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Seychelles: First Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Financing Assurance Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Seychelles

In the context of the first review under the Stand-By Arrangement, request for waivers of nonobservance of performance criteria, and financing assurance review for Seychelles, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Financing Assurance Review, prepared by a staff team of the IMF, following discussions that ended on February 15, 2009, with the officials of Seychelles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 13, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its March 30, 2009 discussion of the staff report that completed the review.

- A statement by the Executive Director for Seychelles.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Seychelles *
Memorandum of Economic and Financial Policies by the authorities of Seychelles *
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SEYCHELLES

First Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Financing Assurance Review

Prepared by the African Department
(In consultation with other Departments)

Approved by George Tsibouris and Philip Gerson

March 13, 2009

A two-year Stand-By Arrangement (SBA) for SDR 17.6 million (200 percent of quota) was approved by the Executive Board on November 14, 2008. The first tranche of SDR 6.2 million was disbursed upon approval. SDR 0.88 million is available upon completion of the first review.

Discussions were held in Victoria January 30–February 15, 2009. Staff met with President Michel, Minister of Finance Faure, Governor Laporte of the Central Bank of Seychelles (CBS), other senior government officials, and representatives of the private sector, civil society and the diplomatic community. The mission was headed by Paul Mathieu, and included Carlos Fernandez, Patrick Imam, Yanliang Miao (all AFR), Ruben Atoyan (SPR), and Magdalena Polan (MCM).

Developments under the program at end-December 2008 were broadly satisfactory. While growth was lower and inflation higher than targeted in 2008, the liberalization of the exchange regime and interest rate have removed the severe distortions weighing on the economy and early signs of stabilization are apparent. All quantitative performance criteria at end-December 2008 were met, except on the primary fiscal balance (due to the reclassification of a net lending financing operation to the national oil company), and for a small temporary accumulation of nonreschedulable external arrears, for which waivers are sought. All three structural benchmarks were met.

The program targets for 2009 have been adjusted, primarily in light of the much more difficult external environment. The updated program aims to maintain the fiscal adjustment effort, notwithstanding a much lower growth outlook, on the strength of fiscal structural reforms. The program focuses on implementing the supporting policies for macro stabilization, continued fiscal and monetary prudence, launching a fundamental overhaul of the tax regime, and a major strengthening of public financial management.

Seychelles' public debt remains unsustainable. The debt restructuring strategy is being pursued and the authorities are in compliance with the Fund's lending into arrears policy. Program financing assurances have been received from Paris Club creditors who are treating Seychelles debt under the Evian approach.

The authorities are making strong progress in addressing the areas of concern identified in the safeguards assessment.

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Executive Summary

- **Performance under the reform program launched in November 2008 has been broadly satisfactory**. The authorities are implementing the program with determination and a high degree of ownership. The reforms are backed by broad bipartisan support and early signs of success are beginning to appear. Following the float, the rupee depreciated by about 50 percent against the U.S. dollar and interest rates rose sharply. The exchange rate has stabilized since then and the parallel exchange market has disappeared. Interest rates have begun to ease from their peaks and inflation is declining sharply.

- **Macroeconomic developments in 2008 were less favorable than expected with higher inflation and near zero growth on account of the global recession**. Government finances were significantly tightened and public sector employment is reduced sharply. While unemployment has remained low, the removal of subsidies and the decline in purchasing power are placing a strain on many households.

- **Abstracting from a reclassification of a petroleum financing facility, the primary fiscal surplus in 2008 would have exceeded the program target**. The facility, originally recorded below the line, was to assure fuel supply in the difficult period before the program began and reflected the subsidy on fuel products. Fuel subsidies ended with the launch of the program and repayment of the facility has begun.

- **The outlook for 2009 is for a sharp drop in real GDP of about 9½ percent, premised on much lower tourism receipts, and for strongly declining inflation**. The decline in petroleum and food prices and lower imports will offset some of the external earnings losses and help reduce inflation. In light of the much more difficult external environment, the primary fiscal surplus target has been lowered somewhat and a less ambitious build-up in external reserves is now programmed.

- **The main risks to the program remain the very difficult external economic environment, implementation capacity constraints, the impact of negative growth on households, and banking sector vulnerabilities**. However, the risks appear manageable and the authorities' commitment to the program is strong. The targeted social safety net scheme is functioning adequately. Bank capitalization decreased somewhat in 2008, but use of the fiscal contingency for recapitalization needs of public financial institutions is not contemplated at this time.

- **While the program financing needs are now somewhat higher that previously expected, the program is financed for 2009, assuming a public debt restructuring consistent with Seychelles' more limited payments capacity**. Good faith discussions have proceeded in parallel with different creditor groups. A second round of substantive discussions with private creditors is planned in the second half of March and negotiations with Paris Club creditors are expected in mid April.

I. Recent Economic Developments and Performance under the Program

1. **The fundamental reform program launched in October 2008, and supported by a two-year SBA, is being successfully implemented**. The liberalization of the exchange regime and introduction of a managed market based float of the rupee has removed severe distortions and constraints on the economy. Following the float, the rupee depreciated by about 50 percent against the U.S. dollar, where it broadly stabilized (Figure 1).[1] The depreciation is somewhat greater that expected, but despite transition issues in the exchange market and delays in implementing supporting measures, the market mechanism is functioning adequately. The parallel exchange market has disappeared. Controls on interest rates were lifted and their sharp rise to market-determined levels has helped stabilize the rupee. Government finances were significantly tightened and public sector employment is being reduced sharply.

2. **However, Seychelles has not been spared the deterioration in the global economy**. GDP growth in 2008 decelerated more rapidly than expected to about zero (Table 1). This reflected primarily a sharp drop-off in tourism beginning in the fourth quarter. Official unemployment statistics remained in the low single digits and some foreign workers were released.[2] Inflation jumped in November (by 24 percent) and finished the year at 63 percent (year-on-year). The November increase was primarily a one-off price level adjustment to the float of the rupee, increases in the goods and services tax (GST) and administered prices on several products, and removal of indirect subsidies. Inflation has fallen sharply in early 2009 (the month-on-month increase was 1 percent in January).

3. **The quantitative performance criteria (QPCs) for end-December 2008 were met, with the exception of the primary fiscal surplus target and the temporary accumulation of external arrears, for reasons explained below** (MEFP, ¶13 and Table 1). The three structural benchmarks for end-December were met (MEFP, Table 2). The CBS's external auditors have confirmed the NIR and reserve money data at end-December 2008.

4. **The 2008 fiscal performance was somewhat better than anticipated, abstracting from the reclassification of an on lending operation with the government owned national oil company—SEYPEC** (Table 2 and MEFP, ¶10).[3] The primary fiscal surplus, at 4 percent of GDP, breached the end December 2008 quantitative performance criterion due to the operation. In the absence of the reclassification, and abstracting from higher-than-anticipated external grants, the primary surplus would have exceeded the program target with a margin (Text Table 1). External grants exceeded program expectations, a large proportion of which were applied to the clearance of domestic arrears.[4] Despite inflationary pressures, primary spending was kept close to the program target, primarily through wage restraint. Tax

[1] Trading in U.S. dollars represents about 60 percent of the value of foreign exchange transactions.

