met have either been implemented with delay or new target dates have been set: (i) finalizing the ringfencing of the ground-handling operation at Seychelles Airport has been delayed for technical reasons (end-December); (ii) completion of the study on NPLs was delayed due to capacity constraints and finalized in November; and (iii) Cabinet approval of the draft Bank Resolution Bill is now expected by end-March 2024 due to delays in the legislative process. One SB for end-October on publication of an annual reporting of budgeted tax expenditure was implemented in November.[3]

10. The RSF reform measure for this review was implemented as scheduled. The integration of priority climate adaptation and mitigation objectives into the National Development Strategy 2023-2027 (RM1) was implemented in September (Table 3 of the MEFP). The authorities plan to publish the National Development Strategy at the end of this year.

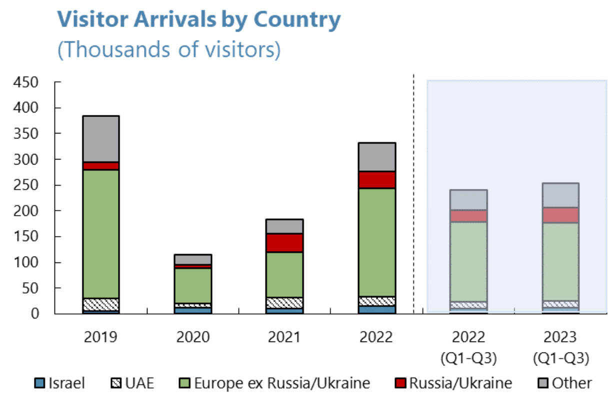
[3] The report was prepared and shared with staff, but was not published until the FY24 annual budget documents were released in November.

Figure 1. Seychelles: Tourism Indicators

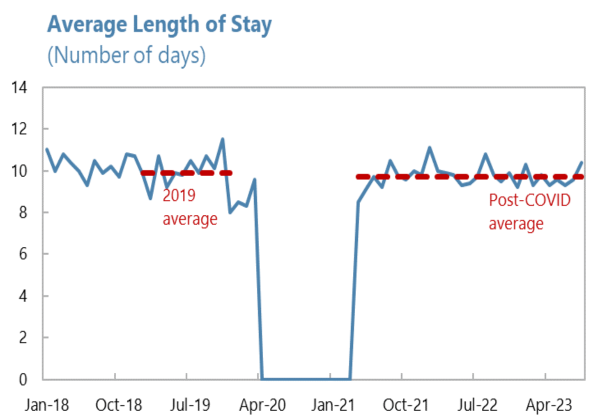
Seychelles continued to show resilient recovery in the tourism sector. The average number of international flights has returned to its pre-pandemic level.



Divergent economic growth in source markets continues to affect arrivals, with less traditional markets contributing to an overall rise in tourist arrivals thus far in 2023.



The average length of stay for tourists has fully recovered to pre-pandemic levels.



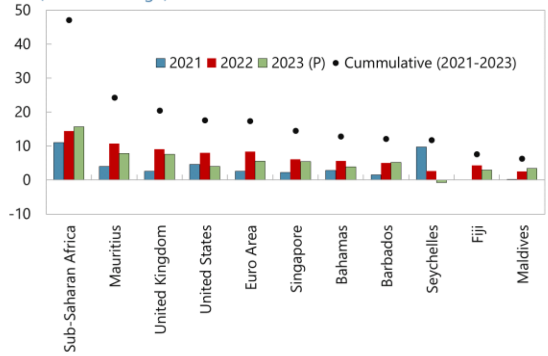
Tourism earnings in 2023 have approached around 90 percent of pre-pandemic levels.

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

Figure 2. Seychelles: Inflation Indicators

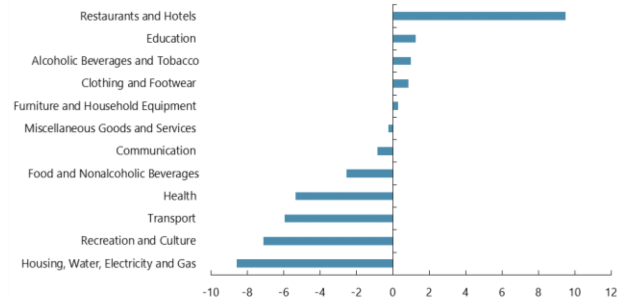
The cumulative inflation in Seychelles between 2021 and 2023 has been one of the lowest among similar countries.

Annual Average Inflation
(Percent change)



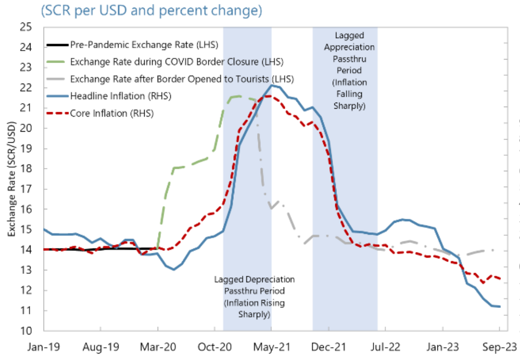
The steepest declines were observed in housing, electricity, and utilities, recreation and culture, and transport.

Inflation in Major Components
(Year-on-year percentage change, September 2023)



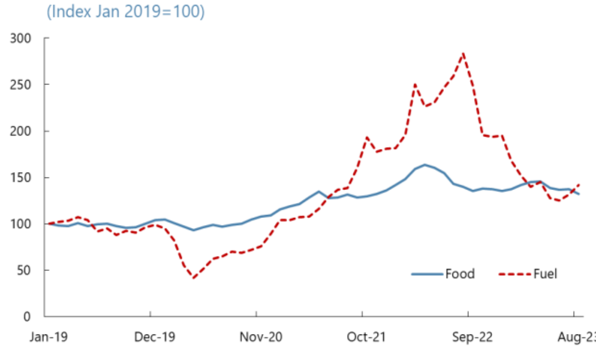
Both headline and core inflation have decreased. The moderation in prices is partly attributed to the stabilization of exchange rates, since most goods are imported abroad.

Exchange Rate and Inflation
(SCR per USD and percent change)



The decline in global fuel prices, since their peak in September 2022, has also placed downward pressure on transport, import, and utility costs.

Global Food and Fuel Prices
(Index Jan 2019=100)



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

POLICY DISCUSSIONS

Discussions focused on near and medium-term policies: ensuring macroeconomic stability and resilience in a changing international environment, addressing bottlenecks in government spending, rebuilding fiscal space, strengthening the monetary policy operating framework, and preserving financial stability.

A. Fiscal Policy

11. The primary fiscal balance is expected to be near zero in 2023—slightly contractionary compared to a deficit of 0.4 percent of GDP projected at program approval. Net lending is lower while projected revenue and expenses are broadly in line with program targets in nominal terms (lower GDP ratios are due to a statistical revision of nominal GDP). Strong business tax collection should more than offset weaker nontax revenues in 2023, but overall tax collection is forecast to be less than expected due to significant VAT refunds (linked to hotel construction and refurbishment). Despite delays in H1, external grant disbursements are expected to be largely in line with projections by end-year. The authorities expect recurrent spending to be in line with the 2023 mid-year revised budget. Wage and salary spending will likely remain contained (despite a 10 percent government wage increase[4]) due to difficulties in filling vacancies and lower provisioning for the 13th-month-based bonus. Capital spending will likely be under executed (by about 1 ppt of GDP), due mainly to weaknesses in project appraisal and selection.

Seychelles: Operations of the Central Government, 2023
(Millions of Seychelles rupees)

	2023	
	EFF/RSF approval	**First Review**
Revenue	**9899**	**9944**
Taxes	8393	8431
Grants	423	367
Other revenue	1083	1146
Expense	**9132**	**9515**
Wages and salaries	3305	3264
Purchase of goods and services	3557	3904
Interest	715	804
Transfers	1555	1542
Capital expenditure	**1407**	**1183**
Net lending, contingency	**175**	**53**
Primary balance	**-100**	**-3**
Overall balance	**-815**	**-807**
Financing	**815**	**807**
Domestic	-20	-106
Foreign	742	898
Other flows	93	15

Sources: Seychelles authorities and IMF staff estimates and projections.

12. Continued fiscal discipline will facilitate a reduction in the public debt-to-GDP ratio. In 2024, the fiscal stance will remain tight. Revenue collection is set to rise from an increase in the property tax rate and higher securities dealer's tax. The 2024 budget introduces significant changes to VAT registration, aiming to streamline the process and enhance refund efficiency, while completion of large tourism projects should reduce refunds and increase VAT collection. On the expenditure side, the full impact of the 10-percent salary increase granted in 2023 will be visible in the wage bill together with the move of cleaning services from goods and services to public wages. A reclassification of current grants from capital projects to goods and services will also shift the balance between budget lines within overall recurrent expenditure. Given legacy issues in public

[4] On April 1st, four allowances were consolidated in the basic salary and a 10-percent salary increase was applied on the consolidated salary for all public servants, but recruitment challenges in 2023 slightly reduce the projected wage bill, now increasing by about 1.3 percent of GDP. In 2024, the wage bill will encompass a full-scale 10-percent salary increase, with budget line reallocations further contributing to the increase.

investment management, a more realistic projection for capital expenditures, together with a one-off stamp duty windfall, are expected to increase the primary fiscal surplus to 1.1 percent in GDP in 2024 (0.9 ppt of GDP higher than projected at program approval).

13. In the medium term, revenue performance is expected to remain strong due to collection efforts on new taxes and levies together with implementation of program measures, including stronger tax compliance and collection due to ongoing digitalization efforts. As a result, the debt-to-GDP ratio will decline from 64.1 percent at end-2022 to 61.2 percent at end-2026 (end of the program).[5] The authorities aim to reduce the debt-to-GDP ratio to about 50 percent by 2029 by gradually increasing the primary surplus to 3 percent of GDP over the medium term.

14. With a view to continued strong program performance and enhancing prospects for macroeconomic stability and growth, fiscal policy discussions focused on several interwoven reform elements:

- **The authorities intend to continue their modernization agenda to contain current expenditure**. An expenditure review of the education sector by the World Bank has been finalized and an assessment of the health sector is ongoing. These will facilitate a broader functional review by June 2024 to identify business needs and redundant positions, complemented by a new Human Resource Management System (HRMS) by 2025. Overall, these efforts should facilitate streamlining of the wage bill. The authorities also intend to implement an IFMIS system in time for the 2026 budget to streamline financial operations, automate processes, create real-time access to financial data, and improve financial planning and management of financial resources.

- **Public investment reforms need to accelerate.** Increased investment, including in climate resilient infrastructure, will be necessary for continued growth. However, weaknesses in project selection and appraisal, together with delays in financing for foreign-funded projects, continue to affect capital expenditure execution. In the short term, the authorities will refine the criteria for categorizing "major" projects and reduce bottlenecks in the appraisal process. Going forward, climate-related considerations will need to be integrated into appraisals, and the procurement system will need to expand to facilitate Public-Private Partnerships (PPPs).

- **Targeting of social spending needs to be enhanced**. Social spending (about 6 percent of GDP in 2023) is fragmented and split across budget lines. With support from the World Bank, the government is working to address weaknesses in social targeting. Better targeting will first require the adoption of a revised socioeconomic needs assessment by the Agency of Social

[5] Debt-to-GDP is expected to increase by 0.3 percentage point of GDP in 2024 due to an increase in external guarantees for public infrastructure projects. Over the medium term, the government will continue to provide guarantees to the Development Bank of Seychelles, by an average of about 0.7 percent of GDP annually, as well as for some major projects in the pipeline.

Protection (ASP), creation of a social registry to better understand the profile of beneficiaries and better coordinate across MDAs, and a comprehensive review of ASP's internal controls.

- **Continued efforts will be needed to ensure robust revenue collection.** The business tax is expected to improve with better collection of the securities dealers' turnover tax. The 10-percent public salary increase is also expected to positively impact income tax. VAT collections are expected to rise in 2024 due to lower refunds together with significant changes to VAT registration aimed at streamlining the collection process and enhancing refund efficiency. Cabinet is expected to approve legislative amendments to streamline VAT exemptions by December 2023 (SB). To increase transparency on foregone revenues, a full report of tax expenditures on VAT and business tax and their cost in terms of foregone revenue is expected by December 2024 (SB).

- **Digitalization of customs administration will help improve compliance and collection.** The authorities confirmed that the enhancement of ASYCUDA World is progressing. The E-Manifest modules and Express Courier modules have been completed and deployed (SB for end-September 2023) along with the Excise Tax module. The completion of both E-payment and single window are due at the end of Q2 2024. The implementation of the Tax Management System (TMS) should help improve collection, management and, in the medium term, integration with other government systems. The authorities continue to seek technical assistance on transfer-pricing regulation and plan to implement a transfer pricing database to better assess risks. The authorities and staff concurred that the legal framework should be modified to better enforce sanctioning of the transfer-pricing regulation and enhance enforcement of the "arms' length" principle, which should result in lower revenue loss from transfer pricing/profit shifting.

B. Public Debt Management and Government Financing

15. Progress has been made in reestablishing debt sustainability and reducing debt vulnerabilities. Almost half (47 percent) of total public debt is external, of which about 72 percent are loans from multilateral creditors. Over 80 percent of external debt is on non-concessional terms, and average maturity is 19.6 years. However, the authorities were recently successful in securing concessional financing from the AfDB ($45 million) for a Governance and Economic Reforms Support Program. Financing needs have decreased since 2020. Public debt has been assessed as sustainable with high probability in June 2023, and is projected to decline from about 64 percent of GDP in 2022 to about 52 percent of GDP by 2028. Continued reduction in gross financing needs over the medium term should keep domestic bond financing at sustainable levels and balance of payments needs manageable.

Seychelles: Summary of Table on External Borrowing Program, 2023

PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	Present value of new debt, US mil 1/
Sources of debt financing	122	93
Concessional debt, of which 2/	45	24
Multilateral	45	24
Bilateral	0	0
Non-concessional debt, of which	77	70
Semi-concessional debt 3/	77	70
Commercial term 4/	0	0
Uses of debt financing	122	
Infrastructure	14	
Budget financing	108	
Memorandum items		
Indicative projections		
2024	103	
2025	112	

Sources: Seychelles authorities and IMF staff calculations.

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds a minimum threshold. The minimal is 35 percent.

3/ Debt with a positive grant element which does not meet the minimum grant element.

4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

16. Seychelles could face external financing challenges over the longer term as its high-income status further reduces access to concessional financing. To date, the authorities have been successful in engaging with multilateral creditors to secure external financing in the near term, albeit mostly on non-concessional terms. Recent hikes in global interest rates have increased debt servicing costs, including for loans from multilateral creditors. Annual net external financing averages 2 percent of GDP during 2023-26, dominated by multilateral creditors (including the EFF purchases and RSF disbursements). However, this flow shifts to annual net repayments of 1.3 percent of GDP during 2027-28 after both IMF arrangements have concluded. The authorities reiterated their desire to see a Multidimensional Vulnerability Index (MVI) for Small Island Developing States and vulnerable countries to be accepted within the UN framework and by international financial institutions to enable access to concessional financing.

17. Significant progress has been made to develop the domestic debt market as a stable source of financing, but more work remains to be done. 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 assets in 2021 to 11.6 percent in 2022. Consistent with the strategy of lengthening domestic debt maturity, 10-year treasury bonds were issued in June and September 2023, with average yields to maturity of 7.77 percent and 7.12 percent, respectively. To support the liquidity of bonds and increase the potential for greater domestic financing, the authorities will implement a secondary market mechanism for government securities based on the policy framework published in April

2023. The Government will initiate the framework to operate a buy-back facility for trading of government securities through commercial banks (MEFP ¶ 42) with the aim of starting the trading arrangement in 2024.

C. Monetary and Exchange Rate Policy

18. While low inflation indicates that price pressures remain contained, the CBS should remain vigilant of risks from global commodity market shocks and exchange rate volatility. The CBS policy rate has been held at 2 percent since mid-2021. Both headline and core inflation have been mostly negative over the past six months, with notable declines in the service sector, as well as in electricity, gas, and utilities. However, these developments are considered temporary and due partially to supply side effects. As such, the CBS should remain vigilant to inflation risks. Thus far, inflation expectation surveys suggest that inflation is at an inflection point but still anchored in the low single digits (2.7 percent expected for the next 12 months).[6] At the same time, the volatility of the rupee/US$ and rupee/Euro exchange rates has converged to pre-pandemic levels (Figure 3).

