



INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C. 20431

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To Members of the International Community:

At the request of the Government of Seychelles, I would like to inform you of recent economic developments in Seychelles, and the country's relations with the International Monetary Fund.

Seychelles has made rapid progress in restoring macroeconomic stability, thanks to the liberalization of the exchange regime, a strong fiscal adjustment, and prudent monetary policies. Inflation has been near zero since March and the exchange rate has appreciated from lows early in the year. Official external reserves have recovered from near depleted levels in mid-2008 to 1.3 months of imports at end-September. Government expenditure has been tightly controlled and revenue has remained buoyant despite the difficult domestic and external environment. The primary budget surplus reached 13.4 percent of GDP in the first nine months of 2009, a large adjustment compared to 3.8 percent for the full year in 2008. GDP will fall by 7½ percent in real terms in 2009 on the impact of global recession, but the economy is responding favorably to the reforms. Real economic growth is expected to recover to 4 percent in 2010, on a rebound in tourism and FDI.

Program implementation has been exemplary and reforms continue to be pursued with a high degree of ownership and broad public support, and in spite of strong head winds from the global recession. All end-September 2009 quantitative performance criteria were met with margins and all structural benchmarks under the Stand-By Arrangement (SBA) were implemented as scheduled. The third program review was completed on December 18, 2009, and a total of SDR 11 million (about US\$17.3 million) has been disbursed under the SBA.

The reform progress in 2009 sets the stage for a coherent medium-term effort to extend the gains for growth and stability. These objectives form the core of a new three-year SDR 19.8 million (about US\$31.2 million) arrangement under the Extended Fund Facility, also approved on December 18, 2009, in replacement of the SBA. The focus now shifts to a second generation of reforms to consolidate macroeconomic stability, remove constraints to growth, improve the performance of the public sector, and support the public debt restructuring process aimed at reestablishing debt sustainability. The reforms ahead include strengthening public financial management, institutionalizing higher governance standards in the public enterprises, reforming taxation, bolstering the financial system, and improving the business environment.

Notwithstanding the government's strong fiscal adjustment and reform successes to date, and the support of the international community in the form of grants and loans, public external debt remains unsustainable without additional relief to that granted by Paris Club creditors. Seychelles thus needs further financial support from the international community, including from private creditors. A high degree of participation in the recently launch debt exchange offer to commercial bond holders is a critical element in achieving public debt sustainability and in supporting economic recovery.

Yours sincerely,

*Dominique Strauss-Kahn*