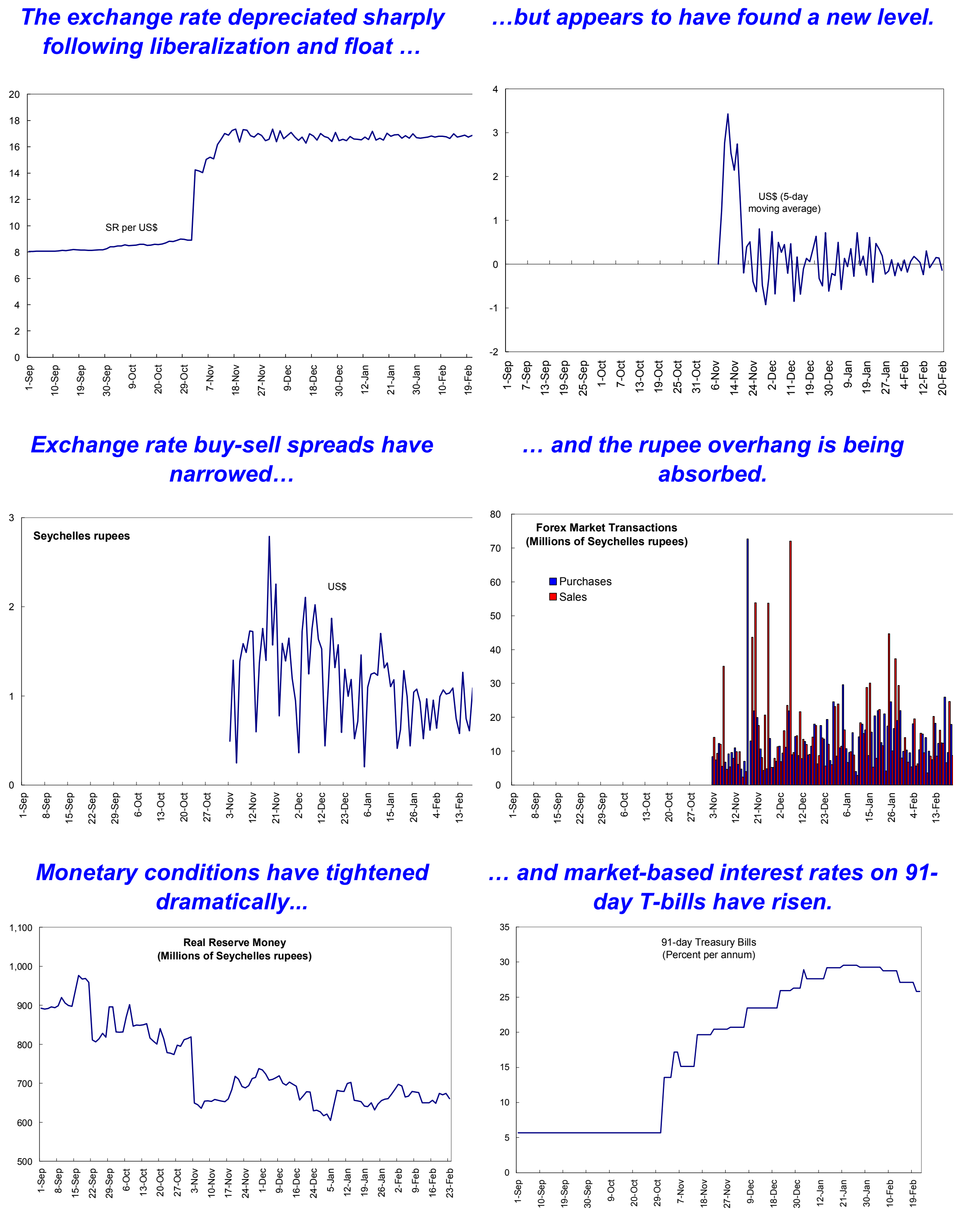
[2] There are concerns that official data do not adequately capture unemployment.

[3] The operation was not captured in the program fiscal profile for 2008.

[4] Grants received totaled US$19.9 million (US$15 million from Abu Dhabi; US$1.5 million from China; and US$3.4 million from South Africa), of which US$7.4 million was used to clear domestic arrears.

revenues met the target but were soft in the fourth quarter. The downsizing of the civil service is greater than targeted at some 3,300 staff by March 2009 (17 percent of government employees), with about a 12 percent reduction in the parastatal sector. The 2009 budget was passed and fiscal reforms implemented in line with program understandings (MEFP, ¶7-8).

Figure 1. Seychelles: Evolution of Monetary and Exchange Rates, 2008



Sources: Central Bank of Seychelles and IMF staff estimates.

Text Table 1: Impact on the Primary Fiscal Surplus of the Financing Facility to SEYPEC and Unexpected External grants, 2008-09
(in percent of GDP)

	2008		2009	
	Program	Actual	Program	Revised Program
Primary surplus	7.1	4.2	6.2	9.8
Lending operation to SEYPEC	…	8.5	…	-4.0
Primary surplus, net of SEYPEC operation	7.1	12.7	6.2	5.8
Primary surplus, net of SEYPEC operation and unexpected grants	7.1	8.9	6.2	5.8

5. **Monetary policy was tightened significantly following the lifting of controls on interest rates** (Table 3). The Central Bank of Seychelles (CBS) has been implementing with some success the new market-based monetary policy to control reserve money. While this represents a big step forward, further efforts are needed to improve liquidity forecasting and management, with ongoing Fund TA support. The CBS introduced a weekly bank deposit facility and an auction for 91-day treasury bills (open to the nonbank public). These have worked well in containing domestic liquidity and have helped support the rupee. Interest rates rose strongly—T-bill rates rose to near 30 percent—and peaked in late December 2008 and, importantly, retail deposit and lending rates also rose. Preliminary evidence to date suggests that bank portfolios are weathering the impact of higher credit risk. In late November the CBS appointed a new external auditor, PricewaterhouseCoopers, on a five-year contract, in keeping with safeguards recommendations.

6. **The external current account deficit rose to 32 percent of GDP in 2008, primarily due to the impact of high petroleum and food prices and buoyant FDI-related imports** (Table 4). The growth rate of tourism earnings began to decline in mid year and turned negative in the fourth quarter, reflecting the global slowdown. Foreign direct investment (FDI) reached a record high of US$350 million in 2008, entirely into the tourism sector. While the external position was moderately more challenging than expected under the program, gross official reserves rose to US$50.9 million (0.7 months of imports), well above the program target adjusted for higher financial support, largely on account of the release of a blocked foreign asset at the CBS.[5] Public external debt rose to 91.4 percent of GDP in 2008, of which 40.6 percent of GDP was in arrears. Progress was made with the public external debt restructuring strategy (MEFP, ¶12).

7. **The temporary accumulation of arrears to multilateral creditors in late 2008 and early 2009 reflected administrative weaknesses** (MEFP ¶13). Following repayment of these amounts there are now no outstanding arrears to multilateral creditors. Corrective actions have been taken to eliminate the risk of a recurrence and strengthen debt management

[5] A foreign asset of US$54 million, being held in the CBS's books in regard to a hotel in liquidation, was released in late October.

in the Ministry of Finance. Good faith discussions with all public external creditors have been pursued.

II. Program for 2009

A. Macroeconomic Framework

8. **The objectives of the program for 2009 have been adjusted to reflect the impact of the dramatically worsened global environment, while broadly maintaining the strength of the adjustment effort** (Figure 2). The emerging global recession will hit Seychelles hard, with a large drop in tourism (-25 percent) driving a real GDP decline of 9½ percent. FDI is expected to drop markedly to just over US$200 million. In light of this, the primary fiscal surplus and external reserves accumulation targets have been lowered somewhat. The program aims to consolidate and extend the reforms of late 2008, especially regarding PFM and the financial sector, while sustaining the tighter fiscal and monetary policies to stabilize the economy and lay the foundations of a recovery in 2010. Inflation is expected to decline quickly, to about 15 percent by end 2009, helped by lower petroleum and food prices and tight fiscal and monetary policies.

B. Fiscal Policy

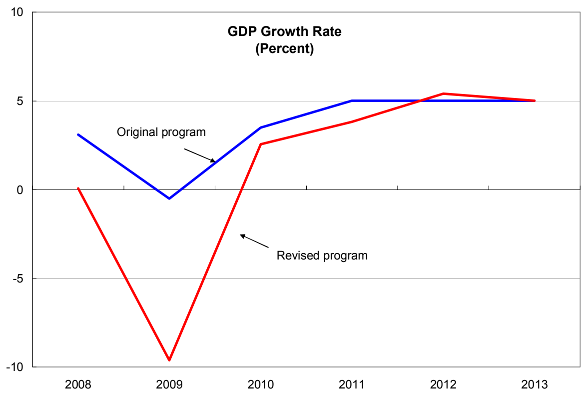
9. **While the 2009 budget was approved as per program understandings, the revenue outlook is much less favorable on account of declining tourism** (MEFP, ¶18-19). The drop in tourism-related receipts of about 3.5 percent of GDP will however, be mostly offset by higher revenues from the fishing sector (2.8 percent of GDP). On the expenditure side, larger than expected retrenchment of public employment (-17 percent in government) and restrained wage rises will reduce the wage bill by over 1½ percent of GDP. Savings from the abolition of indirect subsidies will also help contain spending in relation to the much lower GDP.

10. **The program features a major reinforcement of PFM and strengthened financial control and governance oversight of state enterprises** (MEFP, ¶20-25). External audits of the largest public enterprises and a move to a treasury single account are the key measures. With the support of the World Bank, a Public Expenditure Review (PER), focusing on the health and education sectors, has been launched to reinforce expenditure control and rationalization. The effort to privatize public assets will continue, notably for the Savings Bank and industrial units of the defunct State Marketing Board.