19. Substantial excess liquidity remaining from the pandemic period raises a concern. There is a potential for capital to move offshore due to the expansion of interest rate differentials vis-a-vis the Euro and the dollar. At the same time, the credit recovery is still nascent and there is space for faster growth, which would support liquidity absorption. The CBS has been slow to increase efforts to absorb the extra liquidity.[7] With the objective of realigning monetary policy implementation with the monetary policy framework, CBS is gradually increasing the intervention volume using the 7-day Deposit Auction Arrangement (DAA). As a result, the DAA interest rate reached 1.2 percent in September 2023, up from 0.5 percent observed up to January 2023, but remains below the monetary policy rate. The mission also recommended lengthening the auctioned deposits maturity to better assist liquidity absorption and reduce rollover risk. Following this recommendation, the authorities introduced longer maturity deposits in their DAA (up to 360 days) in October, without visible market disruptions. While the one-year deposit is instrumental for mopping up structural excess liquidity, the introduction of shorter maturities (one and two months) and maintaining the existing 7-day instrument will also be useful to determine short term rates. The CBS has committed to continue the liquidity absorption process through the DAA (MEFP ¶ 44). It is estimated that process will end in the first half of 2024.

20. The monetary policy operating framework needs to be strengthened to enhance CBS' response to inflationary pressures. A monetary policy framework based on interest rates as an operational target in Seychelles is in the early stages of development—having been delayed by the pandemic and subsequent price volatility. The Monetary Policy Rate (MPR) serves in principle as the key policy rate to signal the monetary policy stance. However, the interest rate transmission mechanism is weakened by the lack of market-based monetary policy instruments, nascent money

[6] According to the CBS Financial Indicators Expectations Survey for the Banking Sector – Q2 2023.

[7] Absorption of excess liquidity through credit growth tends to be slow in Seychelles given limited investment opportunities.

markets, and excess liquidity. To address this, the authorities are implementing an action plan based on Fund TA, which was published in the July 2023 Monetary Policy Report (structural benchmark). The action plan aims at a gradual strengthening of the monetary toolkit and the operational organization of the CBS. Main measures include enhancing monetary policy communication, improving modeling tools, introducing the use of reverse repos for liquidity absorption, and considering other instruments for long-term liquidity absorption.

21. Foreign exchange market conditions in the first half of the year allowed the CBS to intervene to accumulate reserves. FX interventions generally aim at smoothing out excessive volatility in the exchange rate, but CBS has also used seasonal windows of opportunity in the market to increase its reserve buffers (as committed under the program) while keeping a floating exchange rate. CBS net purchases amounted to €54.9 million in the first half of 2023 ($59.3 million, compared to $2.4 million in all of 2022) taking advantage of increased Euro liquidity as trade flows and tourism normalized.[8] While the authorities remain committed to a floating exchange rate regime, they recognize the need to build further international reserves as a buffer against external shocks. To help enhance market efficiency and increase interbank trading, the CBS will analyze putting in place a common FX negotiation platform.

22. The CBS balance sheet needs to be strengthened, and in this context the authorities have committed to key balance sheet strengthening measures. In recent years, the financial solvency of the CBS has been eroded by several structural operational elements, and by the impact of soft lending measures taken in the context of the pandemic. While CBS' net earnings are expected to stay positive in the near term, its balance sheet remains vulnerable to shocks and a structural recapitalization plan is in progress.[9] In this context, the authorities committed to retain 100 percent of distributable earnings every year until the capital target is achieved (compared to a previous fifty-fifty sharing rule with the treasury) as well as to undertake cost-recovery (e.g., from supervised entities) and cost-cutting exercises (MEFP ¶ 58). The dividend retention will start at the end of the current fiscal year and the work on cost rationalization is expected to take place in 2024. The new dividend retention rule is part of the reforms of the CBS Act and in line with best practice.

D. Financial Stability

23. The banking system remains stable, well capitalized, and liquid, but high NPLs suggest that credit risks are still present. The economic recovery is allowing banks to gradually deal with the legacy of the pandemic on their balance sheets, including through the normalization of credit growth. However, NPL ratios remain above historical levels (7.8 percent in September) and provisioning levels are low (20 percent of NPLs) due mainly to reliance on collateral.[10] One foreign-

[8] The CBS is committed to allocating FX reserves for fuel, essential goods, and medicine purchases and conduct FX interventions only with the commercial banks. FX interventions are currently limited to the spot market based on auctions.

[9] "Seychelles: Stress Testing the Central Bank Balance Sheet. MCM Technical Assistance Report". July 2023.

[10] The industry average for banks' large credit exposures is relatively high at 72 percent of core capital, typical for small markets, while loan dollarization fell slightly to 21.2 percent of the total, a level comparable to the pre-pandemic period.

owned large bank had been driving the system's NPL growth until early this year, but supervisors have now agreed on an NPL reduction plan with the bank owners which is expected to bring its NPLs to lower single digits in 2024. The mission urged the authorities to undertake similar exercises, including a reassessment of collateral and provisioning, in the rest of the banking system to make sure credit risk and loan classification best practices are consistently applied. This process will take until March 2024. A study of these issues with a forward-looking analysis was finalized in November (structural benchmark). The supervisory authorities need to maintain intense monitoring of banks' credit portfolios while preparing to implement structural policies to better prevent and manage crises.

24. To better deal with financial stability risks, the authorities are putting in place a stronger regulatory framework for crisis prevention and management while bank supervision is being upgraded. A new CBS Act strengthening the central bank's governance and institutional, personal, and financial autonomy, and The Bank Recovery and Resolution Bill, which will provide an enhanced crisis management framework, are both expected to be in place by end-March 2024 (structural benchmarks).[11] The CBS is also finalizing (i) the implementation of a new Credit Information System, (ii) the supporting legal framework for the Financial Stability Committee, and (iii) aligning the National Payment System with best practice.

25. Capacity development (CD) will remain a key factor for the authorities in supporting financial sector stability. Expected Fund CD to assist the authorities with operationalizing the financial stability framework will be essential in such areas as macroprudential policies, stress testing; and implementation of Emergency Liquidity Assistance as an effective lender-of-last-resort mechanism.

E. Other Structural Reforms

26. The restructuring of Air Seychelles and enhancements in public enterprise legislation are expected to reduce risks and improve governance, transparency, and monitoring of SOEs. As part of the operational restructuring of Air Seychelles, the ground handling assets in Seychelles Airport were transferred to the government in March 2023. Remaining steps are transferring those assets to the Seychelles Aviation Handling Company and then signing the lease agreement between the new company and Air Seychelles—expected to take place by December 2023. The new public enterprise legislation, discussed in the National Assembly in May 2023, provides a harmonized and coherent framework for the establishment, governance, and operation of SOEs. In accordance with the legislation and to ensure more transparency, the Public Enterprise Monitoring Commission (PEMC) published in July 2023 the SOE Annual Report for 2021 (SB end-June 2023). The PEMC will, through an independent audit firm, conduct governance audits and operational assessments of six key public enterprises by March 2024 (MEFP ¶ 38).

[11] The deadline was revised to account for the national Assembly's recess period and to give an appropriate timeframe to incorporate additional comments from the Fund.

27. Enhancing the transparency of beneficial ownership (BO) information is crucial to prevent misuse of the international business sector for money laundering and terrorist financing. As of end-July 2023, around 94 percent of the 43,710 international business companies (IBCs) in good standing have submitted information to the BO database (managed by the Financial Intelligence Unit). The authorities amended the BO regulations in April 2023 to provide more clarity and details in the identification of beneficial owners. The BO Act will be amended by December 2024 to broaden access to the central BO database to financial institutions and reporting institutions with AML/CFT obligations (new structural benchmark). This is critical to avoid potential reputational risks arising from the international business sector in Seychelles, which could affect correspondent banking relationships. As part of the new amendments and benefitting from a new digital platform, the registered agent will be given a specific time frame to rectify discrepancies that are identified during the inspection program (MEFP ¶ 69).[12]

28. The authorities are taking steps to increase private investment and promote medium-term growth. At the industry level, the terms-of-reference for a tourism study have been finalized with the aim of completing the study by end-June 2024 (structural benchmark). The aim of the study is to better understand the dynamics of the tourism sector and its benefit to the economy. At the national level, a broader plan is outlined in the National Development Strategy 2023-2027 which highlights (i) modernization of public service, (ii) transformative economy agenda (including for tourism, agriculture, and fisheries), (iii) improvement of public health, (iv) modernization of the education system, and (v) climate change resilience. The authorities have also taken measures to develop a digital payment system by launching an action plan in 2023Q1 to bolster awareness and prepare the country to move towards a cash-lite society.

29. Seychelles' commitments in the MEFP as continuous performance criteria related to Article VIII continue to be met.

F. Climate Change Mitigation and Adaptation

30. Seychelles has implemented RM1 and is advancing additional reform measures agreed under the RSF. The forthcoming National Development Strategy (NDS) 2023-2027 has integrated priority climate adaptation and mitigation objectives stipulated in the Nationally Determined Contribution (RM1, target September 2023). Specifically, the draft NDS designates Environmental Sustainability and Climate Change Resilience as one of its six priority areas. It also enumerates strategic interventions aimed at reducing economy-wide greenhouse gas emissions, such as e-mobility plans, and preparing for climate change adaptations. The NDS is set to be released to the public by the end of 2023. Looking ahead, the authorities are integrating climate adaptation and mitigation elements into its new draft building legislation, scheduled for submission to cabinet in early 2024 (RM2, target March 2024), assisted by the Seychelles Planning Authority.

[12] A new digital platform will be implemented in 2024 to provide direct and complete access to all supervisory authorities and law enforcement agencies to the central BO database.

31. The mission evaluated progress on reforms attached to future reviews. The mission discussed the progress of each RM and assessed the need for CD. The authorities have drafted an updated version of the Public Investment Management Policy, integrating climate change considerations into project selection criteria (RM3). The government appointed an internal advisor on climate change, responsible for overseeing various aspects of climate change, including public investment management and a climate finance strategy. Regarding climate resilience in the financial sector (RM5 and RM6), the CBS plans to request technical assistance from the IMF. The mission also discussed methods for tracking and monitoring climate-related government expenditures. While the draft NDS offers preliminary estimates, a more systematic approach is being developed as part of RM4, which focuses on climate budget tagging.

32. The authorities expressed concern about the high technical requirements associated with the RSF and the need for sustained support and expertise. The upcoming reform measures under the RSF present challenging requirements related to developing a public investment strategy, climate budget tagging, capital project appraisal, and the development of a climate financing strategy. Adequate external technical expertise to support the authorities will be needed to complete these medium-term reform measures. The authorities have begun to explore potential funding for an additional resident advisor on climate finance (linked to RM5), which is being complemented by staff efforts to identify potential candidates with the appropriate skill set and contribute to drafting a suitable terms-of-reference. Continued support from the IMF and development partners will also be essential, particularly with respect to bolstering public investment management and project selection (RM3) and budget tagging and climate finance tracking (RM4).

PROGRAM MODALITIES

33. New program targets are proposed for 2024 (MEFP Table 1). Revised targets are proposed as ITs and QPCs for March and June and new ITs proposed for September and December 2024. Compared to previous ITs, the targets related to the primary balance and total revenue have been adjusted upwards to reflect the overperformance in 2023 carried through 2024, while the target for net domestic financing of the government is proposed to be increased to compensate for less external financing. NIR targets for 2024 are proposed for upwards revision in line with the better-than-expected outcome in 2023 and the authorities' strategy to accumulate reserves to increase external buffers (the NIR target for December 2023 was left unchanged given uncertainty over tourism flows in a recovery period as well as expected seasonal FX pressures in the second half of the year). The targets for the net change in public and publicly guaranteed debt are proposed for upwards revision in line with the projected increase in external guarantees in 2024. The targets for priority social expenditure were marginally changed to reflect the authorities' revised projections.

34. New structural benchmarks are also being proposed (MEFP Table 2). The new SBs focus on (i) increasing transparency on tax expenditures and fiscal costs by compiling a full inventory of existing tax expenditures on the VAT and business tax (end-December 2024); (ii) improving capital expenditure execution by adopting reforms to strengthen the framework and capacity for appraising and selecting capital projects (end-June 2024); (iii) addressing CBS recapitalization needs in addition to safeguards assessment recommendations, by submitting amendments to the CBS Act to strengthen CBS governance and incorporate revisions related to the recapitalization of the CBS (end-March 2024); and (iv) advancing accuracy and accessibility of beneficial ownership information of entities created in Seychelles by further amending BO Act to broaden access to the central BO database (end-December 2024).

35. Upon successful approval of the first review, SDR 6.107 million and SDR 3.123 million will be disbursed under the EFF and RSF arrangements, respectively (Table 7). The resources under both arrangements will be used for budget support.

36. The EFF program is fully financed. EFF purchases under the first review will help close the 2023 financing gap. There are firm financing commitments for the next 12 months and good prospects for the remainder of the program period (Table 6). International reserves are projected to cover around 3.7 months of prospective imports by end-2023, with ongoing financial support from the Fund and other IFIs (World Bank $30 million; AfDB $58 million). Reserves are expected to reach around 4 months of import cover over the medium term. Program risks are moderate considering Seychelles' strong track record under a series of Fund-supported programs, commitments to strengthen fiscal risk management, and contingent planning under the program.

37. Seychelles' capacity to repay the Fund is adequate but remains subject to risks. The economic recovery which began 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 8 percent in 2025 (Table 8). This is higher than in some recent cases, reflecting Seychelles' relatively small GDP. The ratio of Fund credit to GIR is projected to peak at 20.9 percent in 2025. Fund exposure to Seychelles will remain high for an extended period.

38. An updated safeguards assessment is substantially completed. The assessment found that the CBS has continued to strengthen its safeguards framework since the 2021 assessment, including through implementing all previous recommendations. Legal reforms to further align governance and autonomy provisions with leading practices are in progress and should be enacted by end-March 2024 (structural benchmark). Financial reporting and external audits continue to adhere to international standards. Nonetheless, capacity constraints remain a key challenge that impacts several areas. A MoU between the CBS and the government on respective responsibilities for servicing financial obligations to the IMF was signed in October.

39. CD activities remain closely linked to the implementation of both EFF and RSF program priorities (Annex II). CD under the EFF will focus mainly on domestic revenue mobilization, priorities identified by the January 2023 PIMA assessment, and improvements in the monetary policy operational framework. Under the RSF, CD will focus on adopting green PFM and climate-sensitive PIM practices.

STAFF APPRAISAL

40. The Seychelles economy continues to recover from successive shocks and is gradually reverting to a pre-pandemic equilibrium. This shift is not without challenges. Tourist arrivals are increasing, but efforts have been required to rebuild airlinks or seek new clientele as traditional source markets faced economic downturn. Fiscal and external balances have improved, but in part due to transitory factors such as under-execution of capital projects and the substantial decline in commodity prices. While price and exchange rate stability have been recovered for the most part, there remains substantial excess liquidity in the banking system, which represents a concern given the potential for capital to move offshore in the wake of the expansion of interest rate differentials vis-a-vis the Euro and the dollar.

41. Restoration of fiscal and external buffers in the context of macroeconomic stability remains the central challenge for Seychelles over the medium term. As a small island state with a strong dependence on tourism and a heavy reliance on imports, Seychelles remains exceptionally vulnerable to shocks. While public debt is assessed as sustainable in the medium term, steady and growth-friendly fiscal consolidation will be needed to reduce vulnerability to debt and debt servicing shocks—particularly if Seychelles is less able to access concessional financing going forward. Staff welcomes authorities' commitments to build stronger fiscal and external buffers. Fiscal and the foreign exchange reserves targets have been revised upwards, locking in the higher-than-expected outcome in 2023. Adapting to and mitigating the effects of climate change also remains essential for sustained and inclusive growth.

42. The authorities are committed to maintaining fiscal discipline and enhancing the efficiency of revenue and expenditure administration. On the revenue side, preliminary assessments by FAD indicate that broad exemptions, especially in food and energy, tend to disproportionately favor higher-income groups. The government has committed to an inventory of VAT and business tax expenditures—building on existing commitments to increase transparency and account for tax expenditures as part of the annual budget process. Cabinet approval of legislative amendments to streamline the VAT are also on track for end-December, also including stricter voluntary declaration criteria and automatic refunds. Efforts also continue to modernize and simplify tax processes through process engineering and automation. The government has also committed to structural reforms to improve the selection of capital projects for the annual budget and their execution, as well as implementation of an IFMIS system in early 2025 to strengthen management of public finances. These measures should help ensure continued fiscal consolidation over the medium-term. Additional work will be necessary to improve the monitoring and targeting of social spending.