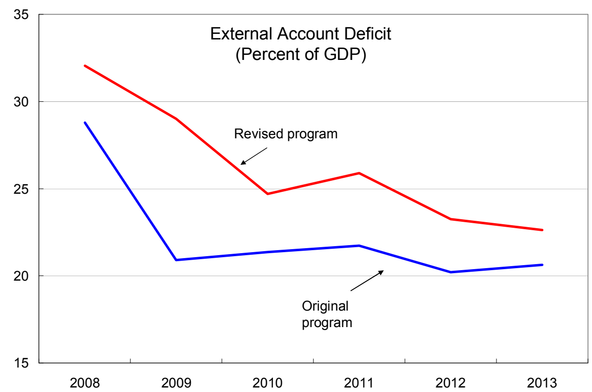
11. **The authorities will launch a fundamental tax reform by mid 2009, based on the recommendations of a FAD tax policy assessment in February**. The medium-term strategy includes the introduction of a VAT, a harmonization of tax rates and removal of preferences and special regimes for business, and personal income taxation reform. This important reform will require additional and sustained technical assistance. The start of tax audits of the 20 largest companies has been delayed but the authorities expect to meet the program objective (end-June 2009 structural performance criterion).

Figure 2. Seychelles: Comparing Program and Revised Program Forecasts, 2008–13

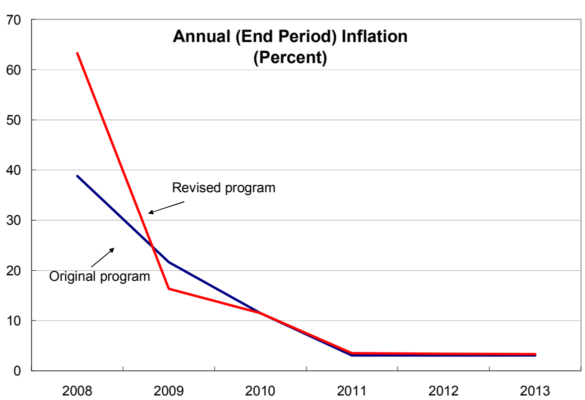
The deterioration in the external environment has strongly impacted growth…



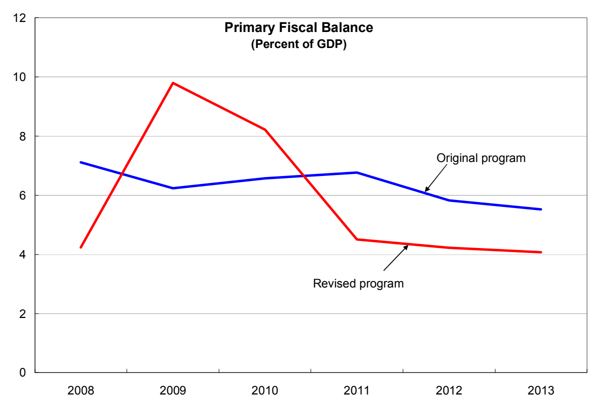
… and the external current account deficit.



Inflation spiked in November but is declining sharply following the exchange rate liberalization ...



… the fiscal tightening is on track.



Source: National Statistics Bureau and IMF staff estimates.

C. Monetary Policy, Exchange Rate, and Financial Stability

12. **In a period of weakening external demand and increased financial volatility, a prudent monetary policy will remain essential to anchor inflation expectations and restrain exchange rate depreciation.** Monetary policy will continue to be tight to return inflation to targeted levels and shore up confidence in the rupee. It is essential that domestic liquidity provision be carefully managed. In this regard, coordination between the Ministry of Finance and CBS on cash management is being strengthened.

13. **A major effort, with IMF technical assistance, is underway to strengthen the stability, accountability, and transparency of the financial system through modernized regulations, financial norms and the Financial Institutions Act** (MEFP, ¶29-31). Significant steps are also being engaged to improve governance and internal operations at the CBS, including a new CBS act, and to address areas identified in the safeguards assessment. A strategy has also been put in place to recapitalize the CBS. Ongoing IMF technical support is in place to build capacity on monetary and foreign exchange operations, banking supervision, payment systems, central bank internal audit control, external reserves management, and modernize the payment system.

14. **Banking sector capitalization decreased somewhat at end-2008 despite continued strong earnings performance**. Three banks are less than adequately capitalized and the CBS is discussing capital restoration plans. Use of the fiscal contingency for recapitalization needs of public financial institutions is not contemplated at this time (Table 9 and MEFP, ¶17), although the authorities are keeping a close watch over the situation.

D. External Sector, Financing, and Debt Sustainability

15. **The external balance is projected to improve in 2009, but the outlook is clouded by the global financial crisis.** The current account deficit is projected to improve significantly less than previously envisaged—to about 29 percent of GDP—as a drop in tourism is only partially offset by the impact of import compression driven by the devaluation of the rupee, the sharp decline in FDI and tourism-related imports, and lower petroleum and food prices. The FDI inflows drop, from record highs, reflects reduced supply of external finance as lenders and investors become more risk averse, as well as deteriorating near-term outlook for tourism. Over the medium-term, tourism earnings are expected to rebound, supported by a pipeline of FDI-financed projects, and on improved competitiveness and business environment (Tables 5 and 6). The medium-term external current account deficit is projected to improve to about 21 percent of GDP.

16. **An update of the DSA, based on the current external environment, confirms that public debt remains highly unsustainable** (Appendix II). Without a concessional debt restructuring, public external debt is projected to soar to 415 percent of GDP by 2018. Putting public debt on sustainable path will require a substantial effort from creditors to reduce the external debt burden. Even with significant debt burden reduction, Seychelles is likely to remain vulnerable to a large variety of shocks for an extended period of time.

17. **Progress has been made towards the debt restructuring envisaged under the program**. Good faith discussions have proceeded in parallel with different creditor groups. A second round of substantive discussions with private creditors is planned in the second half of March and negotiations with Paris Club creditors are expected in mid April. Paris Club creditors will treat Seychelles external debt under the Evian approach, and seem willing to negotiate both a flow and stock treatment. The authorities will need to reinforce the debt management capacity of the Ministry of Finance, in line with technical assistance provided by the Fund.

18. **The program is financed for 2009**. Development lending operations (DPL) by the World Bank and African Development Bank for 2009–10 (US$38 million) are proceeding as expected, with board approved expected in April/May. US$19 million would be available in mid-2009. Remaining financing gaps are expected to be closed by debt restructuring.

III. Program design, Monitoring, and Risks

A. Program Design and Monitoring

19. **The quarterly QPCs for June, September and December 2009 set out as indicative in Country Report No. 08/365 are now proposed to be established at the revised levels** (MEFP, Table 1). The performance criteria on the primary fiscal surplus have been made subject to a symmetric adjuster on external grants received, consistent with the NIR financing adjustor, and to better track fiscal effort. The phasing of the program has not been changed and Seychelles' should not have difficulty meeting its obligations to the Fund (Tables 7 and 8).

20. **New structural benchmarks for 2009** target strengthening governance and operations at the CBS (including to address areas identified in the safeguards assessment), upgraded bank capitalization and credit quality norms and enforcement regulations, further public sector reform, and elaboration of a tax policy reform strategy (MEFP; Table 2).

B. Risks

21. **The main risks to the program remain associated with a very difficult external economic environment, implementation capacity constraints, the impact of negative growth on households, and banking sector vulnerabilities**. The risks to the program appear manageable and the authorities' commitment to the program has been demonstrated by continued tight fiscal and monetary policies, and they have even exceeded the program's adjustment effort, most notably on the wage bill. The targeted social safety net scheme is functioning adequately and there is sufficient fiscal room provided for it in the program. Continued Fund provided technical assistance, especially to the CBS, has been invaluable to program success thus far.

IV. Staff Appraisal

22. **The program has made a good start, reflecting the authorities' strong commitment and ownership of the reforms**. Staff commends the authorities' determination to implement the program despite difficult circumstances and a major deterioration of the external environment. Continued strong bipartisan public support is key to a sustained reform effort needed to overcome Seychelles' severe imbalances. Early signs of success of the macro stabilization efforts are encouraging and have strengthened confidence in the reforms.

23. **The authorities are advised to maintain the tightened fiscal and monetary polices, which are critical to achieving the program's objectives**. The introduction of a market auction of 91 day treasury bills and subsequent rise in real interest rates to positive levels has been a key component of the program's success to date. Further coordinated efforts by the CBS and Ministry of Finance on liquidity and treasury management need to be pursued as programmed.

24. **The program includes an appropriate strengthening of public financial management, which is vitally needed in support of the fiscal sustainability effort and improved economic efficiency**. A major program objective is to reinforce financial discipline and accountability of the parastatal sector through enhanced oversight by the Ministry of Finance. The introduction of a treasury single account and preparation of a full budget for 2010 will represent major steps forward.

25. **The putting into place of the social welfare agency in November 2008 was an important element in the reform process and the staff encourages the authorities to ensure that the targeted social safety net is appropriately reinforced to protect the most vulnerable segments of society**. The program includes adequate funding for this purpose.

26. **Increased technical assistance, and project and program financial support by various development partners, are important to the success of the program.** Donor coordination has been initiated and is expected to be strengthened in the months ahead.

27. **Staff urges the authorities to reinforce their debt management capacity and to pursue their public external debt restructuring strategy, aimed at normalization of relations with creditors**. Given the good faith efforts in this regard, the authorities are in compliance with the Fund's lending into arrears policy.

28. **While the risks to the program from the deterioration in the external environment have increased, the staff believes that the policies and measures in place are sufficient to achieve the program's objectives**. In particular, the program provides sufficient fiscal space for the targeted social safety net, put in place in late 2008 and the budget contingency for potential recapitalization needs of the public financial institutions remains intact. While the program financing needs are now somewhat higher that previously expected, the program is financed for 2009, assuming that a public debt restructuring consistent with Seychelles' more limited payments capacity can be achieved.

29. In view of the strong performance to date, determined implementation of the reforms, the strength of the program, and corrective measures taken, **the staff supports the authorities' request for waivers of the performance criteria on the primary fiscal surplus and temporary accumulation of external arrears and recommends completion of the first program and financing assurances reviews**.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2005–13

	2005	2006	2007	2008		2009		2010	2011	2012	2013
	Actuals			Prog.	Est.	Prog.	Proj.	Projections			
	(Annual percentage change, unless otherwise indicated)										
National income and prices											
Nominal GDP (millions of Seychelles rupees)	4,861	5,342	6,113	7,878	7,925	9,970	9,650	11,624	12,741	13,844	14,957
Real GDP	7.5	8.3	7.3	3.1	0.1	-0.5	-9.6	2.6	3.8	5.4	5.0
CPI (annual average)	0.6	-1.9	5.3	32.2	37.0	33.8	39.2	17.9	5.8	3.2	3.0
CPI (end-of-period)	-1.1	0.5	16.8	38.8	63.3	21.6	16.3	11.5	3.0	3.0	3.0
GDP deflator average	-2.1	1.5	6.7	25.0	29.6	27.2	34.7	17.5	5.6	3.1	2.9
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)										
Money and credit											
Net claims on private sector	1.9	0.4	9.3	12.5	25.3	7.4	13.1	...	...	...	...
Broad money (M2(p)) [1]	1.7	3.0	-14.9	2.6	3.2	30.4	28.0	...	...	...	...
Reserve money (percentage change)	3.4	32.7	-23.1	3.4	0.6	20.4	20.6	...	...	...	...
Velocity (GDP/average M2)	1.0	1.1	1.5	1.9	1.9	1.8	1.8	...	...	...	...
Money multiplier (M2/reserve money)	4.5	3.5	3.6	3.6	3.7	3.9	4.0	...	...	...	...
	(Percent of GDP)										
External savings	19.7	13.9	23.4	28.8	32.1	20.9	29.3	24.6	25.8	23.2	22.5
Gross national savings	14.6	14.2	9.1	4.9	3.9	9.7	2.2	6.4	8.2	12.0	13.9
Of which: government savings	6.0	0.5	-4.9	3.1	4.6	0.3	-2.2	2.8	3.6	7.6	8.3
Gross investment	34.3	28.1	32.5	33.6	36.0	30.6	31.5	31.1	34.0	35.1	36.5
Of which: government investment	5.3	8.1	6.1	4.1	2.3	3.6	3.7	5.2	6.9	7.3	7.8
Government budget											
Total revenue, excluding grants	41.1	42.0	35.9	35.4	36.2	35.5	35.1	34.7	34.2	34.8	35.0
Identified expenditure and net lending	40.4	49.6	46.0	37.6	43.9	41.8	40.1	36.8	37.5	34.5	34.6
Current expenditure	35.1	41.5	40.8	32.2	31.6	35.3	37.3	32.0	30.6	27.2	26.8
Capital expenditure and net lending	5.3	8.0	5.1	5.4	12.4	3.6	-0.3	2.7	6.9	7.3	7.8
Overall balance, including grants	1.7	-6.2	-9.7	-1.8	-3.7	-6.1	-4.8	-2.0	-3.3	0.3	0.5
Primary balance [2]	7.3	-0.6	-2.3	7.1	4.2	6.2	9.8	8.2	4.5	4.2	4.0
Total public debt [3]	147.1	139.5	146.0	151.3	149.3	161.3	177.8	146.7	140.3	133.4	125.4
Domestic	100.5	85.8	74.1	53.5	57.8	41.5	44.2	33.2	28.4	24.7	22.2
External [3]	46.6	53.7	71.9	97.8	91.4	119.8	133.6	113.4	111.9	108.8	103.2
External sector											
Current account balance including official transfers [4]	-19.7	-13.9	-23.4	-28.8	-32.1	-20.9	-29.3	-24.6	-25.8	-23.2	-22.5
Total stock of arrears (millions of U.S. dollars)	184.0	123.5	160.4	330.6	309.6	...	...	...	...	...	...
Total stock of arrears	20.8	12.8	17.6	38.5	37.1	...	...	...	...	...	...
Total external debt outstanding (millions of U.S. dollars) [5]	486.0	521.0	710.2	840.5	762.6	879.6	805.6	858.2	898.2	933.5	943.6
Total external debt outstanding [5]	55.0	53.8	77.9	97.8	91.4	119.8	133.6	113.4	111.9	108.8	103.2
Terms of trade (= - deterioration)	4.4	-0.2	-1.2	2.1	0.4	2.4	-3.1	2.5	1.1	0.5	0.5
Real effective exchange rate (end-of-period)	-2.3	-4.0	-19.7	-8.5	-8.5	...	...	...	...	...	...
	(Millions of U.S. dollars, unless otherwise indicated)										
Gross official reserves (end of year) [6]	56.1	112.7	9.8	18.7	50.9	79.7	90.9	140.9	190.9	240.9	270.9
In months of imports, c.i.f.	0.7	1.3	0.1	0.2	0.7	0.8	1.2	1.7	2.2	2.6	2.8
Exchange rate											
Seychelles rupees per US$1 (end of period)	5.5	5.8	8.0	14.0	16.6	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	5.5	5.5	6.7	9.0	9.5	...	...	...	...	...	...

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

[1] In 2007 and earlier, M2 plus domestic currency balances earmarked for pending import requests ("pipeline").

[2] The CBS transferred SR 175 million (2.2 percent of GDP) in profit to the government in March 2008. Of this amount SR 118.7 million (1.5 percent of GDP) was revaluation gains

[3] Including arrears.

[4] The 2005 current account balance reflects the import of two tankers. High inflows of FDI associated with specific projects in 2005 and 2006 also contribute to high current account balances in those years.

[5] Includes external debt of the central bank.

[6] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

Table 2. Seychelles: Consolidated Government Operations, 2007-2010 [1] (continued)

(Millions of Seychelles rupees)