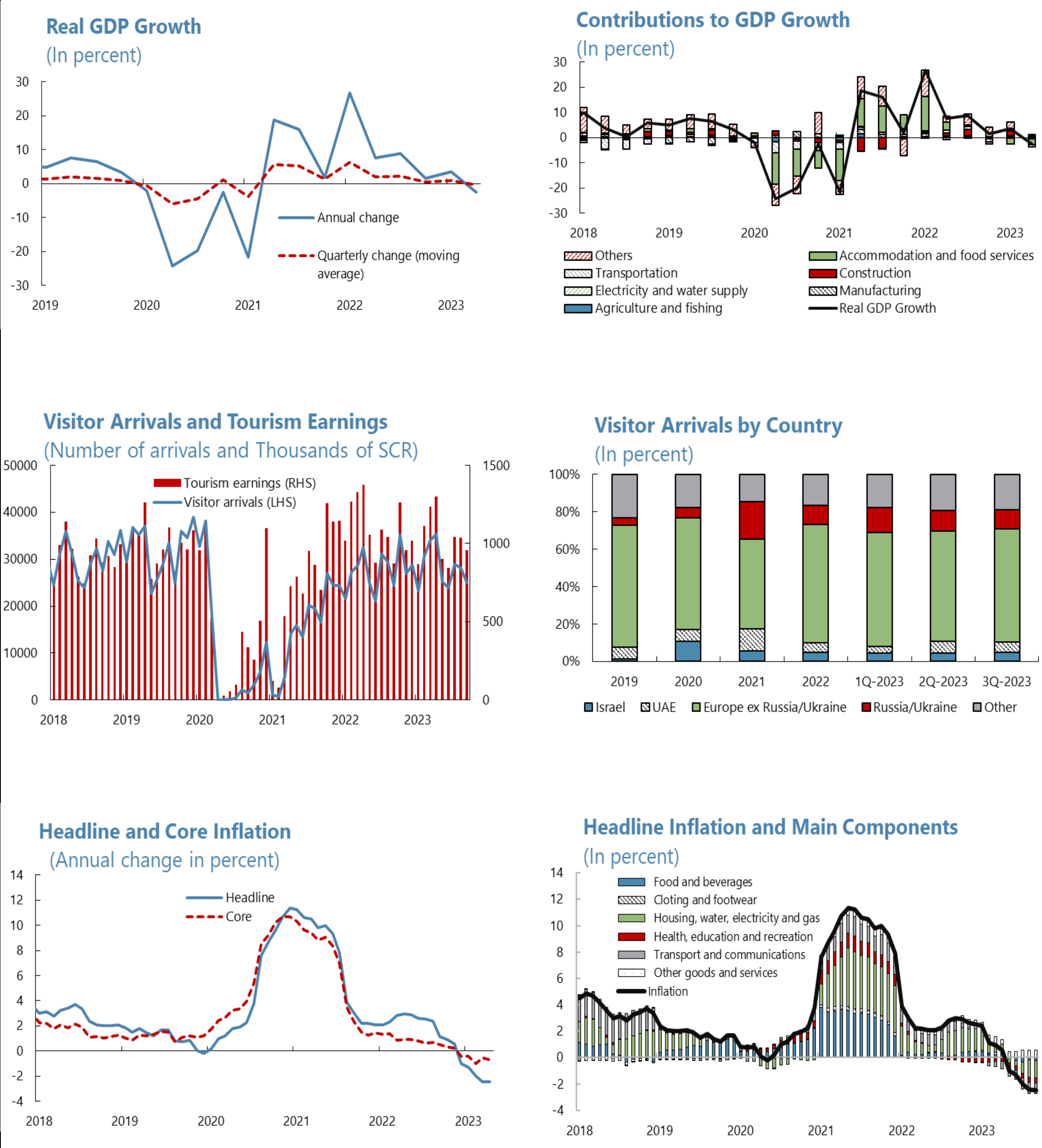
43. Measures to enhance the monetary policy framework are making good progress. The CBS published (in its July Monetary Policy Report) a plan and timeline for reform of monetary policy operations based on IMF CD recommendations. Additional CD has been requested with respect to the key reform of introducing repo arrangements. Staff and the authorities agreed on the need to continue draining excess liquidity, including through the recent introduction of longer maturity deposit instruments to enhance liquidity management. Once the excess liquidity absorption process concludes, the CBS should consider implementing a fixed rate full allotment method for its deposit auctions. The authorities remain vigilant against inflation risks, especially those related to external shocks, and are committed to foreign exchange interventions limited to accumulating reserves and smoothing out disorderly exchange rate fluctuations.

44. The authorities are proactively monitoring the financial system and are planning various reforms to strengthen its resilience. The CBS has restarted its onsite bank inspections to ensure credit risk is adequately reported and mitigated. The staff welcomes steps being taken to reduce NPLs, including collateral reassessments and provisioning for all banks. In addition, the legislative agenda strengthening the CBS Act and for a bank recovery and resolution framework will be instrumental in supporting Seychelles' resilience to financial crises. Several other legal reforms to strengthen the resilience and integrity of the financial system (including transparency of beneficial ownership information) are on track for enactment in 2024, and the Fund stands ready for subsequent steps to support a healthy financial market. Importantly, the authorities have committed to take measures to gradually bring CBS capital to a more solvent position.

45. Implementation of reforms under the RSF are on track, but the next 12 months will be challenging. As committed under the RSF, the forthcoming National Development Strategy incorporates the climate adaptation and mitigation objectives included in Seychelles' Nationally Defined Contribution (NDC). This is an important first step in ensuring climate change has a clearly defined status among other national priorities. In the months ahead, the authorities will need to revamp public investment management policy to account for climate issues in project selection, create and adopt a national climate financing strategy, and implement a framework of climate scenarios to assess long-term fiscal sustainability as part of the FY2025 budget process. The additional burden these measures and their subcomponents will place on limited staff resources at key agencies strongly suggests the need for additional external support and expertise. The authorities and staff will continue to collaborate on filling capacity gaps to ensure successful implementation of the RSF, and to ensuring continued CD from the Fund in critical areas.

46. Staff supports the authorities' request for completion of the first review of the arrangements under the EFF and the RSF. Staff also supports a disbursement totaling SDR 3.123 million (13.6 percent of quota) on the account of meeting the RSF reform measure (RM1). The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue the program's objectives. The capacity to repay the Fund is adequate but subject to risks. Risks to program implementation are manageable.

Figure 3. Seychelles: Recent Economic Developments

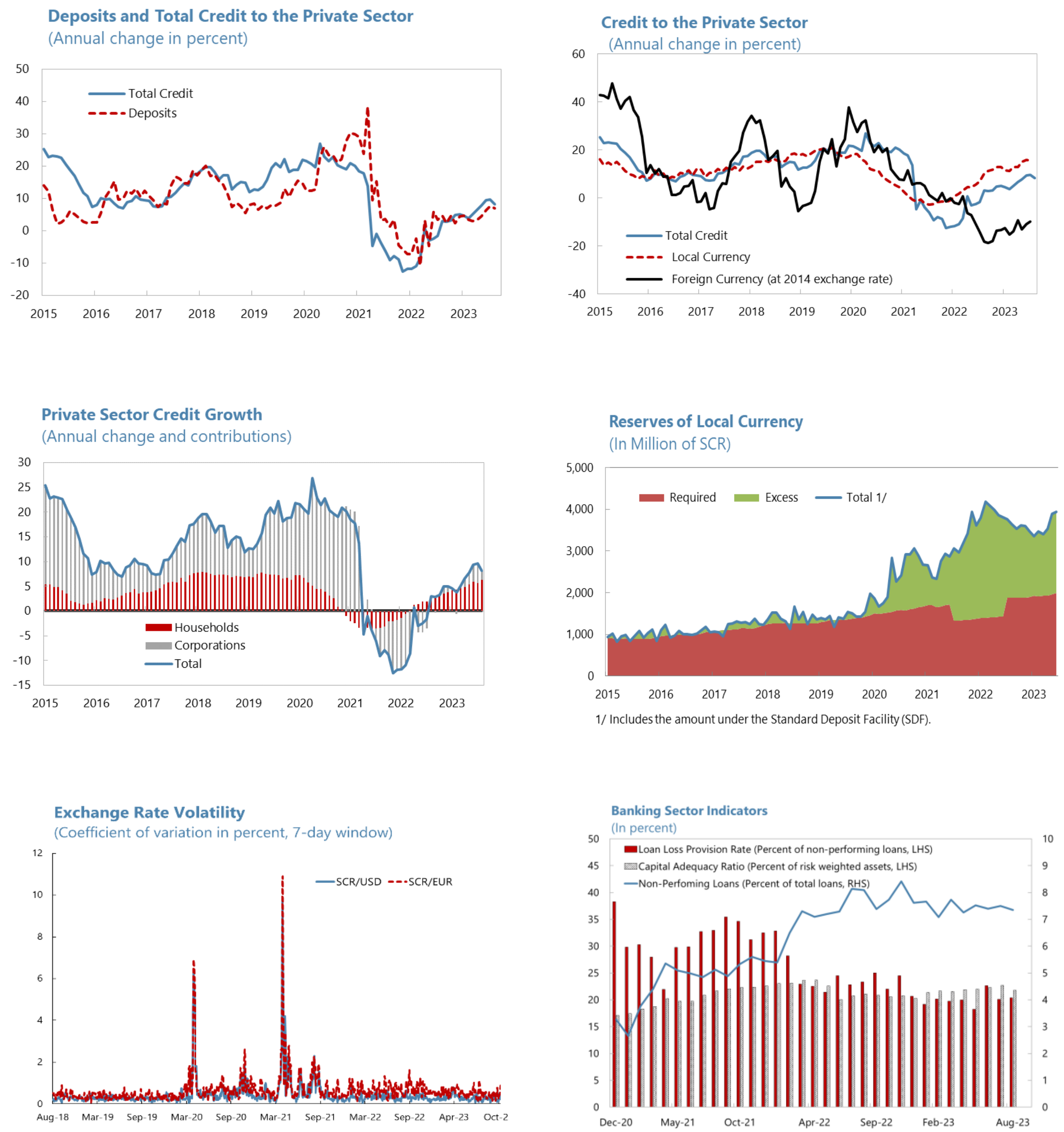


Sources: Haver Analytics, National Bureau of Statistics, and IMF staff estimates.

Figure 3. Seychelles: Recent Economic Developments (concluded)

Sources: Authorities data, National Bureau of Statistics, and IMF staff estimates.

Figure 4. Seychelles: Financial Sector Developments



Sources: Authorities data, National Bureau of Statistics, Central Bank of Seychelles, and IMF staff estimates.

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

	2020	2021	2022	2023		2024		2025	2026	2027	2028
	Act.		Prel.	Proj.		Proj.		Proj.			
				EFF approval	1st review	EFF approval	1st review				
				(Annual percent change, unless otherwise indicated)							
National income and prices											
Nominal GDP (millions of Seychelles rupees)	24,294	25,347	28,222	27,666	29,095	29,309	30,318	32,012	34,057	36,432	39,037
Real GDP (millions of Seychelles rupees)	23,810	24,410	26,593	23,952	27,604	24,943	28,695	29,822	30,983	32,178	33,411
Real GDP	-8.5	2.5	8.9	4.3	3.8	4.1	4.0	3.9	3.9	3.9	3.8
CPI (annual average)	1.2	9.8	2.6	1.4	-0.8	2.0	0.3	2.0	3.0	3.5	3.5
CPI (end-of-period)	3.8	7.9	2.5	2.2	-1.6	2.4	0.9	2.8	3.5	3.5	3.5
GDP deflator average	1.2	1.8	2.2	1.6	-0.7	1.7	0.2	1.6	2.4	3.0	3.2
Money and credit											
Broad money	27.0	-5.1	3.7	…	9.0	…	…	…	…	…	…
Reserve money (end-of-period)	40.4	11.1	-3.0	…	9.0	…	…	…	…	…	…
Velocity (GDP/broad money)	1.0	1.1	1.2	…	1.1	…	…	…	…	…	…
Money multiplier (broad money/reserve money)	3.9	3.3	3.5	…	3.5	…	…	…	…	…	…
Credit to the private sector	20.2	-11.9	5.0	7.3	8.4	8.0	8.8	8.2	7.9	7.8	7.4
				(Percent of GDP, unless otherwise indicated)							
Savings-Investment balance											
External savings	12.3	10.1	7.1	9.5	5.4	10.1	7.1	7.4	7.9	8.6	9.2
Gross national savings	9.4	15.4	15.7	16.2	19.3	16.7	18.9	19.5	19.0	18.1	17.4
Of which: government savings	-11.9	-3.0	1.0	1.4	0.4	2.5	3.0	4.3	5.2	5.7	6.0
private savings	21.3	18.4	14.7	14.8	18.9	14.2	15.9	15.3	13.8	12.4	11.4
Gross investment	21.8	25.5	22.8	25.7	24.8	26.8	25.8	26.7	26.7	26.5	26.4
Of which: public investment [1]	4.3	5.2	2.4	5.2	4.3	6.3	5.3	6.1	6.1	5.9	5.8
private investment	17.5	20.3	20.4	20.5	20.5	20.5	20.5	20.6	20.6	20.6	20.6
Private consumption	43.6	45.9	49.7	45.6	43.0	45.3	43.5	45.6	46.6	47.9	49.1
				(Percent of GDP)							
Government budget											
Total revenue, excluding grants	29.5	30.2	30.8	34.3	32.9	34.8	34.5	34.5	34.5	34.2	33.9
Expenditure and net lending	47.1	38.8	32.7	38.7	37.0	38.8	37.2	36.8	35.8	34.3	33.5
Current expenditure	41.3	33.5	29.8	33.0	32.7	32.3	31.6	30.4	29.4	28.6	27.9
Capital expenditure [1]	4.3	5.2	2.4	5.2	4.2	6.3	5.3	6.1	6.1	5.9	5.8
Overall balance, including grants	-16.8	-5.5	-1.3	-2.9	-2.8	-2.5	-1.5	-1.1	-0.5	0.6	1.0
Primary balance	-13.4	-2.9	0.8	-0.4	0.0	0.2	1.1	1.1	1.6	2.5	2.9
Total government and government-guaranteed debt [2]	81.1	73.9	64.1	67.6	64.4	66.0	65.6	64.3	61.2	56.1	51.3
External sector											
Current account balance including official transfers											
(in percent of GDP)	-12.3	-10.1	-7.1	-9.5	-5.4	-10.1	-7.1	-7.4	-7.9	-8.6	-9.2
Total external debt outstanding (millions of U.S. dollars) [3]	5,049	5,261	5,391	5,584	5,583	5,791	5,825	6,029	6,157	6,252	6,111
(percent of GDP)	365.8	350.6	272.7	285.0	267.9	279.0	277.6	273.6	262.6	249.3	227.4
Terms of trade (-=deterioration)	10.7	-5.0	-8.4	1.8	-2.2	6.4	1.5	5.6	0.0	0.0	0.0
Gross official reserves (end of year, millions of U.S. dollars)	575	702	639	655	733	700	791	843	904	953	997
Months of imports, c.i.f.	3.8	3.7	3.4	3.4	3.7	3.5	3.7	3.8	3.9	4.0	4.1
In percent of Assessing Reserve Adequacy (ARA) metric	112	121	101	100	110	102	112	116	122	126	128
Exchange rate											
Seychelles rupees per US$1 (end-of-period)	21.0	14.7	14.1	…	…	…	…	…	…	…	…
Seychelles rupees per US$1 (period average)	17.6	16.9	14.3	…	…	…	…	…	…	…	…

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.