	2007	2008		2008		2009								2009		2010
	Year	Q4		Year		Q1		Q2		Q3		Q4		Year		Year
	Act.	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Proj.
Total revenue and grants	2,214.2	849.5	1,147.5	2,826.6	3,189.7	826.2	917.0	759.4	726.3	925.2	848.6	1,052.9	918.6	3,563.6	3,410.5	4,038.7
Total revenue	2,197.5	845.5	866.7	2,786.1	2,868.5	821.2	912.0	754.4	721.3	920.2	843.6	1,047.9	913.6	3,543.6	3,390.5	4,038.7
Tax	1,896.4	711.2	758.9	2,344.5	2,456.3	695.8	779.2	702.8	622.8	848.8	711.6	886.0	740.9	3,133.5	2,854.5	3,400.3
Social security tax	301.3	64.4	77.7	320.8	294.9	77.4	77.4	88.0	88.0	91.5	91.5	95.0	91.5	352.0	348.4	419.7
Trade tax	265.2	160.0	131.7	424.0	409.6	115.0	90.7	132.3	104.3	155.3	122.5	172.5	136.1	575.0	453.6	511.6
Goods and services tax (GST)	799.6	292.3	300.4	916.2	950.6	336.4	256.3	343.5	286.1	352.5	293.2	409.6	323.0	1,442.0	1,158.6	1,450.4
Business tax	360.5	150.0	130.0	516.8	524.0	106.1	115.0	107.8	110.0	168.7	170.0	168.5	156.0	551.0	551.0	663.7
Other	169.8	44.5	119.1	166.7	277.3	60.9	239.7	31.3	34.4	80.9	34.4	40.4	34.4	213.5	342.9	355.0
Nontax	301.1	134.3	107.9	441.7	412.2	125.4	132.8	51.6	98.5	71.4	132.0	161.9	172.7	410.2	536.0	638.4
Fees and charges	175.8	35.5	51.9	125.4	145.3	43.1	48.5	41.0	39.6	38.9	48.5	42.1	61.4	165.0	198.1	280.9
Dividends from parastatals	94.8	89.6	47.7	111.8	64.1	0.0	0.0	0.0	0.0	16.0	16.0	107.0	94.0	123.0	110.0	110.0
Other[2]	30.5	9.2	8.3	204.5	202.7	82.3	84.3	10.6	58.9	16.4	67.4	12.8	17.3	122.2	227.9	247.5
External grants	16.7	4.0	280.7	40.4	321.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	20.0	20.0	0.0
Expenditure and net lending	2,810.2	1,078.1	1,114.6	2,965.4	3,482.9	1,000.6	942.5	1,145.7	1,085.8	950.8	845.6	1,073.8	999.0	4,171.0	3,872.9	4,273.4
Current expenditure	2,497.2	896.0	836.8	2,540.4	2,503.5	829.1	864.2	963.6	999.1	804.7	797.7	917.2	942.6	3,514.6	3,603.5	3,714.8
Primary current expenditure	2,041.4	526.5	537.2	1,841.2	1,874.6	581.7	546.6	561.7	544.8	568.3	545.8	573.5	558.3	2,285.2	2,195.5	2,527.5
Wages and salaries	699.7	238.0	185.5	720.6	688.1	206.9	184.4	180.1	168.6	180.1	168.6	180.1	168.6	747.2	690.3	704.1
Goods and services	499.8	134.9	162.7	447.0	488.8	146.7	153.8	151.9	160.8	161.2	160.8	165.3	172.2	625.0	647.6	830.1
Interest payments due	455.8	369.5	299.6	699.1	628.9	247.4	317.6	402.0	454.2	236.4	251.8	343.7	384.3	1,229.4	1,407.9	1,187.3
Foreign interest [3]	219.4	191.0	191.3	343.7	343.8	43.8	47.9	196.3	216.9	41.0	45.2	181.4	208.4	462.5	518.4	477.6
Domestic interest	236.4	178.5	108.4	355.4	285.1	203.5	269.7	205.7	237.3	195.4	206.7	162.3	175.9	766.9	889.6	709.7
Transfers	833.6	150.3	187.3	667.6	692.0	226.2	205.9	227.7	212.9	225.0	213.9	226.1	214.9	905.1	847.4	981.2
Social program of central government	166.7	45.8	55.4	193.5	192.3	88.3	67.0	89.8	74.0	88.3	75.0	89.3	76.0	355.8	292.0	368.3
Transfers to public sector from central government	375.6	29.6	66.3	182.3	220.5	45.6	46.5	45.6	46.5	44.4	46.5	44.5	46.5	180.1	186.1	168.1
Benefits and programs of Social Security Fund	291.3	74.9	65.6	291.8	279.2	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	369.2	369.3	444.8
Other	8.3	3.3	1.7	6.0	5.7	2.0	2.6	2.0	2.6	2.0	2.6	2.0	2.6	8.0	10.2	12.0
Capital expenditure	375.7	167.5	30.5	324.2	183.2	71.5	74.3	82.1	82.7	96.1	94.0	106.7	102.4	356.4	353.4	600.7
Externally financed																
Net lending	-62.7	14.6	247.3	100.8	796.2	0.0	-96.0	0.0	-96.0	0.0	-96.0	0.0	-96.0	0.0	-384.0	-292.0
Contingency[3]						100.0	100.0	100.0	100.0	50.0	50.0	50.0	50.0	300.0	300.0	250.0
Primary balance[2]	**-140.2**	**140.8**	**332.5**	**560.3**	**335.7**	**72.9**	**292.2**	**15.7**	**94.7**	**210.8**	**254.8**	**322.8**	**304.0**	**622.0**	**945.6**	**952.6**
Overall balance, commitment basis	-596.0	-228.7	32.8	-138.8	-293.2	-174.4	-25.4	-386.3	-359.5	-25.6	2.9	-20.9	-80.3	-607.4	-462.4	-234.7
Change in arrears	59.4	-0.3	33.8	0.5	31.2	0.0	-61.5	0.0	-50.0	-181.4	-50.0	0.0	-50.0	-181.4	-211.5	0.0
External interest	3.9	0.0	157.8	10.5	166.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget	55.5	-0.3	-124.0	-10.0	-135.6	0.0	-61.5	0.0	-50.0	-181.4	-50.0	0.0	-50.0	-181.4	-211.5	0.0
Overall balance, cash basis (after grants)	-536.6	-229.0	66.6	-138.2	-262.0	-174.4	-87.0	-386.3	-409.5	-207.0	-47.1	-20.9	-130.3	-788.8	-673.9	-234.7
Financing	536.6	229.0	-66.6	138.2	262.0	42.9	-35.2	-137.6	-312.8	-7.6	-126.8	-296.3	-278.1	-398.4	-752.9	-535.4
Foreign financing	408.1	232.1	-152.7	147.3	141.6	-150.7	-171.1	-450.0	-515.5	64.4	139.1	-178.1	-190.8	-714.4	-738.2	-334.8
Disbursements	859.4	60.8	0.3	232.6	580.6	70.0	80.0	70.0	80.0	280.0	384.0	70.0	80.0	490.0	624.0	599.3
Project loans	859.4	39.2	0.3	211.0	580.6	70.0	80.0	70.0	80.0	70.0	80.0	70.0	80.0	280.0	320.0	307.3
Program/budget support	0.0	21.6	0.0	21.6	0.0	0.0	0.0	0.0	0.0	210.0	304.0	0.0	0.0	210.0	304.0	292.0
Scheduled amortization	-448.6	-260.3	-259.8	-1,621.3	-1,630.2	-220.7	-251.1	-520.0	-595.5	-215.6	-244.9	-248.1	-270.8	-1,204.4	-1,362.2	-934.1
Change in amortization arrears	-2.7	431.6	106.8	1,536.0	1,191.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	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
Domestic financing, net	-19.5	-144.4	-196.4	-218.6	-253.0	108.1	79.1	276.5	105.8	-174.0	-332.7	-289.0	-257.1	-78.4	-404.9	-400.0
Bank financing	-50.3	-137.2	-292.4	-249.9	-282.8	102.7	75.1	262.6	100.5	-165.3	-316.1	-274.5	-244.2	-74.5	-384.7	-380.0
CBS	27.9	-14.4	-278.0	-70.6	-186.6	10.8	23.7	27.6	31.8	-17.4	-99.8	-28.9	-77.1	-7.8	-121.5	-40.0
Commercial banks	-118.9	-122.8	-14.4	-179.3	-96.2	91.9	51.4	235.0	68.8	-147.9	-216.3	-245.6	-167.1	-66.7	-263.2	-340.0
Nonbank	30.7	-7.2	96.0	31.4	29.8	5.4	4.0	13.8	5.3	-8.7	-16.6	-14.4	-12.9	-3.9	-20.2	-20.0
Privatization and long-term lease of fixed assets	134.3	141.4	94.2	256.0	219.4	85.6	56.8	36.0	96.8	102.0	66.8	170.8	169.8	394.3	390.2	199.4
Statistical discrepancy	13.8	0.0	188.2	-46.4	154.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal financing gap	0.0	0.0	0.0	0.0	0.0	131.5	122.1	523.9	722.3	214.6	173.9	317.2	408.5	1,187.2	1,426.8	770.2
Memorandum item:																
External debt service due	667.9	451.3	451.1	1,965.0	1,974.0	264.5	298.9	716.3	812.4	256.6	290.1	429.5	479.2	1,666.9	1,880.6	1,411.7

Table 2. Seychelles: Consolidated Government Operations, 2007-2010 [1] (concluded)

(Percent of GDP)

	2007	2008		2008		2009								2009		2010
	Year	Q4		Year		Q1		Q2		Q3		Q4		Year		Year
	Act.	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Proj.
Total revenue and grants	36.2	10.8	14.5	35.9	40.2	8.3	9.5	7.6	7.5	9.3	8.8	10.6	9.5	35.7	35.3	34.7
Total revenue	35.9	10.7	10.9	35.4	36.2	8.2	9.5	7.6	7.5	9.2	8.7	10.5	9.5	35.5	35.1	34.7
Tax	31.0	9.0	9.6	29.8	31.0	7.0	8.1	7.0	6.5	8.5	7.4	8.9	7.7	31.4	29.6	29.3
Social security tax	4.9	0.8	1.0	4.1	3.7	0.8	0.8	0.9	0.9	0.9	0.9	1.0	0.9	3.5	3.6	3.6
Trade tax	4.3	2.0	1.7	5.4	5.2	1.2	0.9	1.3	1.1	1.6	1.3	1.7	1.4	5.8	4.7	4.4
Goods and services tax (GST)	13.1	3.7	3.8	11.6	12.0	3.4	2.7	3.4	3.0	3.5	3.0	4.1	3.3	14.5	12.0	12.5
Business tax	5.9	1.9	1.6	6.6	6.6	1.1	1.2	1.1	1.1	1.7	1.8	1.7	1.6	5.5	5.7	5.7
Other	2.8	0.6	1.5	2.1	3.5	0.6	2.5	0.3	0.4	0.8	0.4	0.4	0.4	2.1	3.6	3.1
Nontax	4.9	1.7	1.4	5.6	5.2	1.3	1.4	0.5	1.0	0.7	1.4	1.6	1.8	4.1	5.6	5.5
Fees and charges	2.9	0.5	0.7	1.6	1.8	0.4	0.5	0.4	0.4	0.4	0.5	0.4	0.6	1.7	2.1	2.4
Dividends from parastatals	1.6	1.1	0.6	1.4	0.8	0.0	0.0	0.0	0.0	0.2	0.2	1.1	1.0	1.3	1.1	0.9
Other [2]	0.5	0.1	0.1	2.6	2.6	0.8	0.9	0.1	0.6	0.2	0.7	0.1	0.2	1.3	2.4	2.1
External grants	0.3	0.1	3.5	0.5	4.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.0
Expenditure and net lending	46.0	13.7	14.1	37.6	43.9	10.0	9.8	11.5	11.3	9.5	8.8	10.8	10.4	41.8	40.1	36.8
Current expenditure	40.8	11.4	10.6	32.2	31.6	8.3	9.0	9.7	10.4	8.1	8.3	9.2	9.8	35.3	37.3	32.0
Primary current expenditure	33.4	6.7	6.8	23.4	23.7	5.8	5.7	5.6	5.6	5.7	5.7	5.8	5.8	22.9	22.8	21.7
Wages and salaries	11.4	3.0	2.3	9.1	8.7	2.1	1.9	1.8	1.7	1.8	1.7	1.8	1.7	7.5	7.2	6.1
Goods and services	8.2	1.7	2.1	5.7	6.2	1.5	1.6	1.5	1.7	1.6	1.7	1.7	1.8	6.3	6.7	7.1
Interest payments due	7.5	4.7	3.8	8.9	7.9	2.5	3.3	4.0	4.7	2.4	2.6	3.4	4.0	12.3	14.6	10.2
Foreign interest	3.6	2.4	2.4	4.4	4.3	0.4	0.5	2.0	2.2	0.4	0.5	1.8	2.2	4.6	5.4	4.1
Domestic interest	3.9	2.3	1.4	4.5	3.6	2.0	2.8	2.1	2.5	2.0	2.1	1.6	1.8	7.7	9.2	6.1
Transfers	13.6	1.9	2.4	8.5	8.7	2.3	2.1	2.3	2.2	2.3	2.2	2.3	2.2	9.1	8.8	8.4
Social program of central government	2.7	0.6	0.7	2.5	2.4	0.9	0.7	0.9	0.8	0.9	0.8	0.9	0.8	3.6	3.0	3.2
Transfers to public sector from central government	6.1	0.4	0.8	2.3	2.8	0.5	0.5	0.5	0.5	0.4	0.5	0.4	0.5	1.8	1.9	1.4
Benefits and programs of Social Security Fund	4.8	1.0	0.8	3.7	3.5	0.9	1.0	0.9	1.0	0.9	1.0	0.9	1.0	3.7	3.8	3.8
Other	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Capital expenditure	6.1	2.1	0.4	4.1	2.3	0.7	0.8	0.8	0.9	1.0	1.0	1.1	1.1	3.6	3.7	5.2
Net lending	-1.0	0.2	3.1	1.3	10.0	0.0	-1.0	0.0	-1.0	0.0	-1.0	0.0	-1.0	0.0	-4.0	-2.5
Contingency [3]		…	…	…	…	1.0	1.0	1.0	1.0	0.5	0.5	0.5	0.5	3.0	3.1	2.2
Primary balance [2]	-2.3	1.8	4.2	7.1	4.2	0.7	3.0	0.2	1.0	2.1	2.6	3.2	3.1	6.2	9.8	8.2
Overall balance, commitment	-9.7	-2.9	0.4	-1.8	-3.7	-1.7	-0.3	-3.9	-3.7	-0.3	0.0	-0.2	-0.8	-6.1	-4.8	-2.0
Change in arrears	1.0	0.0	0.4	0.0	0.4	0.0	-0.6	0.0	-0.5	-1.8	-0.5	0.0	-0.5	-1.8	-2.2	0.0
External interest	0.1	0.0	2.0	0.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget	0.9	0.0	-1.6	-0.1	-1.7	0.0	-0.6	0.0	-0.5	-1.8	-0.5	0.0	-0.5	-1.8	-2.2	0.0
Overall balance, cash basis (after grants)	-8.8	-2.9	0.8	-1.8	-3.3	-1.7	-0.9	-3.9	-4.2	-2.1	-0.5	-0.2	-1.4	-7.9	-7.0	-2.0
Financing	8.8	2.9	-0.8	1.8	3.3	0.4	-0.4	-1.4	-3.2	-0.1	-1.3	-3.0	-2.9	-4.0	-7.8	-4.6
Foreign financing	6.7	2.9	-1.9	1.9	1.8	-1.5	-1.8	-4.5	-5.3	0.6	1.4	-1.8	-2.0	-7.2	-7.7	-2.9
Disbursements	14.1	0.8	0.0	3.0	7.3	0.7	0.8	0.7	0.8	2.8	4.0	0.7	0.8	4.9	6.5	5.2
Project loans	14.1	0.5	0.0	2.7	7.3	0.7	0.8	0.7	0.8	0.7	0.8	0.7	0.8	2.8	3.3	2.6
Program/budget support	0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	2.1	3.2	0.0	0.0	2.1	3.2	2.5
Scheduled amortization	-7.3	-3.3	-3.3	-20.6	-20.6	-2.2	-2.6	-5.2	-6.2	-2.2	-2.5	-2.5	-2.8	-12.1	-14.1	-8.0
Change in amortization arrears	0.0	5.5	1.3	19.5	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	…	…	…	…	…	…	…	…	0.0	0.0	0.0
Domestic financing, net	-0.3	-1.8	-2.5	-2.8	-3.2	1.1	0.8	2.8	1.1	-1.7	-3.4	-2.9	-2.7	-0.8	-4.2	-3.4
Bank financing	-0.8	-1.7	-3.7	-3.2	-3.6	1.0	0.8	2.6	1.0	-1.7	-3.2	-2.8	-2.4	-0.7	-4.0	-3.3
Nonbank	0.5	-0.1	1.2	0.4	0.4	0.1	0.0	0.1	0.1	-0.1	-0.2	-0.1	-0.1	0.0	-0.2	-0.2
Privatization and long-term lease of fixed assets	2.2	1.8	1.2	3.2	2.8	0.9	0.6	0.4	1.0	1.0	0.7	1.7	1.8	4.0	4.0	1.7
Statistical discrepancy	0.2	0.0	2.4	-0.6	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal financing gap	0.0	0.0	0.0	0.0	0.0	1.3	1.3	5.3	7.5	2.2	1.8	3.2	4.2	11.9	14.8	6.6
Memorandum item:																
Nominal GDP	6,113.2	7,877.7	7,925.5	7,877.7	7,925.5	9,970.1	9,649.9	9,970.1	9,649.9	9,970.1	9,649.9	9,970.1	9,649.9	9,970.1	9,649.9	11,623.7
Domestic debt (percent of GDP)	74.1	…	57.8	53.5	59.2	…	…	…	…	…	…	…	…	41.5	44.2	33.2

Sources: Ministry of Finance; Social Security Fund; Pension Fund; Central Bank of Seychelles (CBS); and IMF staff estimates and projections.

[1] Includes the central government and the social security system.

[2] The CBS transferred SR 175 million (2.2 percent of GDP) in profit to the government in March 2008. Of this amount SR 118.7 million (1.5 percent of GDP) was revaluation gains.