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

	2020	2021	2022	2023		2024		2025	2026	2027	2028
	Act.		Prel.	Proj.		Proj.		Proj.			
				EFF approval	1st review	EFF approval	1st review				
	(Millions of US dollars, unless otherwise indicated)										
Current account balance (+ surplus; - deficit)	-170	-151	-140	-187	-113	-210	-148	-162	-185	-216	-248
(percent of GDP)	-12.3	-10.1	-7.1	-9.5	-5.4	-10.1	-7.1	-7.4	-7.9	-8.6	-9.2
Balance of goods and services (+ surplus; - deficit)	-92	-70	-45	-83	-5	-91	-20	-57	-59	-75	-92
Exports of goods	473	516	563	565	588	608	647	684	711	738	769
Of which: oil re-exports	149	162	193	172	177	188	181	198	199	200	208
Of which: tuna exports	252	276	283	306	300	313	315	326	339	354	375
Imports of goods	832	1,023	1,294	1,265	1,294	1,290	1,363	1,447	1,494	1,547	1,610
Of which: oil imports	144	197	299	270	271	268	282	282	284	286	297
Exports of services	767	1,235	1,681	1,507	1,688	1,599	1,728	1,794	1,864	1,946	2,030
Of which: tourism earnings	327	588	932	854	937	910	976	1,015	1,056	1,098	1,143
Imports of services	500	798	995	890	987	1,008	1,032	1,088	1,141	1,212	1,282
Balance on primary income (+ surplus; - deficit)	-64	-81	-79	-92	-98	-104	-113	-94	-112	-125	-133
Of which: interest due	30	28	27	30	36	34	43	46	56	59	51
transfers of profits and dividends	11	4	8	8	8	8	8	8	8	8	20
Balance on secondary income (+ surplus; - deficit)	-13	0	-15	-12	-10	-16	-15	-11	-14	-16	-23
Of which: general government, net	18	31	15	26	27	20	17	18	17	15	13
Capital account	21	24	10	17	13	24	21	21	14	15	15
Financial account [1]	-93	-207	-55	-175	-183	-216	-171	-165	-234	-266	-293
Direct investment, net	-135	-160	-226	-219	-235	-241	-244	-322	-342	-369	-391
Abroad	-7	-7	-37	-37	-36	-43	-37	-43	-50	-57	-65
In Seychelles	128	153	190	182	199	199	207	279	293	312	326
Of which: offshore sector	0	0	0	0	0	0	0	0	0	0	0
Portfolio investment, net	97	-13	5	19	-43	16	-43	29	5	5	5
Other investment, net	-54	-34	166	25	95	9	117	128	104	98	94
Government and government-guaranteed	1	-37	-3	-43	-55	-48	-18	-28	-15	11	10
Disbursements	35	73	43	93	102	101	70	74	62	23	9
Project loans	4	9	5	16	14	42	24	49	37	13	9
Program loans	31	64	38	77	88	59	46	25	25	10	0
World Bank	21	44	25	32	30	29	16	15	15	0	0
African Development Bank	10	20	0	45	58	10	10	10	10	0	0
Others	0	0	13	0	0	20	20	0	0	10	0
SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Amortization	-36	-36	-40	-50	-47	-53	-52	-46	-47	-34	-34
Others	-55	3	168	68	149	57	135	156	118	87	84
Net errors and omissions	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-56	80	-75	6	84	30	43	23	62	65	60
Financing	56	-80	75	-6	-84	-30	-43	-23	-62	-65	-60
Change in net international reserves (increase: +)	-56	80	-75	6	84	30	43	23	62	65	60
Change in gross official reserves (without RSF, increase: +)	-32	143	-62	16	89	46	42	30	58	49	44
Change in liabilities to IMF, net (without RSF)	25	63	12	10	5	15	-1	7	-4	-16	-17
Purchases/drawings	32	68	17	21	16	33	16	16	8	0	0
Repurchases/repayments	7	6	5	11	11	18	18	9	12	16	17
Financing gap	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit RSF					4		17	21	4	0	0
Change in gross official reserves (with RSF, increase: +)					93		59	51	62	49	44
Memorandum items:											
Exports G&S growth, percent	-41	41	28	-8	1	7	4	4	4	4	4
Tourism growth, percent	-62	80	58	-8	1	7	4	4	4	4	4
Exports of goods volume growth, percent	18	-16	-14	3	6	15	11	13	3	3	3
Imports G&S growth, percent	-34	37	26	-6	0	7	5	6	4	5	5
Imports of goods volume growth, percent	-19	0	9	-1	4	3	5	7	4	4	3
Exports G&S, percent of GDP	90	117	113	106	109	106	113	112	110	107	104
Imports G&S, percent of GDP	97	121	116	110	109	111	114	115	112	110	108
FDI, percent of GDP	10	11	11	11	11	12	12	15	15	15	15
Gross official reserves with RSF (stock, e.o.p.)[2]	575	702	639	655	733	700	791	843	904	953	997
(Months of imports of goods & services)	3.8	3.7	3.4	3.4	3.7	3.5	3.7	3.8	3.9	4.0	4.1
Percentage of IMF reserve adequacy metric	112	121	101	100	110	102	112	116	122	126	128
Gross official reserves without RSF (stock, e.o.p.)[2]					728		770	801	858	907	951
(Months of imports of goods & services)					3.7		3.6	3.6	3.7	3.8	3.9
Percentage of IMF reserve adequacy metric					109		109	110	115	120	122
Government and government-guaranteed external debt	489	575	582	638	642	707	711	787	800	761	717
(Percent of GDP)	42	38	29	33	31	34	34	36	34	30	27
GDP (Millions of U.S. dollars)	1,380	1,501	1,977	1,959	2,084	2,076	2,098	2,204	2,345	2,508	2,687

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 [1]
(Millions of Seychelles Rupees)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
	Act.		Prel.	Proj.		Proj.		Proj.			
				EFF approval	1st review	EFF approval	1st review				
	(Millions of Seychelles rupees)										
Total revenue and grants	7,543	8,367	8,844	9,899	9,944	10,647	10,836	11,427	11,994	12,727	13,466
Total revenue	7,156	7,667	8,698	9,476	9,577	10,196	10,472	11,046	11,737	12,476	13,243
Tax	6,369	6,721	7,428	8,393	8,431	9,121	9,190	9,889	10,550	11,283	12,039
Personal income tax	1,023	1,030	1,079	1,182	1,215	1,254	1,285	1,357	1,453	1,565	1,671
Trade tax	260	226	302	347	336	362	350	364	385	409	431
Excise tax	1,268	1,207	1,416	1,479	1,476	1,551	1,550	1,618	1,713	1,820	1,934
Goods and services tax (GST) / VAT	2,117	2,326	2,951	3,179	3,113	3,431	3,367	3,602	3,822	4,111	4,390
Business tax	1,204	1,457	1,214	1,543	1,618	1,777	1,764	2,034	2,205	2,343	2,501
Corporate Social Responsibility tax (CSR)	102	61	10	0	6	0	0	0	0	0	0
Marketing tourism tax (MTT)	62	60	81	87	88	92	91	97	102	109	117
Property tax	0	45	46	29	36	59	73	74	75	77	79
Other	334	310	328	545	544	594	710	743	794	850	916
Nontax	787	945	1,270	1,083	1,146	1,075	1,282	1,157	1,187	1,194	1,204
Fees and charges	263	366	386	394	423	408	420	438	462	460	465
Dividends from parastatals	414	441	757	560	580	543	587	603	612	614	617
Other	110	138	127	35	142	34	275	116	113	120	122
External grants	387	700	146	423	367	451	364	381	257	251	223
Expenditure and net lending	11,440	9,843	9,225	10,714	10,751	11,374	11,277	11,794	12,177	12,512	13,084
Current expenditure	10,037	8,496	8,409	9,132	9,515	9,470	9,585	9,738	10,022	10,404	10,889
Primary current expenditure	9,397	7,757	7,813	8,417	8,710	8,686	8,812	9,024	9,298	9,707	10,125
Wages and salaries [2]	2,845	2,760	2,792	3,305	3,264	3,542	3,544	3,663	3,773	3,892	4,028
Goods and services [2]	2,915	2,827	3,063	3,557	3,904	3,580	3,685	3,724	3,796	3,967	4,110
Transfers [2]	3,607	2,123	1,915	1,542	1,542	1,550	1,584	1,636	1,729	1,848	1,987
Social program of central government [4]	1,512	468	268	294	294	278	284	293	300	351	376
Transfers to public sector from central government	435	240	277	45	45	37	48	51	52	36	37
Benefits and programs of Social Security Fund [4]	1,660	1,415	1,370	1,203	1,203	1,235	1,252	1,293	1,377	1,461	1,574
Other	31	46	43	13	0	14	0	0	0	0	0
Interest due	640	739	596	715	804	784	772	714	724	697	764
Foreign interest	292	259	209	158	241	178	322	343	363	342	332
Domestic interest	348	480	388	557	563	605	451	371	361	355	433
Capital expenditure	1,032	1,248	674	1,407	1,183	1,842	1,594	1,890	2,001	2,139	2,246
Domestically financed	599	394	462	982	859	907	973	941	1,335	1,737	1,898
Foreign financed	432	853	212	425	324	936	621	949	666	402	348
Net lending	222	41	-15	125	3	-26	23	116	104	-81	-102
Contingency	149	58	35	50	50	88	75	50	50	50	50
Primary balance	-3,257	-736	214.9	-100	-3	56	332	347	541	912	1,147
Overall balance, commitment basis [3]	-3,897	-1,475	-381	-815	-807	-728	-441	-367	-183	215	382
Change in float	-189	86	5	0	1	0	0	0	0	0	0
Overall balance, cash basis (after grants)	-4,086	-1,390	-377	-815	-806	-728	-441	-367	-183	215	382
Financing	4,086	1,390	377	815	865	728	683	673	244	-215	-382
Foreign financing	652	1,480	-20	742	898	894	490	811	213	-394	-612
Disbursements	1,176	2,118	618	1,599	1,709	1,898	1,496	1,622	1,072	330	125
Project loans	46	153	139	220	190	594	347	714	535	189	125
Program/budget support	1,130	1,965	479	1,379	1,519	1,304	1,149	908	537	141	0
Of which RSF					58		242	306	61	0	0
Scheduled amortization	-523	-639	-639	-857	-811	-1,005	-1,007	-811	-859	-724	-737
Of which Paris Club buy-back											
Domestic financing, net	3,194	-27	380	-20	-48	-256	180	-151	18	166	217
Bank financing	2,706	-192	378	-18	-37	-230	186	-106	22	150	195
CBS	1,071	-781	681	0	0	0	0	0	0	0	0
Commercial banks	1,635	589	-304	-18	-37	-230	186	-106	22	150	195
Nonbank financing	488	165	2	-2	-11	-26	-6	-46	-4	17	22
Privatization and long-term lease of fixed assets	63	72	81	93	15	90	13	13	13	13	13
Increase in government assets					58		242	306	61	0	0
Of which RSF					58		242	306	61	0	0
Statistical discrepancy	176	-90	-249	0	0	0	0	0	0	0	0
Memorandum item:											
Total social spending [4]	…	1,550	1,530	1,780	1,774	1,782	1,835	1,882	1,971	2,035	2,103

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

[1] Data include the central government and the social security system, from the 1st review and going forward.

[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 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.		Proj.			Proj.		
				EFF approval	1st review	EFF approval	1st review				
	(Percent of GDP, unless otherwise indicated)										
Total revenue and grants	31.0	33.0	31.3	35.8	34.2	36.3	35.7	35.7	35.2	34.9	34.5
Total revenue	29.5	30.2	30.8	34.3	32.9	34.8	34.5	34.5	34.5	34.2	33.9
Tax	26.2	26.5	26.3	30.3	29.0	31.1	30.3	30.9	31.0	31.0	30.8
Personal income tax	4.2	4.1	3.8	4.3	4.2	4.3	4.2	4.2	4.3	4.3	4.3
Trade tax	1.1	0.9	1.1	1.3	1.2	1.2	1.2	1.1	1.1	1.1	1.1
Excise tax	5.2	4.8	5.0	5.3	5.1	5.3	5.1	5.1	5.0	5.0	5.0
Goods and services tax (GST) / VAT	8.7	9.2	10.5	11.5	10.7	11.7	11.1	11.3	11.2	11.3	11.2
Business tax	5.0	5.7	4.3	5.6	5.6	6.1	5.8	6.4	6.5	6.4	6.4
Corporate Social Responsibility Tax (CSR)	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Marketing Tourism Tax (MTT)	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Property tax	0.0	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.4	1.2	1.2	2.0	1.9	2.0	2.3	2.3	2.3	2.3	2.3
Nontax	3.2	3.7	4.5	3.9	3.9	3.7	4.2	3.6	3.5	3.3	3.1
Fees and charges	1.1	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.2
Dividends from parastatals	1.7	1.7	2.7	2.0	2.0	1.9	1.9	1.9	1.8	1.7	1.6
Other	0.5	0.5	0.4	0.1	0.5	0.1	0.9	0.4	0.3	0.3	0.3
External grants	1.6	2.8	0.5	1.5	1.3	1.5	1.2	1.2	0.8	0.7	0.6
Expenditure and net lending	47.1	38.8	32.7	38.7	37.0	38.8	37.2	36.8	35.8	34.3	33.5
Current expenditure	41.3	33.5	29.8	33.0	32.7	32.3	31.6	30.4	29.4	28.6	27.9
Primary current expenditure	38.7	30.6	27.7	30.4	29.9	29.6	29.1	28.2	27.3	26.6	25.9
Wages and salaries [2]	11.7	10.9	9.9	11.9	11.2	12.1	11.7	11.4	11.1	10.7	10.3
Goods and services [2]	12.0	11.2	10.9	12.9	13.4	12.2	12.2	11.6	11.1	10.9	10.5
Transfers [2]	14.8	8.4	6.8	5.6	5.3	5.3	5.2	5.1	5.1	5.1	5.1
Social program of central government [4]	6.2	1.8	0.9	1.1	1.0	0.9	0.9	0.9	0.9	1.0	1.0
Transfers to public sector from central government	1.8	0.9	1.0	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1
Benefits and programs of Social Security Fund [4]	6.8	5.6	4.9	4.3	4.1	4.2	4.1	4.0	4.0	4.0	4.0
Other	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest due	2.6	2.9	2.1	2.6	2.8	2.7	2.5	2.2	2.1	1.9	2.0
Foreign interest	1.2	1.0	0.7	0.6	0.8	0.6	1.1	1.1	1.1	0.9	0.8
Domestic interest	1.4	1.9	1.4	2.0	1.9	2.1	1.5	1.2	1.1	1.0	1.1
Capital expenditure	4.2	4.9	2.4	5.1	4.1	6.3	5.3	5.9	5.9	5.9	5.8
Domestically financed	2.5	1.6	1.6	3.5	3.0	3.1	3.2	2.9	3.9	4.8	4.9
Foreign financed	1.8	3.4	0.8	1.5	1.1	3.2	2.0	3.0	2.0	1.1	0.9
Net lending	0.9	0.2	-0.1	0.5	0.0	-0.1	0.1	0.4	0.3	-0.2	-0.3
Contingency	0.6	0.2	0.1	0.2	0.2	0.3	0.2	0.2	0.1	0.1	0.1
Primary balance	-13.4	-2.9	0.8	-0.4	0.0	0.2	1.1	1.1	1.6	2.5	2.9
Overall balance, commitment basis [3]	-16.0	-5.8	-1.4	-2.9	-2.8	-2.5	-1.5	-1.1	-0.5	0.6	1.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	-0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	-16.8	-5.5	-1.3	-2.9	-2.8	-2.5	-1.5	-1.1	-0.5	0.6	1.0
Financing	16.8	5.5	1.3	2.9	3.0	2.5	2.3	2.1	0.7	-0.6	-1.0
Foreign financing	2.7	5.8	-0.1	2.7	3.1	3.0	1.6	2.5	0.6	-1.1	-1.6
Disbursements	4.8	8.4	2.2	5.8	5.9	6.5	4.9	5.1	3.1	0.9	0.3
Project loans	0.2	0.6	0.5	0.8	0.7	2.0	1.1	2.2	1.6	0.5	0.3
Program/budget support	4.7	7.8	1.7	5.0	5.2	4.4	3.8	2.8	1.6	0.4	0.0
Of which RSF					0.2		0.8	1.0	0.2	0.0	0.0
Scheduled amortization	-2.2	-2.5	-2.3	-3.1	-2.8	-3.4	-3.3	-2.5	-2.5	-2.0	-1.9
Of which Paris Club buy-back											
Domestic financing, net	13.1	-0.1	1.3	-0.1	-0.2	-0.9	0.6	-0.5	0.1	0.5	0.6
Bank financing	11.1	-0.8	1.3	-0.1	-0.1	-0.8	0.6	-0.3	0.1	0.4	0.5
CBS	4.4	-3.1	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	6.7	2.3	-1.1	-0.1	-0.1	-0.8	0.6	-0.3	0.1	0.4	0.5
Nonbank	2.0	0.7	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.1
Privatization and long-term lease of fixed assets	0.3	0.3	0.3	0.3	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Increase in government assets					0.2		0.8	1.0	0.2	0.0	0.0
Of which RSF					0.2		0.8	1.0	0.2	0.0	0.0
Statistical discrepancy	0.7	-0.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Nominal GDP (millions of Seychelles Rupees)	24,294	25,347	28,222	27,666	29,095	29,309	30,318	32,012	34,057	36,432	39,037
Total social spending [4]	…	6.1	5.4	6.4	6.1	6.1	6.1	5.9	5.8	5.6	5.4

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

[1] Data include the central government and the social security system, from the 1st review and going forward.

[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, 2018-26

	2018	2019	2020	2021	2022	2023			2024	2025	2026
						Mar	Jun	Dec			
	Act.					Act.		Proj.	Proj.		
	(Millions of Seychelles rupees)										
Depository corporations survey											
Net foreign assets	11,787	12,486	18,596	18,815	18,575	19,804	19,411	20,202	21,606	22,618	23,675
Central bank	7,086	7,645	11,427	9,519	8,467	8,793	9,392	9,905	10,943	11,744	12,643
Other depository corporations	4,700	4,841	7,169	9,295	10,108	11,010	10,020	10,298	10,664	10,874	11,031
Net domestic assets	5,328	7,008	6,157	4,678	5,785	4,902	5,532	6,339	6,741	7,091	7,982
Domestic credit	8,620	10,562	14,587	13,522	14,750	14,006	14,568	15,423	16,244	16,713	17,602
Net claims on the government	1,699	1,882	4,175	4,473	4,943	4,275	4,455	4,848	4,792	4,381	4,342
Of which: Government deposits at the Central Bank	-2,829	-2,513	-1,638	-2,417	-1,801	-2,173	-1,980	-1,801	-1,801	-1,801	-1,801
Of which: Change in monetary debt [1]	394.1	219.2	184.0	70.0	0.0	0.0	0.0	0.0	...	...	...
Credit to the economy	6,921	8,680	10,413	9,049	9,807	9,731	10,113	10,575	11,451	12,332	13,260
Of which: credit to the private sector	6,727	8,229	9,890	8,708	9,142	9,127	9,347	9,910	10,786	11,667	12,595
Other items, net	-3,292	-3,554	-8,430	-8,844	-8,965	-9,104	-9,036	-9,084	-9,502	-9,622	-9,619
Broad money	17,115	19,494	24,753	23,492	24,360	24,706	24,943	26,542	28,348	29,710	31,657
Currency in circulation	1,169	1,228	1,460	1,500	1,389	1,350	1,304	1,423	1,424	1,408	1,500
Foreign currency deposits	7,060	7,987	11,390	9,447	9,833	10,221	9,765	10,376	11,122	11,691	12,457
Local currency deposits	8,886	10,278	11,903	12,545	13,138	13,135	13,874	14,743	15,802	16,611	17,700
Central bank											
Net foreign assets	7,086	7,645	11,427	9,519	8,467	8,793	9,392	9,905	10,943	11,744	12,643
Foreign assets	7,731	8,191	12,144	10,361	9,166	9,477	10,081	10,469	11,518	12,322	13,222
Foreign liabilities	645	545	716	841	699	684	689	564	575	578	578
Net domestic assets	-3,366	-3,081	-5,020	-2,399	-1,557	-2,032	-2,055	-2,376	-2,902	-3,317	-3,664
Domestic credit	-2,651	-2,318	-1,121	-1,222	-859	-1,479	-1,579	-1,627	-1,935	-2,288	-2,637
Government (net)	-1,644	-1,328	-453	-1,225	-603	-975	-782	-603	-603	-603	-603
Other depository corporations (net)	-845	-873	-503	189	-30	-338	-670	-795	-1,098	-1,444	-1,786
Other (parastatals)	-162	-117	-166	-185	-226	-166	-126	-230	-234	-241	-249
Other items, net	-716	-763	-3,898	-1,177	-698	-553	-476	-749	-966	-1,029	-1,027
Reserve money	3,720	4,564	6,408	7,120	6,910	6,761	7,336	7,528	8,041	8,427	8,979
Currency in circulation	1,373	1,510	1,729	1,770	1,658	1,592	1,548	1,692	1,692	1,677	1,769
Commercial bank reserves	2,347	3,054	4,678	5,350	5,252	5,169	5,788	5,836	6,348	6,751	7,211
Of which: required reserves in foreign currency	962	1,057	1,588	1,711	1,741	1,748	1,827	1,941	1,524	1,602	1,707
required reserves in domestic currency	1,267	1,462	1,661	1,379	1,888	1,920	1,991	2,074	2,217	2,330	2,481
Memorandum items:											
Gross official reserves (millions of U.S. dollars)	551	581	559	702	645	689	727	733	791	843	904
Foreign currency deposits (millions of U.S. dollars)	503	567	542	643	696	803	855	730	768	803	855
Broad money growth (12–month percent change)	7.7	13.9	27.0	-5.1	3.7	2.4	5.6	9.0	6.8	4.8	6.6
Credit to the private sector (12–month percent change)	11.5	22.3	20.2	-11.9	5.0	5.1	9.4	8.4	8.8	8.2	7.9
Reserve money (end-of-period; 12–month percent change)	4.5	22.7	40.4	11.1	-3.0	-9.5	6.2	9.0	6.8	4.8	6.6
Money multiplier (broad money/reserve money)	4.6	4.3	3.9	3.3	3.5	3.7	3.4	3.5	3.5	3.5	3.5
Velocity (GDP/broad money; end-of-period)	1.5	1.3	1.0	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.1

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, 2018–23

	2018	2019	2020	2021	2022	2023		
						Mar	Jun	Sep
	(Percent, end-of-period)							
Capital adequacy								
Regulatory capital to risk weighted assets	20.5	19.5	17.1	22.7	20.3	21.5	22.3	21.7
Regulatory tier 1 capital to risk weighted assets	16.8	16.2	14.1	17.2	15.3	18.0	18.4	16.9
Capital to assets (net worth)	10.1	9.9	8.4	9.2	8.6	9.1	9.4	9.5
Net tangible capitalization [1]	10.1	10.0	8.5	9.3	8.7	9.2	9.5	9.6
Asset quality								
Foreign exchange loans to total loans	24.2	26.0	36.4	27.9	24.4	22.7	21.7	20.6
Non-performing loans to gross loans	3.5	2.7	3.3	5.5	7.6	7.7	7.4	7.8
Provision as percentage of non-performing loans	19.2	25.1	38.3	32.5	20.7	19.7	22.6	20.0
Earnings and profitability								
Return on assets (annualized)	3.7	2.5	1.0	2.6	2.2	2.2	3.5	2.3
Return on equity (annualized)	35.7	24.0	11.5	28.1	25.4	24.0	37.8	24.3
Interest margin to gross income	54.5	62.6	58.3	51.8	57.2	63.6	61.1	64.3
Noninterest expense to gross income	55.9	57.7	55.3	56.0	56.5	53.4	46.1	51.0
Net interest margin (annualized) [2]	4.2	9.4	7.4	7.3	4.2	2.3	4.7	7.2
Net noninterest margin (annualized) [3]	-0.8	-3.1	-1.7	-2.8	-1.0	-0.5	-0.9	-1.3
Expense to income	61.4	63.7	60.7	65.0	57.3	58.0	52.2	57.1
Interest expense to gross income	14.4	16.6	13.6	12.4	8.8	11.1	12.9	14.2
Liquidity								
Core liquid assets to total assets [4]	45.2	44.1	44.1	43.6	47.8	51.3	50.7	49.0
Broad liquid assets to total assets [5]	58.2	55.3	57.3	59.4	63.0	65.4	64.4	62.9
Liquid assets (broad) to short term liabilities	63.7	60.6	62.3	66.3	68.9	73.5	73.2	71.1
Liquid assets (broad) to total liabilities	64.7	61.6	62.5	65.4	68.9	72.0	71.1	69.6
Liquid assets to deposit liabilities	68.5	65.3	67.8	69.4	72.5	75.8	74.6	73.1
Foreign exchange exposure								
Total long position in foreign exchange to capital	…	…	…	5.2	6.9	9.8	3.0	3.0
Total short position in foreign exchange to capital	…	…	…	-4.3	-3.2	-3.4	-6.5	-4.2

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**	**184**	**171**	**217**	**218**	**245**	**265**	**299**
Current account deficit	170	151	140	113	148	162	185	216	248
CG Debt Amortization	43	41	45	58	69	56	59	50	51
Sources of Financing	**213**	**192**	**184**	**163**	**201**	**202**	**237**	**265**	**299**
Public sector	67	141	60	110	70	74	62	23	24
o/w: World Bank	21	44	25	30	16	15	15	0	0
African Development Bank	10	20	0	58	10	10	10	0	0
Others	0	0	13	0	20	0	0	10	0
IMF	32	68	17	8	0	0	0	0	0
EFF purchases	32	68	17	8	0	0	0	0	0
SDR allocation	0	0	0	0	0	0	0	0	0
FDI (net)	135	160	226	235	244	322	342	369	391
Portfolio investment (net)	-97	13	-5	43	43	-29	-5	-5	-5
Others (net)	55	-3	-168	-149	-135	-156	-118	-87	-84
Capital account balance	21	24	10	13	21	21	14	15	15
Net errors and omissions	0	0	0	0	0	0	0	0	0
Change in reserves (without RSF, increase: -)	32	-143	62	-89	-42	-30	-58	-49	-44
Financing gap	**0**	**0**	**0**	**8**	**16**	**16**	**8**	**0**	**0**
Prospective Financing				**8**	**16**	**16**	**8**	**0**	**0**
IMF EFF purchases[1]				8	16	16	8	0	0
RSF disbursement[1]	**0**	**0**	**0**	**4**	**17**	**21**	**4**	**0**	**0**
Add'l change in official reservers (increase: +)	0	0	0	4	17	21	4	0	0
Total change in official reserves (with RSF, increase: +)	**-32**	**143**	**-62**	**93**	**59**	**51**	**62**	**49**	**44**
Memo items									
Gross international reserves with RSF	575	702	639	733	791	843	904	953	997
(percent of ARA)	112	121	101	110	112	116	122	126	128
(months of imports of G&S)	3.8	3.7	3.4	3.7	3.7	3.8	3.9	4.0	4.1
Gross international reserves without RSF				728	770	801	858	907	951
(percent of ARA)				109	109	110	115	120	122
(months of imports of G&S)				3.7	3.6	3.6	3.7	3.8	3.9

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

[1] Including IMF disbursements associated with future reviews.

Table 7. Seychelles: 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 8. 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]	88.5	75.3	68.3	59.5	47.9	37.3	26.1	14.9	3.7	0.5	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	5.4	18.9	11.7	13.4	15.4	13.6	13.4	12.9	12.3	3.8	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Principal (repayments/repurchases)	3.8	13.2	7.0	8.8	11.6	10.6	11.2	11.2	11.2	3.2	0.5	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	1.6	5.7	4.8	4.6	3.8	2.9	2.3	1.7	1.1	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Prospective Fund credit																							
Disbursement	9.2	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	6.1	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]	9.2	33.9	61.8	70.6	70.6	69.1	65.5	59.9	53.9	47.9	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	6.1	18.3	30.5	36.3	36.3	34.7	31.2	25.6	19.6	13.5	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]	0.1	1.0	2.7	4.4	4.7	6.2	7.8	9.2	9.1	8.8	8.4	7.1	6.4	5.4	4.9	4.7	4.5	4.3	4.2	4.0	3.8	3.2	1.5
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.0	1.5	3.6	5.6	6.0	6.0	6.0	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	0.0	1.5	3.6	5.6	6.0	6.0	6.0	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	0.1	1.0	2.7	4.4	4.7	4.7	4.3	3.6	3.0	2.7	2.4	2.1	1.8	1.6	1.4	1.3	1.1	0.9	0.7	0.6	0.4	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	36.9	32.3	28.6	25.1	21.7	18.3	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	23.3	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
In percent of quota	426.8	477.0	568.1	568.2	517.5	464.3	399.9	326.8	251.6	211.3	182.7	161.0	141.3	124.8	109.8	94.8	79.8	64.8	49.7	34.7	19.7	6.7	0.0
GRA	413.2	408.8	431.8	418.2	367.5	314.3	249.9	176.8	101.6	61.3	32.7	13.0	2.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	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	6.3	7.0	8.0	7.5	6.4	5.4	4.3	3.2	2.3	1.8	1.4	1.2	1.0	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	18.4	19.5	22.3	21.3	18.3	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
In percent of exports of goods and services	5.7	6.2	7.1	6.8	6.0	5.2	4.1	3.1	2.2	1.7	1.4	1.1	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of gross reserves	17.8	18.5	20.9	19.5	16.9	14.5	11.5	8.7	6.2	4.8	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
Obligations to the Fund from existing and prospective Fund arrangements																							
Total obligations	5.4	19.9	14.4	17.8	20.1	19.8	21.3	22.0	21.3	12.6	9.5	7.6	6.9	5.9	5.4	5.2	5.0	4.8	4.7	4.5	4.3	3.7	2.0
Principal (repayments/repurchases)	3.8	13.2	7.0	8.8	11.6	12.2	14.7	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	3.8	13.2	7.0	8.8	11.6	12.2	14.7	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	1.6	6.6	7.4	9.0	8.5	7.6	6.5	5.3	4.1	3.4	2.9	2.6	2.3	2.1	1.9	1.8	1.6	1.4	1.2	1.1	0.9	0.7	0.6
In percent of quota [4]	23.8	86.7	62.8	77.6	87.9	86.3	92.8	96.2	93.1	55.0	41.3	33.1	29.9	25.6	23.4	22.7	21.9	21.1	20.3	19.6	18.8	16.0	8.6
In percent of GDP	0.3	1.3	0.9	1.0	1.1	1.0	1.0	1.0	0.9	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 Government Revenues	1.0	3.5	2.5	2.9	3.1	2.9	2.9	2.8	2.5	1.4	0.9	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1
In percent of exports of goods and services	0.3	1.1	0.8	0.9	1.0	1.0	1.0	0.9	0.8	0.4	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	1.0	3.4	2.3	2.7	2.9	2.7	2.7	2.6	2.3	1.3	0.9	0.7	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1

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 5.119 percent as of October 26, 2023.

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

Table 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	1220	100.0	61.0	335	210	178	16.9	10.1	8.5
External	573	47.0	28.7	58	77	88	2.9	3.7	4.2
Multilateral creditors[2]	392	32.1	19.6	18	30	41	0.9	1.5	1.9
IMF	121	9.9	6.0						
World Bank	135	11.1	6.8						
AfDB	80	6.6	4.0						
Other Multilaterals	56	4.6	2.8						
o/w: EIB	28	2.3	1.4						
o/w: BADEA	19	1.6	1.0						
Bilateral Creditors	79	6.5	3.9	14	16	15	0.7	0.7	0.7
Paris Club	42	3.4	2.1	6	9	9	0.3	0.4	0.4
o/w: France	22	1.8	1.1						
o/w: UK	5	0.4	0.2						
Non-Paris Club	37	3.0	1.8	7	7	7	0.4	0.3	0.3
o/w: China	13	1.1	0.7						
o/w: Saudi Arabia	13	1.1	0.7						
Bonds	74	6.1	3.7	24	21	20	1.2	1.0	1.0
Commercial creditors	29	2.4	1.4	2	10	11	0.1	0.5	0.5
o/w: TDB	13	1.1	0.7						
o/w: Nedbank	8	0.6	0.4						
o/w: Habib Bank	5	0.4	0.2						
Domestic	646	53.0	32.3	277	132	90	14.0	6.4	4.3
Held by residents, total	n/a								
Held by non-residents, total	n/a								
T-Bills	162	13.3	8.1	260	52	0	13.1	2.5	0.0
Bonds	432	35.4	21.6	11	73	82	0.5	3.5	3.9
Loans	52	4.3	2.6	7	8	8	0.3	0.4	0.4
Memo items:									
Collateralized debt[3]									
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: External public guarantees	9	0.7	0.4						
o/w: Domestic Public guarantees	52	4.3	2.6						
o/w: Other explicit contingent liabilities[4]									
Nominal GDP	1977			1977	2084	2098			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial, as of end-2022. Debt coverage is the same as the DSA, except for domestic and external guarantees which are reported under memo items. The debt stock as percent of GDP is calculated in local currency.