[3] This is created to cover potential losses in state-controlled financial institutions.

Table 3. Seychelles: Monetary Survey and Central Bank Accounts, 2007–09

	2007	2008					2009							
	Dec.	Mar.	Jun.	Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Act.	Act.	Act.	Act.	Prog.	Act.	Prog.	Proj	Prog.	Rev. prog.	Prog.	Rev. prog.	Prog.	Rev. prog.
	(Seychelles rupees millions, unless otherwise indicated)													
Monetary Survey														
Net foreign assets	426.5	425.6	481.6	733.0	1,738.1	1,824.0	1,822.1	1,931.9	1,844.2	2,054.3	2,443.1	2,288.7	2,814.2	2,603.1
Central bank	322.5	406.3	319.5	776.0	1,320.3	1,049.5	1,334.3	1,120.3	1,286.5	1,178.7	1,815.3	1,317.1	2,116.4	1,583.5
Deposit money banks	104.0	19.4	162.1	-43.0	417.7	774.4	487.7	811.6	557.7	875.6	627.7	971.6	697.7	1,019.6
Net domestic assets	4,207.0	4,218.4	4,386.5	4,149.2	3,694.8	4,113.5	3,748.3	3,770.4	4,024.9	3,977.0	4,039.6	4,046.8	3,922.4	4,492.4
Domestic credit	5,100.4	5,067.8	5,324.7	5,407.4	5,358.2	5,945.5	5,413.6	5,311.4	5,687.2	5,558.0	5,704.0	5,647.9	5,588.7	6,113.4
Net claims on the government	3,170.5	3,032.2	3,252.4	3,180.1	2,928.3	2,887.7	3,030.9	2,962.8	3,293.7	3,063.3	3,128.4	2,747.2	2,853.9	2,503.0
Credit to the economy	1,929.9	2,035.6	2,072.3	2,227.3	2,429.9	3,057.8	2,382.7	2,348.6	2,393.5	2,494.7	2,575.5	2,900.6	2,734.8	3,610.4
Other items, net (assets = +)	-893.4	-849.4	-938.2	-1,258.2	-1,663.3	-1,832.0	-1,665.3	-1,541.1	-1,662.3	-1,581.1	-1,664.3	-1,601.1	-1,666.3	-1,621.1
M3	4,680.9	4,716.3	4,874.0	4,829.8	5,432.9	5,952.3	5,570.4	5,702.3	5,869.1	6,031.3	6,482.7	6,335.5	6,736.6	7,095.5
Foreign currency deposits	639.7	746.5	680.2	574.2	1,288.0	1,782.8	1,330.0	1,632.0	1,330.0	1,664.0	1,330.0	1,696.0	1,330.0	1,760.0
M2	4,041.2	3,969.8	4,193.8	4,255.7	4,144.9	4,169.5	4,240.4	4,070.3	4,539.1	4,367.3	5,152.7	4,639.5	5,406.6	5,335.5
Currency in circulation	450.6	442.4	447.7	443.6	477.6	477.6	468.9	469.3	474.6	475.0	469.8	470.6	506.3	506.7
Local currency deposits	3,590.6	3,527.4	3,746.1	3,812.1	3,667.3	3,691.9	3,771.4	3,600.9	4,064.5	3,892.3	4,682.9	4,168.9	4,900.2	4,828.8
Central Bank														
Net foreign assets	322.5	406.3	319.5	776.0	1,320.3	1,049.5	1,334.3	1,120.3	1,286.5	1,178.7	1,815.3	1,317.1	2,116.4	1,583.5
Foreign assets	322.5	406.3	319.5	776.0	1,451.7	1,207.0	1,465.7	1,277.7	1,437.2	1,357.7	1,985.3	1,517.7	2,305.7	1,805.7
Of which : official reserves	78.6	141.1	113.9	135.9	261.7	842.8	275.7	925.7	247.2	1,005.7	795.3	1,165.7	1,115.7	1,453.7
Foreign liabilities	0.0	0.0	0.0	0.0	131.4	157.4	131.4	157.4	150.7	179.0	170.0	200.6	189.3	222.2
Of which : use of Fund resources	0.0	0.0	0.0	0.0	131.3	157.4	131.3	157.4	150.6	178.9	169.9	200.5	189.3	222.1
Net domestic assets	790.5	734.5	962.8	495.1	-169.0	70.4	-188.3	26.3	-25.6	87.2	-422.7	-6.5	-730.1	-232.7
Domestic credit	1,102.6	894.6	1,093.5	1,091.8	549.3	699.2	532.0	601.8	691.7	702.7	296.6	629.0	-8.8	422.8
Government (net)	1,094.9	857.8	1,088.1	1,186.3	1,032.2	908.3	1,043.0	932.0	1,070.7	963.8	1,053.3	863.9	1,024.4	786.8
Nongovernment credit	7.6	36.8	5.3	-94.4	-482.9	-209.1	-511.0	-330.2	-379.0	-261.0	-756.7	-234.9	-1,033.2	-364.0
Other items, net	-312.1	-160.0	-130.7	-596.7	-718.3	-628.8	-720.3	-575.5	-717.3	-615.5	-719.3	-635.5	-721.3	-655.5
Reserve money	1,113.1	1,140.8	1,282.3	1,271.1	1,151.4	1,119.9	1,146.0	1,146.6	1,260.9	1,265.9	1,392.6	1,310.6	1,386.3	1,350.8
Memorandum items:														
Gross international reserves (US$ millions)	9.8	17.7	14.3	16.5	18.7	50.9	19.7	57.9	17.7	62.9	56.8	72.9	79.7	90.9
Foreign Currency Deposits (US$ millions)	80.0	93.5	85.4	69.8	92.0	107.6	95.0	102.0	95.0	104.0	95.0	106.0	95.0	110.0
M2 growth (12–month percent change)	-14.9	-17.3	-15.5	7.7	2.6	3.2	6.8	2.5	8.2	4.1	8.3	9.0	30.4	28.0
M3 growth (12–month percent change)	-7.6	-9.5	-7.9	8.0	16.1	27.2	18.1	20.9	20.4	23.7	18.4	31.2	24.0	19.2
Credit to the economy (12–month percent change)	32.7	34.5	26.6	22.4	25.9	58.4	17.1	15.1	15.5	20.1	10.2	30.0	12.5	17.9
Reserve money (12–month percent change)	-23.1	-32.4	-21.0	17.4	3.4	0.6	0.5	0.5	-1.7	-1.3	9.6	3.1	20.4	20.6
Money multiplier (M2/reserve money)	3.6	3.5	3.3	3.3	3.6	3.7	3.7	3.5	3.6	3.5	3.7	3.5	3.9	4.0
Velocity (GDP/M2; end of period)	1.5	1.6	1.7	1.7	1.9	1.9	2.0	2.0	2.0	2.0	1.8	2.0	1.8	1.8
Velocity (GDP/M3; end of period)	1.3	1.4	1.4	1.5	1.5	1.3	1.5	1.5	1.5	1.4	1.5	1.4	1.5	1.4
Changes in net credit to government (millions of Rupees)	-221.0	-138.3	220.2	-72.4	-137.2	-292.4	102.7	75.1	365.4	100.5	200.2	-316.1	-74.4	-244.2
Real M2 Index (Mar.06 = 100)	74.6	65.6	67.1	63.0	55.0	47.1	51.0	47.0	51.4	47.6	57.1	47.8	59.0	51.8
Real M3 Index (Mar.06 = 100)	81.8	73.8	73.9	67.7	68.3	63.7	63.4	62.4	63.0	62.2	68.0	61.8	69.6	65.3

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

Table 4. Seychelles: Balance of Payments, 2007-10
(Millions of U.S. dollars)