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 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, FDI and financial flows, and payment systems, and lead to refugee flows.	**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) that would lower the impact of a delayed economic recovery. Consider further fiscal consolidation and targeted and temporary support as needed for vulnerable sectors. 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 market fragmentation causing sudden stops in EMDEs.	**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) 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, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	**Medium** The exchange rate pass-through is slow in Seychelles. However, higher food and energy prices would hurt vulnerable consumers.	CBS to maintain vigilant monitoring and be ready to tighten monetary stance to anchor inflation expectations. Provide targeted support for the most vulnerable population to deal with rising prices amid a delayed economic recovery.
Sovereign debt distress. Domino effects of higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.	**Medium**	**Medium** A reduction in external financing could worsen the balance of payments with implications for the exchange rate.	Ensuring a prudent macro-fiscal stance to foster market access at reasonable terms. Preemptively rebuild fiscal and FX buffers.
Limited access to external grants and concessional financing due to Seychelles' high-income status	**Medium**	**Medium** Access to costly 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.
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.
Structural Risks			
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**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. Continue rebuilding fiscal space, reducing public debt, increasing foreign exchange buffers, and improving the effectiveness of social protection.

Annex II. 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. Over the course of the RSF program, staff will continuously evaluate the need for CD to ensure the successful implementation of the proposed reform measures. The small size of key institutions, high staff turnover, and capacity limitations could pose risks to achieving reform objectives. The high volume of CD activities can be a burden to the authorities. 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 and 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**
Macro-Fiscal Policies	Strengthen the credibility of medium-term budget planning; balancing fiscal consolidations; strengthen the identification, monitoring, and management of fiscal risks; improve coverage and quality of fiscal reporting; strengthen macro-fiscal forecasting capacities.
Public Financial Management	Enhance the efficiency of public investment, including from a climate perspective for RSF reform measures; improve debt and cash management practices; and improve the efficiency and integration of the government's financial management information 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.
Debt Management	Continue to 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.
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; develop a FXI strategy.
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); enhance the macroprudential policy toolkit; management of climate-related risks.
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 and international business sectors is exposed (including on transparency of beneficial ownership information).
Payments and Infrastructure	Advise and assist the central bank and other relevant authorities in developing and reforming the national payment system.
Real Sector 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.
Financial Sector Statistics	Increase the scope of monetary and financial statistics data to include credit providing nonbank financial institutions and payment companies and compile Financial Soundness Indicators in line with the latest international standards (*2019 FSI Guide*).

Appendix I. Letter of Intent

Victoria,
November 11, 2023

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

Dear Madam Managing Director:

Seychelles recovery continues albeit at a slower pace than 2022. Real GDP growth for 2023 has been revised to 3.8 percent compared to the initial 4.3 percent forecasted at the time of program discussion. This is mainly due to the lower tourism arrivals forecast for 2023 of 5 percent, a reflection of economic and geopolitical issues in main target markets.

Domestic prices, as measured through the Consumer Price Index (CPI), have declined thus far in 2023 relative to 2022. At the end of 2023, the year-on-year change in average prices and the 12-month average inflation rate are projected at negative 1.6 percent and negative 0.8 percent, correspondingly. This is due to several factors namely, the reduction in international food and fuel prices, lower freight costs, and the effects of the stronger domestic currency, all of which contributed towards a decrease in import prices. In general, declines were observed in the average prices of food items, housing, utilities, transportation, and other goods and services.

The Government continues to maintain a resilient fiscal consolidation that will enable debt to continue on its downward trajectory. Debt to GDP ratio is estimated at 64.4 percent of GDP by the end of 2023. The revised budget for 2023 will achieve a zero primary balance compared to program of a deficit of 0.4 percent of GDP.

As of end-September 2023, all QPCs and ITs were met. On structural reforms, although there were delays in certain instances the government implemented the envisaged reforms in the area of tax administration, public investment management and monetary policy operations. Progress is also being made with respect to reform measures agreed under the RSF.

Despite progress to date, Seychelles was again included on the EU list of non-cooperative jurisdictions for tax purposes. The Seychelles' rating of Partially Compliant against the Standard is primarily due to difficulties encountered in responding to exchange of information requests relating to one single registered agent, which left the jurisdiction together with all its records in 2018.

We are of the view that the addition of the Seychelles on the EU blacklist based on rigid application of criterion set purely for non-member states goes contrary to the purported principles of the list being promotion of good tax governance standards. However, we will not permit this to impede on our objective of being a key player in the promotion of tax transparency, and will continue to address any deficiencies, which detract from the achievement of this objective. The Seychelles intends to submit a further request for supplementary review to the PRG at the earliest opportunity, and remains positive for the outcome of the same, being conscious of the extensive legislative reforms which have already been implemented.

In the policy area, we remain committed to the implementation of the action plan we have presented when requesting the 36-month arrangement under the EFF as well as the arrangement under the RSF. As a small island state vulnerable to external shocks and climate change our objectives remain the resiliency of the economy to external shocks, debt sustainability, rationalizing the tax regime, improving expenditure management, and enhancing financial sector stability and compliance with international financial standards.

The policies we will be implementing over the coming months are presented in the attached Memorandum of Economic and Financial Policies, which updates the Memorandum of May 2023. We are requesting the completion of the first review under the new EFF and RSF approved in May 2023.

We believe that the economic and financial policies set forth in the MEFP are sufficient to ensure that the objectives of the program will be met. We stand ready to take any further measures that may prove necessary to meet our objectives. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We will supply the Fund with timely and accurate data that are needed for program monitoring.

We authorize the publication of this letter of intent, the attached MEFP, the technical memorandum of understanding, and the forthcoming staff report.

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. Seychelles' real GDP growth for 2023 has been revised to 3.8 per cent, compared to 4.3 percent forecasted at the time of program formulation. Arrivals growth is expected to be at 5 percent. Tourism earnings through August 2023 have declined over the same period in 2022, reflecting economic and geopolitical issues in target markets, the complete re-opening of rival destinations and the weaker Euro against the US Dollar (less USD upon conversion). Nevertheless, tourism earnings for the year as a whole are expected to be broadly similar to 2022 despite the projected increase in tourist arrivals. This outlook is consistent with an anticipated decline of 4.6 per cent in the annual average expenditure per visitor. The outlook on tourism earnings remains subject to downside risks based on global developments and industry-specific factors. However, the ICT sector is predicted to remain strong with a growth of about 16 percent, in line with rapid increases in data traffic. Steady recovery is also expected in transportation and storage activities at 11 percent.

2. The domestic currency strengthened against the USD and Euro during the first quarter of 2023, supported by sustained inflows of foreign exchange. However, the seasonal pick-up in demand, coupled with developments in international currency markets resulted in a depreciation of the Seychelles rupee as of the second quarter of the year, a trend that is likely to persist if demand for foreign exchange continues to exceed supply.

3. Domestic prices declined as of May 2023 on account of the stronger domestic currency and the moderation in international commodity prices compared to 2022. In August 2023, year-on-year inflation was negative 2.4 percent whilst the 12-month average inflation rate was 0.8 percent. At the end of 2023, the year-on-year change in average prices and the 12-month average inflation rate are projected at negative 1.6 percent and negative 0.8 percent, correspondingly.

4. The accommodative monetary policy conditions were maintained in 2023. Notwithstanding the positive domestic economic performance, the Bank was cognisant of the country's susceptibility to external shocks and the need to provide continued support to the economy. The Monetary Policy Rate (MPR) was kept at 2 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. In line with the Bank's strategy to re-align monetary policy implementation with the monetary policy framework, there was a gradual increase of R100 million in the intervention volume per MRR maintenance period using the 7-day Deposit Auction Arrangement (DAA). This resulted in a rise in interest rates from 0.5 percent as at end- January 2023 to 1.23 percent as at end-September 2023.

5. In July 2023, the average savings rate was relatively unchanged whilst the average lending rate on rupee loans declined by 17 basis points when compared to July 2022. Conversely, the interest rate on foreign currency loans rose by 2.1 percentage points, consistent with the tighter global financial conditions. As a result, the overall average lending rate increased by 50 basis points. The cost of government borrowing in the first seven months of 2023 was generally higher than the same period in 2022. In July 2023, the average return on T-bills stood at 1.28 percent, 1.56 percent, and 2.14 percent on the 91-day bills, 182-day bills and 365-day bills, respectively.

6. Budgetary performance in the first six months of the year was, as a whole, better than the program forecast, with a primary surplus of 1.2 percent of GDP recorded. Revenue performed better than expected during the same period at SR 4.3 billion compared to a program target of SR 3.8 million. For the year as a whole revenue excluding grants is expected to reach 33 per cent of GDP, up from 30.8 per cent in 2022. Expenditures are now expected to remain below the forecast level, as a share of GDP, at 37 per cent compared with 38.7 per cent forecast during the new program, as capital expenditure are now expected to remain below forecast due to lower execution, while current expenditure are expected to remain 0.5 per cent of GDP below program estimate.

7. The current account deficit narrowed from 10.1 percent of GDP in 2021 to 7.1 percent of GDP in 2022. Such outcome was primarily on account of an improvement in the positive net contribution of the services account – given higher tourism earnings relative to the previous year. For 2023, the current account shortfall is forecasted at 5.4 per cent of GDP, an improvement from the previous projection of 9.5 percent of GDP which is consistent with a higher estimation of tourism earnings for the year.

8. Gross International Reserves (GIR) as at end-September 2023 was US$708 million, a decline of 2.7 percent compared to US$728 million as at June 2023. Net International Reserves stood at US$562 million as at the end of Q2 2023, 19 percent above the target of US$474 million. The fall in the GIR was mainly due to more government FX outflows compared to FX inflows of which, the former included debt repayment. CBS had purchased an equivalent of US$59 million by the end of June 2023 through its foreign exchange auction (FEA), following a significant influx of foreign currency into the domestic economy.

9. As at end of July 2023, the banking industry remained well capitalised although NPLs continued to be elevated. All banks held regulatory capital above the prudential capital requirement of 12 percent. On a year-on-year comparison, the industry's aggregated regulatory capital to risk weighted assets increased by 2.0 percentage points to stand at 22.7 percent as at July 2023. Both the level of NPLs and gross loans recorded year-on-year increases by 1.1 percent and 9.8 percent, respectively, thereby resulting in a decline of 0.6 percentage points in the NPLs to gross loans ratio to 7.5 percent at end-July 2023. Of note, the year-on-year rise in NPL was mostly noted in the commercial development and tourism sectors. Return on Assets and Return on Equity also increased during the same period to 2.9 percent and 30.2 percent, respectively. The liquidity position of the banking sector remained strong with a liquid asset to total liabilities ratio standing at 50.2 percent at the end of July 2023, well above the minimum requirement of 20 percent. As for the banking sector's foreign currency risk exposure, the long position declined by 2.6 percentage points whilst the short position rose by 0.8 percentage points to stand at 11.0 percent and -3.4 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)

10. 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 launched its action plan for improving Government's digital payments systems which included awareness and sensitization on the use of the systems; establishing a standard procedure and coding adopted across government streamlining 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 were finalized *(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

11. The Government remains committed in maintaining a resilient fiscal consolidation that will enable debt to continue on its downward trajectory. Debt to GDP ratio is estimated at 64 percent of GDP by the end of 2023 down from 64.2 percent in 2022. Debt is expected to reach 50.7 percent in 2028, supported by robust fiscal performances. The new EFF program as well as other Budget support program will help fill the financing gap in the short to medium term. Furthermore, the RSF will ease fiscal pressure and open more avenues for financing and investing in climate related projects. Guaranteed debt is anticipated to increase over the medium term as Government continues to provide guarantees to the Development Bank of Seychelles, by an average of about 0.7 percent annually, as well as for some major projects in the pipeline such as the Port extension. Albeit external risks still prevail, Government remains committed towards achieving a debt target of around 50 percent of GDP by 2029.

12. The revised budget for 2023 will achieve a zero primary balance compared to program of a deficit of 0.4 percent of GDP. Revenue compared to 2022, excluding grants is targeted to increase by 2.1 percentage points to 33 percent of GDP, while current expenditure would increase by

2.9 percentage points to 32.7 percent of GDP, reflecting an increase in current and capital expenditure. The new accommodation turnover tax of 2 percent for tourism accommodation operators earning a yearly turnover of SR 100 million and above was implemented in January 2023 and the new Tourism Environment Sustainability Levy applicable per night per visitor was implemented from the 1st of August 2023. The combined revenue collection from both new taxes will be SR 190.5 million for 2023 and SR 327.9 million for 2024. The revised structure for the securities dealer's business tax will come into force in January 2024. Government has introduced a salary increase in April 2023 after a salary freeze since 2019. However, there have been significant savings under wages and salaries amounting to SR 41 million in view of the delays in recruitment and paying the thirteenth month pay based on performance. As a result, the wages and salaries budget has reduced to 11.2 percent of GDP from 11.9 percent of GDP. The Goods and Services budget has increased to 13.4 percent of GDP from 12.9 percent of GDP. This is mainly to assist the anti-corruption commission to extend the contract of foreign investigators and prosecutors on the current corruption cases, road maintenance and extension of the livestock subsidy to the agricultural sector. The capital expenditure has been reduced to 4.1 percent of GDP from 5.1 percent of GDP mainly because of slower execution of projects and ongoing reforms in public investment management.

13. 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 October 2023. The WB assisted Seychelles to conduct a tax gap exercise in relation to potential revenue leakage as a result of transfer pricing/profit shifting in the Seychelles. However, in view of data limitations such exercise did not conclude into potential revenue leakage and WB advised that a desk review will be necessary for some audit cases to assist in this exercise. The authorities expect that such desk review will be completed in the first six month of 2024. 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. This is being done in a phased approach over the period 2023 to 2025. 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 VAT and business tax expenditure forecast for the 2025 budget (*structural benchmark)*.

14. 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 and be completed by June 2024. This will 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.

15. The implementation of the new salary grid has 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. This has resulted a savings of SR 41 million or 0.1 percent of GDP. 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. For the year 2023, SR 4.2 million and SR 313.3 million have been allocated under wages and salaries, and goods and services respectively for the newly created Home Care Agency. This is to ensure more efficiency in providing the care for the elderlies need. This Home Care budget was previously being financed under the benefits and approved programs of Agency for Social Protection.

16. 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 December 2023.

17. 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 approved by the Parliament in March. 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 half 2023.

- Promote use of digital platforms in public service delivery. The full implementation of the Health Information System is expected to come online by end-2023.

- Increase financial inclusion through the promotion of access to affordable financial products and services with the support of new legislations. Namely, in December 2022, the National Payment System (Electronic-Money) Regulation was issued.

- Improvement of payments systems infrastructure: Real Time Gross Settlement System (RTGS) to offer safe and secure real time funds transfer thus minimizing settlement risks. The approved vendor was awarded the contract in September 2023. The RTGS along with the Central Securities Depository (CSD) are expected to go live in Q3 2024.

- 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 and performance 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.

18. The enhancement of the ASYCUDA World continues with numerous system upgrade and continuous technical training. The modules are being developed in phases and will be deployed as and when they are ready. At present the E-Manifest modules and Express Courier modules have been completed and deployed (structural benchmark). In addition, the Excise Tax module has been deployed and the completion of both E-payment and single window are due at the end of the 2nd quarter of 2024.

19. REX is a system based on self-certification introduced by the European Union to replace the EUR.1 certificate. The system went live on 1st July 2023, and this will simplify the export process, which will benefit the registered exporters as there will be no requirement to apply to Customs to be issued with a certificate of origin each time there is a transaction, hence, eliminates bureaucracy. This may attract new investors to venture in the export business. Work is ongoing with COMESA to develop the e-certificate of origin.

20. 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. The online portal is still being finalized and will require the completion of the transaction data clean up exercise to be fully functional, as it intends to provide taxpayers with the ability to view their accounts online and better manage their debts.

a) The law is being amended to compel large taxpayers to transact through the new online portal by end of December 2023.

b) Training session through regional outreach programs will be organized in the last quarter of 2023 to show the taxpayers how to register and navigate through the portal to conduct their tax transactions.

21. The implementation of the new Tax Management System (TMS) entails adoption of new technologies and management practices to increase efficiency and effectiveness and to the ease of doing business. The new processes related to the 4 core tax modules: registration, filing, payment and accounting have been developed and deployed. New Standard Operating Procedures are being developed to mirror the new ways of doing business.

- The return processing module has been completed and will start the piloting phase end – October 2023.
- Payment and cashier system have been developed and deployed since the 1st of September 2023.
- SRC and SPF has agreed to start the implementation of the consolidated payroll as of 1st January 2024. The 4th quarter of 2023 will be used to educate the employers. The TMS server has already been purchased and installed. A 2nd one is in the process of being procured for backup support.
- In the medium term the IFMIS in the Ministry of Finance will be integrated with the TMS at the SRC.
- SRC will remain engaged in outreach programs to ensure compliance.

22. 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 completed the business process reengineering exercise; for the process for registration, returns processing, payment and accounting. Consequently, the User Requirement Specification document for each business process has been completed and signed off by the SRC project team. The document will be used as a guide to draft new Standard Operating Procedures. The same exercise will be conducted for debt collection, audit and risk during the 4th Quarter of 2023 to 2024. As part of this exercise SRC is also looking at ways to integrate with other government systems to facilitate sharing, data matching and validation of information with the aim of improving the ease of doing business and allow prompt detection of possible non-compliance behavior.

23. 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 is in its final phase. However, continuous effort is being made to reach out to the group of taxpayers who did not come forward to update their information. This is being done through the routine field work and outreach programs. SRC is simultaneously, engaged in the cleaning up of the accounting data to prepare for migration of the accounting data in the new TMS. The exercise is crucial as it will allow SRC to extend its service and offer new opportunity for taxpayer to view their account and better monitor their dues and arrears with the Tax Division, thus facilitate voluntary compliance.

24. SRC has started the implementation of its first Compliance Improvement Plan (CIP) on a piloting phase. The aim is to improve and strengthen voluntary compliance. The CIP was developed with assistance from AFRITAC South and is expected to increase the overall tax compliance rate. Some of the compliance risk treatment actions include prompt detection and immediate follow up action to treat late and non-filing of returns as well as payment, education, and audit. 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.

25. 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.

26. SRC has also recruited a Technical Advisor (TA) to assist and provide guidance on practical audit casework including Transfer Pricing cases. The TA has worked closely with the Word Bank and MOF during the drafting process of the Transfer Pricing (TP) legislation and the 2 new TP regulations. The TA has also led the stakeholders' presentation about the same. He is continuously building the capacity of SRC officers in the TP area. The potential TP cases identified are under risk review. Additionally, SRC is also receiving specialized Audit trainings from the African Tax Administration Forum, namely for the Telecommunications and Financial Sectors. The next mission has been scheduled for telecommunication sector is scheduled for the first week of October 2023. There is also ongoing training for Basic, Intermediate and Advanced Audit. The overall aim is to better understand the various business structures, tax planning schemes that are being applied by businesses and improve compliance in terms of accurate and complete reporting, consequently, contribute towards an increase in tax revenue in the medium to long-term.

27. SRC is improving the system for Automatic Exchange of Information (AEOI) to be more efficient in exchanging tax information and in meeting OECD standards. The system is now working well for the automatic exchange of information (Common Reporting Standard (CRS)). The Unit conducted two sessions with the Financial Services Industry to give a run through of the onboarding system. The FI Onboarding went live on Monday the 12th of June 2023. For the entities that had on boarded on the (User Acceptance Testing) UAT, the data was migrated to the Production server. Hence all the Financial Institutions that has been successfully registered could submit their XML files. The system also has a 'request for extension' application and the FI can submit the Nil notification in the system. The EOIR Case Management system has been designed and is still in the testing phase, the consultant conducted an onsite session with respect to additional functionalities requested of the new system. The latter is expected to be in full production by end of September 2023.

Expenditure Management and Efficiency of Public Spending

28. 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 fourth quarter 2023.The AFS will be supporting the authorities to initiate the integration of the MTFF with the MTBF during the first quarter of 2024. 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.

29. 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.

30. 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 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. The tender of the IT system has been completed and we expect work to begin in the last quarter of 2023. The IT system will also contribute to the objective of having an interdisciplinary approach to social protection by coordinating across MDA's and establishing a social registry.

- 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.

- Establishment of the National Functional Assessment Board with the primary objectives of improving efficiency and transparency of social protection programs through streamlining assessment procedures for eligibility of invalidity and disability benefits.

31. The Government remains committed to boost the efficiency of public spending. IMF TA will be provided during the year 2024 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 include the necessary legislative provisions in the Public Finance Management legislations 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. The review for the education sector was completed and results for the health sector are expected by November 2023.

32. 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. For 2024 budget process, the MoFNPT provided 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.

33. 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 2024 budget and over the medium term. The review of the systems requirements specifications documents has been completed and the tender documents is currently being prepared and is expected to be launched by end October 2023 and the contract is expected to be signed in January 2024. 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 budget in the new system. The configuration of other modules which includes budget execution, accounting and reporting modules will then follow.

34. 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. A new Cash Flow Unit (CFU) within the Ministry of Finance has been created and partially staffed. The new unit is working closely with the MDAs to create more awareness and building more capacity for strengthening cash management across Government. The AFRITAC is also assisting with capacity building and will be conducting another training session on cash flow forecasting for the Department of Finance (including CFU) and MDAs in November 2023. 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.

35. 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. In May 2023, the Cabinet of Ministers approved an action plan with the aim to improve the under execution of capital investment and to also address the identifying gaps in the public investment management institutions.

36. We will undertake reforms to further strengthen the framework and capacity for appraising and selecting capital projects. As first step the annual budget circular will stipulate that projects will not be included in the Medium Term Expenditure Strategy (MTES) if appraisal information is absent or materially incomplete. To assist in this endeavour MDA's will be provided with an established a set of set of minimum criteria (related to design, costing, and engineering elements) to assess projects in the MTES 3-year Public Sector Investment Plan (PSIP), on the basis of which (met or not met) PIMU will recommend to the Inter-Ministerial Committee (IMC) for inclusion/deferral in the current year's budget. A detailed assessment of staffing requirements for SIA and PIMU will also be undertaken with a view to ensuring they are fit for purpose (structural benchmark)

37. Strengthening maintenance budgeting and planning remains a priority. SIA is currently undertaking a stock taking exercise in order to compile a database of all government buildings and structures. This exercise is expected to be completed by June 2024. As part of the revised PIM, the Government will adopt maintenance standards for routine and capital maintenance and the program classification will be used to better measure maintenance costs.

C. Minimizing Risks of SOEs

38. 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 act was enacted on the 31st of May 2023. The new legislation has made 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) has published the 2021Public 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 has a one-year time lag in view of the end of financial year of some SOEs which end on the 31st of March. Thus, those SOEs require six months to complete their audit. The 2022 annual report is expected to be published by end of December 2023. The annual report has presented the overall financial performance, including outstanding debt, of the Public Enterprises based on their audited financial statement. In addition, the new legislation has clarified 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 six key public enterprises by March 2024. PEMC will be launching the procurement process during the first week of October 2023. The key public enterprises to be audited are Public Utilities Corporation (PUC), Seychelles Petroleum Company (SEYPEC), Air Seychelles, Island Development Company Limited, Seychelles Civil Aviation Authority (SCAA) and Seychelles Trading Company Ltd (STC). Government will work with SEYPEC on the tanker replacement strategy in order to address any potential risk. This will be completed by end of March 2024.

39. Government will receive further assistance from the U.S. Treasury Office of Technical Assistance in the following areas:

1. Technical staff capacity building to improve analytical skills and the quality of PEMC reporting on public enterprise monitoring and performance; this would also include the development of an orientation program for new staff.

2. Development of comprehensive written policies and procedures for the PEMC staff that comply with the 2023 PE Act.

3. Support with implementation of the web-based reporting portal; this would include identifying the business needs for the portal (data, analytics, reporting) and assisting with training for portal users.

4. Assistance with the development of performance indicators and targets for public enterprises that comply with the 2023 PE Act.

5. Support with implementation of a comprehensive job grading scheme for public enterprise boards and executives; this would include assistance with establishing an oversight body to oversee implementation, sensitizing the oversight body and public enterprises on the concepts of a comprehensive job grading scheme. PEMC will publish information about state owned compensation by end of October 2023.

40. The Ground Handling activities at Seychelles International Airport are of paramount importance to the Government of Seychelles. To safeguard the continuity and effectiveness of these operations, a new entity, the Seychelles Aviation Handling Company, has been established to assume legal ownership of the ground handling assets. Under this arrangement, the new company will enter into a lease agreement with Air Seychelles for the use of these assets. The asset transfer from Air Seychelles to the government has already been completed. The framework for the key terms and conditions of the lease agreement between Air Seychelles and the Seychelles Aviation Handling Company, along with the asset transfer from the government to the new company, is now expected to be finalized by October 2023 (structural benchmarks). Discussion on the transfer of IT infrastructure is also on going and an action plan will be submitted to the Government by end December 2023.

D. Public Debt Management Strategy

41. Seychelles has made significant progress in terms of Debt Management over the past three years. The Government has continued to publish quarterly debt bulletins and quarterly borrowing and issuance plans to improve access to information and promoting accountability and transparency. With the current global economic environment, the foreign interest costs have increased more than 50 percent in comparison to 2022. Therefore, as part of the Government's Medium Term Debt Management Strategy (MTDS), we will conduct an assessment to determine the optimum debt model to align with the Medium Term Fiscal Framework. As part of modernizing its legal framework on public debt, Government will revise the Public Debt Management Act in parallel with the Public Finance Management Act to provide more flexibility to debt management and promote debt sustainability.

42. 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 and reduced refinancing risks. Given the evolution of the domestic market, Government issued a 10-year Bond in June and another one early September. Both bonds were fully subscribed and a total of SCR 134m and SCR 104m were allotted respectively. With the help of the IMF's Monetary and Capital Markets department (MCM), the Government will initiate the framework to operate a buy-back facility for trading of government securities through commercial banks. Government will aim to expand and continue to rely on external concessional financing in the medium term to reduce its borrowing cost.

E. Monetary and Exchange Rate Policy

43. The CBS considers the current monetary policy stance appropriate but remains mindful of potential shocks and is ready to adjust its policies as required. To reinforce the formulation of monetary policy and its transition to forward guidance, the Financial Indicators Expectations Survey with households is anticipated to be carried out in the second quarter of 2024. The revised timeline reflects the workplan of the National Bureau of Statistics whereby, the Labour Force Survey resumed in the second half of this year. The forward-looking macroeconomic variables collected from the survey with the households are expected to complement the outcomes from the quarterly exercise that is conducted with the Banking sector.

44. The transmission of interest rates remains weak. To improve the transmission mechanism, CBS has started to implement 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 workplan on the modernisation of the monetary policy framework and operations was published within the Monetary Policy Report in July 2023 (structural benchmark). One of the key reforms includes the re-operationalisation of the Repo instrument by end-December 2024 (structural benchmark), following receipt of technical assistance from the IMF. Additionally, CBS will make use of longer term instruments including the one-month and two-month DAA to further mop up excess liquidity in Q4 2023. In line with the normalisation in monetary policy implementation, CBS will conduct optimal intervention in 2024 such that the interest rate on the 7-day DAA targets the prevailing monetary policy rate.

45. CBS remains committed to a floating exchange rate and will only intervene to facilitate orderly market conduct and reserve accumulation. Considering the external sector outlook, it is expected that market-clearing conditions will prevail in the domestic market for FX in 2023. CBS will continue to only purchase from the market on an opportunistic basis for reserve accumulation as determined by specified market indicators, and based on transparent market auctions. In that respect, CBS purchased an equivalent of US$59 million during the first half of the year through its foreign exchange auction (FEA). As a first step towards enhancing the efficiency and transparency of the FX market and in coordination with the IMF, the CBS will analyze the possibility to implement an FX negotiation platform where all wholesale market participants will have access in real time to pricing and transaction volumes.

46. 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.

47. The CBS renewed its partnership with the Reserves Advisory & Management Partnership (RAMP) of the World Bank in October 2022, with the signing of a new three-year Advisory and Investment Management Agreement (AIMA). The partnership includes an investment management mandate for US$100 million as well as technical advisory services, as was the case in the previous year.

48. The CBS will continue to improve external sector statistics. Compiling the data on net international financial flows of nonbank private sectors, a significant subcomponent of the Financial account, has been a particular challenge. Building on 2021 IMF capacity development on External Sector Statistics, the CBS will organize and meet semi-annually with the Financial Supervisory Authority (FSA) and representatives of International Corporate Service Providers to discuss the trend of financial flows of Special Licensed Companies (CSLs), with a view to enhancing the quality of data reported under the balance of payments.

F. Efforts to Improve Real Sector Statistics

49. 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. NBS received Technical Assistance from the IMF in the first half of 2023 to enhance the internal capacity in the compilation and dissemination of real sector statistics. Key improvements included augmenting the quality and integrity of data, sources of data and reviewing the methodology. Additionally, further assistance will be required to improve the quality and coverage of the various statistics produced by the NBS and within the National Statistical System. In that context, the authorities have requested a diagnostic review to be carried out with the support of the IMF Statistics Department.

G. Modernizing the Financial System and Ensuring Financial Stability

50. 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. To fulfil its financial stability mandate, CBS is committed to taking appropriate and timely enforcement actions to address the elevated levels of NPLs in the domestic banking system. In line with its supervisory processes, in the event that a bank becomes undercapitalized, CBS plans to use relevant early intervention measures at its disposal. As per CBS' regulatory framework, viable but undercapitalized banks would be required to submit capital plans, while nonviable banks would be subject to appropriate resolution actions.

51. CBS continues to collect additional information on restructured and rescheduled loans as part of its enhanced monitoring of the banking system. Further reduction has been observed in the value of outstanding restructured loans from R2.8 billion in December 2022 to R2.5 billion in June 2023 making up 23.1 percent of the industry's total loans and advances as at June 2023. This trend coincides with the diminishing exposure to forborne loans, which now constitute 89 percent (R2.2 billion) of all restructured loans. The main reasons behind these restructured loans were the deterioration of the economic condition caused by the COVID-19 pandemic accounting for 87 percent of restructured loans. Furthermore, 12 percent, were restructured due to issues faced by individual borrowers, whilst 1.0 percent were due to other reasons like business disputes or unforeseen project delays. Of these restructured loans, 96 percent saw a change in their tenor, a trend largely influenced by extensions of the term on forborne loans, post-forbearance. To mitigate associated risks and provide a cushion against potential losses, the restructured loans are backed by R2.3 billion of eligible collateral, albeit the extent to which it provides adequate cover against potential losses is dependent on the reappraisal value, which is currently ongoing.

52. As part of its continuous monitoring, CBS is conducting an analysis of the increases in the levels of NPLs and its possible impact on the capital adequacy ratios of individual banks. As part of its assessment of the asset quality of the banking industry, CBS has completed the onsite examination of the bank holding the highest proportion of the banking sector's NPLs. CBS met with the senior management of the bank and has also engaged the home regulator to have their assessments of the NPLs situation and steps being taken to remedy same. Based on the outcome of the examination report and feedbacks received from relevant stakeholders, appropriate enforcement actions will be taken against the bank to address the NPL issue. CBS has extended its on-site asset quality assessment to the remaining banks. The cycle of horizontal examinations is expected to be completed by the end of the first quarter of 2024. Subsequently, as the banking sector absorbs the impact of the pandemic on their portfolio, the CBS will maintain enhanced monitoring of banks' NPL levels and loan classification standards, as well as their actions to address and reduce accumulated nonperforming loans—through both offsite and periodic onsite inspections (structural benchmark).

53. CBS intends to strengthen its supervisory framework such that it is more risk-sensitive, objective, forward-looking and continuous. CBS is in the final stages of implementing a risk-based supervision (RBS) framework, which also integrates Basel II Pillar 2 requirements. Whilst the focus is on the development of a comprehensive strategy to effectively operationalise the new RBS framework, CBS will also be assessing ways to incorporate more regular and comprehensive off-site analyses and on-site examination into its supervision. In this context, based on its 2023 examination plan, as at September 2023 CBS has successfully completed two onsite examinations including a limited scope and a horizontal, the latter focusing on banks' asset quality.

54. During 2023, CBS continued to engage 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 by end of 2023.

55. CBS is strengthening the legal basis of the Financial Stability Committee (FSC). The Financial Stability Bill was approved by the Cabinet of Ministers on October 4, 2023, and is expected to be presented to the National Assembly before end of December 2023. A draft macroprudential framework and toolkit has been developed to address the build-up of systemic risks in the banking sector. CBS plans to make a formal request for technical assistance from the IMF to finalise the framework and to build the necessary capacity to ensure its effective operationalisation.

56. 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 also received 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 by December 2023 (*structural benchmark*) and gazetted by March 2024. 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 timeframe.

57. The CBS remains committed to implementing the safeguards assessment recommendations. The policy paper, which included proposed improvements to the Bank's financial and institutional autonomy, was presented to Cabinet on July 19, 2023 (structural benchmark). To note that Emergency Lending Assistance (ELA) as liquidity support to solvent and viable banks and credit unions have also been incorporated in the proposed amendments. The policy paper was approved, subject to the Bank reconsidering certain points raised which were discussed further with the IMF and was settled on August 17, 2023. Detailed drafting instructions were sent to the Attorney General's Office (AGO) on August 31, 2023.

58. The CBS aims to strengthen its balance sheet. In line with that, CBS received technical assistance from MCM of the IMF in July 2023 to enhance knowledge on conducting stress tests on the balance sheet. Key recommendations from the mission include a capital injection and adopting a multi-year budgeting process. As part of this process, a combination of cost-cutting and recovery measures will be undertaken. Additionally, the CBS Act will be amended to provide for the Bank to retain all distributable earnings if the statutory capital is below the target level of 10 percent of monetary liabilities.

59. CBS will strengthen its legislative framework for the National Payment System such that it remains aligned with international standards and best practices. The policy paper for NPSA amendments was approved by the Cabinet of Ministers in February 2023 and the National Payment System (Amendment) Bill 2023 was submitted to the National Assembly on September 1, 2023. This was done after stakeholder consultations were undertaken on the Bill. Moreover, the amendment Bill was scrutinised by the Scrutiny of Bills Committee on September 19, 2023, and was subsequently approved by the National Assembly on September 27, 2023.

60. CBS remains committed in its efforts to modernize the National Payment System to have a payments environment that is more convenient, affordable, reliable, efficient, and safe. In regard to the establishment of a payments entity to manage payment system infrastructures, the

CBS will not proceed with the establishment of the entity and rather focus on the implementation of the systemically important payment infrastructures, namely the RTGS and the CSD. The CBS will also prioritize the implementation of the recommendations of the PFMI assessment, including building the capacity of the internal oversight function and strengthening collaboration with key partners within the ecosystem. In relation to the sun-setting of cheques, work to align CBS' timeframes for the project with the digital initiatives of the government is ongoing. The project will be undertaken in phases, starting with the cessation of issuance of personal cheques in April 2024. This will be followed by the cessation of issuance of corporate cheques in December 2025. The deadline for banks and SCU to stop accepting cheques has been set for June 2026. The final report for the study to assess the affordability and reliability of internet and network connection has been submitted to the CBS and Department of Information and Communication Technology (DICT). The report will be presented to the CBS Board of Directors and the Cabinet of Ministers for endorsement in Q4, 2023. The report will also be shared with the World Bank so as to identify areas of support in implementing the recommendations of the study.

61. CBS has started the process to implement a Central Securities Depository (CSD) and a Real Time Gross Settlement System (RTGS) alongside the new core banking system in an effort to enhance the operation of critical financial market and payment infrastructures. The request for proposal for the CSD-RTGS was issued in April 2023, and it was concluded in August 2023. The approved vendor was awarded the contract in September 2023. The CORE Banking is due to go live in Q1 2024 and the CSD and RTGS systems are expected to go live in Q3 2024.

62. CBS endeavours to establish a regulatory sandbox for financial products and services within its regulatory ambit has been postponed to 2024. As of early 2023, there is ongoing engagement with stakeholders such as the AGO to finalize the legal considerations for the sandbox, and the Department for Science, Technology and Innovation (DSTI) for the creation of a fintech cluster in the incubator. However, due to other priority projects in the payment systems landscape this year, deliverables on the sandbox will be done in 2024. The intention is to launch the sandbox by Q3 2024.

63. CBS continues to focus on empowering and protecting financial consumers in Seychelles. As part of its yearly Financial Education plan, which also includes a digital financial literacy roadmap, the CBS' focus remains on educating the public on topics such as personal financial management, consumer rights and responsibilities, and how to remain financially sound. The aim behind these initiatives is to continuously empower consumers to make more informed choices. Alongside this, the Competent Authorities continue to work on the development of supporting Regulations to be issued under the Financial Consumer Protection Act. More specifically, the CBS endeavours to focus on the Complaints Handling Regulations and the Fees and Charges Regulation, which are both expected to be issued by end of 2023. Moreover, there is a framework being developed to govern the Credit Granting and Debt Recovery process and this is expected to be completed in 2024.

64. To allow for more comprehensive credit worthiness assessment, CBS is finalizing the implementation of a new Credit Information System and the supporting legal framework. The legal framework is expected to be considered by the Parliament in mid-October 2023. The law will provide for the establishment, operation, regulation and oversight of the Credit Information System to ensure more comprehensive credit worthiness assessment. The enactment of the law will also coincide with the implementation of a new system.

65. 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 October 2023, Seychelles has submitted to the ESAAMLG Secretariat another re-rating request for technical compliance with five of the FATF Recommendations for discussion at the April 2024 meeting, namely, Recommendations 4, 6, 7, 8 and 33. The remaining technical compliance shortcoming, being Recommendation 15, would be intended to be submitted for re-rating and discussion at the September 2024 ESAAMLG meeting.

66. We have completed the second National Risk Assessment (NRA) on money laundering and terrorism financing. The NRA has identified the overall ML risk for Seychelles to be medium high. In October the Cabinet of Ministers approved an action plan to address the identified deficiencies.

67. 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-March 2024.

68. 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. As end-July 2023, 41,381 or 94 percent of the 43,710 international business companies (IBCs) in good standing with the Financial Services Authority (FSA) have submitted their BO information to the central BO database of the Financial Intelligence Unit (FIU). The FIU monitors the rate of BO information submissions and publishes monthly statistical report on its website. The Beneficial Ownership Regulations was amended in April 2023 with the aim to:

1. Clarify where 10 percent or more of any controlling ownership interest is held jointly, then each joint owner shall be treated as a separate beneficial owner.

2. Clarify that Limited Partnerships, despite being a legal arrangement, needs to follow the cascading approach to identify their beneficial owners including following special rules.

3. Improve the requirements relating to beneficial interest of beneficial owners (e.g., means and mechanisms of ownership or control, and numerical value of interest held).

4. Introduce of periodic review and verification of BO information by legal persons and legal arrangements (at least once every calendar year); and.

5. Customize the BO declaration for each type of legal person and legal arrangement (including requiring the national identity number and tax identification number, if any, of the beneficial owner/s).

The FSA continued with its inspection program during the first half of 2023. In Q1 and Q2, the FSA inspected 12 trust and company service providers, and also imposed sanctions for AML/CFT deficiencies. Pursuant to section 57(2) of the AML/CFT Act, directions have been issued to the CSPs for corrective measures (i.e., to verify the identity of the Beneficial Owners) to be implemented failing which they will be issued with fines if they remain non-compliant by the due date provided for implementing corrective measures. The CSPs have asked for an extended deadline to rectify the deficiencies to ensure compliance with the provisions of the act. The FSA will submit an end of June 2023 inspection report to the National AML/CFT Committee by October 2023. The National AML/CFT committee will put in place an action plan to address any deficiencies identified during the FSA on-site inspections.

69. 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, the revised BO Guidelines for effective collection and verification of information in the FIU central BO database are in the stages of finalization. These guidelines are expected to be issued by end-December 2023. We will ensure that the FIU has effective access to all relevant databases for purposes of verifying the information in the BO database, and will establish mechanisms for processing reports on information discrepancies found in the BO database. By end-December 2024, the BO Act will be amended to broaden access to the central BO database held by the FIU and provide information sufficient to identify the BO to financial institutions, and other reporting institutions with AML/CFT obligations (new structural benchmark). To improve accessibility, the National AML/CFT Committee will complete by end-October 2023 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. Upon completion of the new digital platform, the registered agents will be given a specific time frame to rectify discrepancies in BO information of IBCs identified during the inspection program.

70. 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). Seychelles remained on Annex II of the list of non-cooperative jurisdictions (the "EU greylist") for criterion 1.2 (tax transparency), pending the determination of the Supplementary Peer Review which was launched by the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) in June 2022. In accordance with the 2016 methodology, Seychelles submitted the Exchange of Information on Request (EOIR) Supplementary Review Questionnaire for the Second Round and underwent an on-site assessment in December 2022. The resultant draft report was presented and approved by the Peer Review Group (PRG) in June 2023 and adopted by the Global Forum in July 2023. The report as adopted provided an upgrade for Seychelles on three elements, namely Element A2 (Availability of Accounting Information) from Non-Compliant to Partially Compliant, Element B1 (Access to Information) from Partially Compliant to Largely Compliant, and Element C1 (EOIR Mechanisms) from Largely Compliant to Compliant, however, maintained the rating of Partially Compliant for Element A1 (Availability of Ownership and Identity Information) and subsequently, an overall rating of Partially Compliant. The rating in relation to Element A1 was largely due to the statistics on exchanges in practice, particularly in 2019 and 2020, whereby the Seychelles was unable to respond to a number of requests relating to one single registered agent which left Seychelles in 2018 with all their records. Despite progress to date, Seychelles was again included on the EU list of non-cooperative jurisdictions for tax purposes. The Seychelles remains committed to achieving an upgrade to overall Largely Compliant and is accordingly engaged to address the recommendations of the report with a view to submitting a request for supplementary review at the earliest.

H. Climate Change Reforms

71. 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. In 2024, additional spending has been allocated amounting to SR 111.3 million and SR 29.3 million for west coast road infrastructure development and coastal erosion on Praslin respectively. 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.

In order to enhance transparency and improve monitoring and evaluation of public expenditure towards climate change, the government is in the process of establishing a climate finance budget tagging and tracking system which shall form part of the broader National Monitoring Reporting and Verification (MRV) Framework. Seychelles is developing an MRV system in the context of the Enhanced Transparency Framework, building on previous MRV following the adoption of the Paris Agreement. The National MRV system is envisaged to contain three main components namely: MRV of emissions, mitigation and support (i.e. finance, technology transfer and capacity building). The institutional arrangements for the MRV system will be based on the provision of the national policy on climate change with established linkages to sub-national and sectoral institutions. The benefits of institutionalization include: improved inventory quality; data documentation; archiving; and transparency. The development of an MRV system will contribute to efficient measuring, reporting and verification of emissions from different sectors of the economy, thereby enhancing transparency of mitigation actions.

72. 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 is committed to scaling efforts by engaging with the Commonwealth Climate Finance Access Hub (CCFAH) to get the support of a climate finance advisors to further support scaling up of climate finance. The current climate finance advisor recently conducted a training workshop on climate finance targeting various entities from the government ministries to financial institutions. While the government has been making efforts, the climate financing gap remains large and more needs to be done in this regard. As such, government is looking to establish a national climate finance mobilization strategy that will comprehensively cover the financing instruments to unlock international climate finance from public and private sources and address the financing gap.

73. 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 frameworks for climate-related risk management 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) is integrating priority NDC objectives in the forthcoming National Development Strategy 2023-2027 to be launched early December (*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*).

74. 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.

75. 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.

76. 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 legal frameworks 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*). Work on these legal frameworks has already started and together with the recently approved Electricity and Utilities Regulatory Commission Bills will contribute to the transformation of the electricity sector into a low-carbon one. The government also intends to adopt an e-mobility regulatory framework to scale up the adoption of electric vehicles and supporting infrastructure. Research shows that operational energy use in buildings represent around 30 percent of the final energy consumption. Therefore, government is working on new draft building legislation that integrate climate adaptation and mitigation aspects and thus improve the energy performance of buildings *(Reform Measure for end-March 2024)* Moreover, the government 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.

77. 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 as well as new tax schedule to support the development of utility-scaled renewable energy plant based on an Independent Power Producer (IPP) model. 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.

78. Program Monitoring. The EFF program implementation will continue to be monitored through semi-annual reviews, quantitative performance criteria and indicative targets, continuous performance criteria, and structural benchmarks. The second review will take place on or after May 15, 2024 based on end-December 2023 quantitative targets, and the third review will take place on or after November 15, 2024 based on end-June 2024 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 continue to be monitored through Reform Measures. These are detailed in Table 3 of the MEFP.

Table 1. Seychelles: Quantitative Performance Criteria Under the 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			September 30, 2024			December 31, 2024		
	Performance Criteria			IT			Performance Criteria			IT			Performance Criteria			IT			IT		
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status
A. Quantitative performance criteria[2]																					
Net domestic financing of the government (ceiling)[3]	-8.0	-513.7	Met	-14.0	-906.2	Met	-20.0			-12.3			-24.7			-43.2			-61.7		
Primary balance of the consolidated government (floor)	-64.8	356.2	Met	-84.8	706.0	Met	-99.8			66.3			132.7			232.2			331.7		
Total revenue (floor)[4]	3790.2	4286.9	Met	6632.9	6704.5	Met	9475.5			2094.4			4188.7			7330.3			10471.8		
Net international reserves of the CBS, millions of US dollars (floor)[5]	474.0	561.9	Met	475.8	544.2	Met	477.7			540.8			547.3			557.1			566.8		
B. Continuous quantitative performance criteria (ceilings)																					
Accumulation of new external payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0			0.0			0.0			0.0			0.0		
Accumulation of new domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	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	-342.5	Met	414.3	-515.0	Met	591.9			230.3			460.7			806.1			1151.6		
Priority social expenditure (floor)[2]	712.0	840.1	Met	1246.0	1266.8	Met	1601.9			367.0			734.1			1284.7			1651.7		

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: Structural Benchmarks Under the EFF, 2023–25

Actions	Timing	Objective	Status
Fiscal and Public Financial Management Policy			
1. 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.	Met
2. Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff.	End-December 2023	Strengthen revenue mobilization.	
3. 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 expenditures	Not met. Implemented with delay in November 2023.
4. The MoFNPT to compile an inventory of existing tax expenditures on VAT and business tax, together with an estimate of annual revenue cost, and to publish as part of the official budget.	End-December 2024	Increase transparency on tax expenditures and fiscal cost.	New SB
5. 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.	Met
6. 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.	
7. (i) MoFNPT to announce in the annual budget circular that projects will not be included in the Medium Term Expenditure Strategy (MTES) if appraisal information is absent or materially incomplete; (ii) MoFNPT to establish and distribute to MDAs a set of minimum criteria to assess projects in the MTES 3-year Public Sector Investment Plan (PSIP), on the basis of which (met or not met) PIMU will recommend to the Inter-Ministerial Committee (IMC) for inclusion/deferral in the current year's budget.	End-June 2024	Improve capital expenditure execution by strengthening the framework and capacity for appraising and selecting capital projects.	New SB
Monetary Policy and Financial Stability			
8. 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.	Not met. Implemented with delay in July 2023.
9. Submit to the National Assembly amendments to the CBS Act in line with those approved by Cabinet in July 2023 and IMF staff recommendations.	End-March 2024	Address CBS recapitalization needs, in addition to safeguards assessment recommendations.	New SB
10. 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.	

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25 (concluded)

Actions	Timing	Objective	Status
11. 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.	Met
12. 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.	Not met. Implemented with delay in November 2023.
13. 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.	Not met. Reset for end-March 2024.
State-Owned Enterprises (SOEs)			
14. 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.	Not met. Implemented with delay in July 2023.
15. 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.	Not met. Reset for end-December 2023.
Real Sector Reforms			
16. 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.	Met
17. Complete the study on the dynamics of tourism on overall economy and on revenue potential.	End-June 2024		
Financial Integrity/AML/CFT			
18. Amend the Beneficial Ownership (BO) Act to broaden access to the FIU's central BO database to financial institutions, reporting institutions with AML/CFT obligations.	End-December 2024	Advance accuracy and accessibility of beneficial ownership information of entities created in Seychelles (including international business companies, limited partnerships, trusts and foundations).	New SB

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

	Reform Measures (RMs)	Tentative Target date	Status	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)**	Implemented	Critical area identified in C-PIMA	
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[1/] infrastructure projects going forward.	**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	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[1/] 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.

1 / All projects costing over SCR 1 million are classified as "major" projects.

Source: IMF staff.

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

	Reform Measures (RMs)	Tentative Target date	Status	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.