	2007	2008				2008		2009				2009		2010
	Act.	Q1	Q2	Q3	Q4	Prog.	Proj.	Q1	Q2	Q3	Q4	Prog.	Proj.	Proj.
Current account	-213	-71	-74	-95	-27	-247	-267	-32	-53	-49	-42	-153	-177	-186
(Percent of GDP)	-23	-9	-9	-11	-3	-29	-32	-5	-9	-8	-7	-21	-29	-25
Trade balance	-175	-69	-60	-82	-25	-216	-235	-32	-27	-23	-24	-85	-105	-109
Exports of goods	392	118	112	140	121	511	491	89	81	107	94	533	370	404
Of which: oil re-exports	190	65	62	78	55	293	260	33	32	40	28	307	132	164
Of which: tuna exports	184	50	46	58	60	198	215	53	45	63	59	202	219	222
Imports of goods	-734	-223	-216	-245	-185	-854	-868	-134	-127	-144	-150	-769	-555	-593
Oil imports	-236	-79	-98	-93	-68	-337	-339	-29	-43	-31	-40	-327	-143	-175
FDI-related imports	-153	-51	-62	-70	-55	-190	-237	-33	-41	-46	-36	-165	-156	-164
Other	-345	-93	-56	-82	-62	-327	-292	-72	-44	-67	-74	-277	-256	-254
Exports of services	481	145	131	128	119	505	523	102	89	97	96	517	383	401
Of which: tourism earnings	284	82	71	63	59	303	276	56	48	52	52	318	207	217
Imports of services	-313	-108	-87	-105	-81	-377	-381	-89	-69	-82	-63	-366	-303	-320
Income, net	-72	-13	-24	-26	-21	-68	-84	-19	-33	-36	-30	-109	-118	-131
Of which: transfers of profits and dividends	-33	-9	-8	-18	-4	-28	-39	-15	-18	-28	-13	-74	-74	-84
Of which: interest payments	-33	-2	-14	-3	-14	-33	-33	-3	-14	-3	-13	-33	-32	-31
Current transfers, net	33	11	10	12	19	37	51	18	7	9	11	41	46	53
General government, net	10	4	3	5	17	14	30	14	3	3	4	19	24	30
Other sectors, net	23	7	6	6	2	23	22	4	5	6	7	22	22	23
Capital and financial account	261	64	69	19	17	130	168	32	11	47	33	130	124	162
Capital account	8	0	0	4	0	4	5	1	1	1	1	6	3	3
Financial account	254	64	69	15	17	126	164	31	10	46	33	124	121	158
Direct investment, net	225	62	68	158	65	296	354	50	51	48	52	208	200	211
Portfolio investment, net	31	0	0	0	0	1	1	0	0	0	0	0	0	0
Other investment, net	-2	2	0	-144	-49	-171	-191	-19	-40	-1	-19	-84	-79	-52
Assets	-66	-22	-27	10	-39	-13	-78	-4	-4	-4	-4	-13	-16	-15
Liabilities	63	24	28	-154	-10	-158	-112	-15	-36	3	-15	-71	-63	-37
Government and government-guaranteed	34	-5	47	-133	-18	-155	-109	-11	-32	9	-12	-48	-46	-22
Disbursements	101	2	70	1	0	26	73	5	5	24	5	35	39	39
Project loans	101	2	70	1	0	24	73	5	5	5	5	20	20	20
Program loans	0	0	0	0	0	2	0	0	0	19	0	15	19	19
Amortization	-67	-7	-22	-135	-18	-181	-181	-16	-37	-15	-17	-83	-85	-61
Parastatals	42	-3	-1	-3	-1	-7	-7	0	0	0	0	-3	0	0
Disbursements	49	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	-7	-3	-1	-3	-1	-7	-7	0	0	0	0	-3	0	0
Other	-12	32	-19	-18	9	5	4	-4	-4	-6	-3	-20	-17	-16
Net errors and omissions	-8	2	-13	1	-7	14	-17	0	0	0	0	0	0	0
Overall balance	40	-5	-17	-76	-17	-104	-116	-1	-41	-2	-9	-23	-53	-25
Financing	-40	5	17	76	17	104	116	-7	-4	-9	-17	-62	-36	-36
Change in net international reserves (increase: –)	49	-10	11	-2	-25	5	-27	-7	-4	-9	-17	-57	-36	-36
Change in gross official reserves (increase: –)	49	-10	11	-2	-34	-4	-36	-7	-5	-10	-18	-61	-40	-50
Prospective liabilities to IMF, net	0	0	0	0	10	9	10	0	1	1	1	4	4	14
Other NFA (increase: –)	0	0	0	-54	54	-54	0	0	0	0	0	0	0	0
Change in arrears (increase: +) [1]	-89	16	6	132	-12	152	142	0	0	0	0	-5	0	0
Of which: public sector new arrears	6	4	5	127	19	170	154	0	0	0	0	0	0	0
Debt relief	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	8	45	11	26	85	89	61
Memorandum items:														
Exports growth, percent	-8.2	17.4	32.9	45.9	9.3	30.4	25.4	-24.5	-27.8	-23.9	-22.9	4.3	-24.7	9.1
Tourism growth, percent	25.1	48.2	15.2	-5.5	-36.4	6.6	-2.7	-32.0	-33.3	-18.4	-12.3	5.0	-25.0	5.0
Imports growth, percent	2.5	49.5	21.5	43.3	-22.0	16.3	18.2	-40.1	-41.0	-41.2	-18.5	-10.0	-36.0	6.8
Exports, percent of GDP	42.9	…	…	…	…	59.4	58.9	…	…	…	…	72.6	61.4	53.4
Imports, percent of GDP	80.5	…	…	…	…	99.4	104.1	…	…	…	…	104.8	92.1	78.4
FDI, percent of GDP	24.6	…	…	…	…	34.4	42.4	…	…	…	…	28.4	33.1	27.8
Gross international reserves (stock, e.o.p.) [2]	10	18	14	17	51	19	51	58	63	73	91	80	91	141
Months of prospective imports of goods and services	0.1	…	…	…	…	0.2	0.7	…	…	…	…	0.8	1.2	1.7
Scheduled public external debt service [3,4]	100	12	37	140	32	222	222	19	51	18	30	119	118	92
(Percent of exports of goods and services)	11.4	4.4	15.3	52.3	13.4	22	21.8	9.8	30.0	8.9	15.8	11.3	15.6	11.4
Public external debt [4]	710	...	...	...	...	840	763	...	...	...	...	880	806	858
(Percent of GDP)	77.9	...	...	...	...	97.8	91.4	...	...	...	...	119.8	133.6	113.4
Of which: arrears [3,4]	160	...	...	...	...	331	310	...	...	...	...	331	310	310
(Percent of GDP)	17.6	...	...	...	...	38.5	37.1	...	...	...	...	45	51.3	40.9
Cash available for debt service	...	...	...	...	...	...	...	11.0	5.6	7.3	4.4	34.3	28.4	30.6
GDP	912	...	...	...	...	859	834	...	...	...	...	734	603	756

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

[1] In 2008, includes accelerated promissory notes. In 2008-09, includes repayment of accrued investor profits.

[2] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

[3] Debt service projections are based on existing stock of debt and identified new borrowing, assuming no debt restructuring and no repayment of arrears.

[4] Preliminary and subject to reconciliation with creditors. Includes CBS external debt.

Table 5. Seychelles: Balance of Payments, 2007–13
(Millions of U.S. dollars)

	2007	2008		2009		2010	2011	2012	2013
	Act.	Prog.	Proj.	Prog.	Proj.	Projections			
Current account	-213	-247	-267	-153	-177	-186	-207	-199	-206
(Percent of GDP)	-23	-29	-32	-21	-29	-25	-26	-23	-23
Trade balance	-175	-216	-235	-85	-105	-109	-113	-106	-94
Exports of goods	392	511	491	533	370	404	430	456	484
Of which: oil re-exports	190	293	260	307	132	164	187	209	233
Of which: tuna exports	184	198	215	202	219	222	225	227	229
Imports of goods	-734	-854	-868	-769	-555	-593	-637	-678	-719
Oil imports	-236	-337	-339	-327	-143	-175	-197	-218	-241
FDI-related imports	-153	-190	-237	-165	-156	-164	-184	-196	-211
Other	-345	-327	-292	-277	-256	-254	-256	-264	-267
Exports of services	481	505	523	517	383	401	435	480	529
Of which: tourism earnings	284	303	276	318	207	217	237	262	289
Imports of services	-313	-377	-381	-366	-303	-320	-341	-364	-388
Income, net	-72	-68	-84	-109	-118	-131	-148	-147	-167
Of which: transfers of profits and dividends	-33	-28	-39	-74	-74	-84	-101	-121	-142
Of which: interest payments	-33	-33	-33	-33	-32	-31	-31	-10	-10
Current transfers, net	33	37	51	41	46	53	54	54	55
General government, net	10	14	30	19	24	30	31	31	31
Other sectors, net	23	23	22	22	22	23	23	24	24
Capital and financial account	261	130	168	130	124	162	-7	256	254
Capital account	8	4	5	6	3	3	4	5	5
Financial account	254	126	164	124	121	158	-11	251	250
Direct investment, net	225	296	354	208	200	211	236	252	272
Portfolio investment, net	31	1	1	0	0	0	0	0	0
Other investment, net	-2	-171	-191	-84	-79	-52	-248	-1	-23
Assets	-66	-13	-78	-13	-16	-15	-10	-10	-10
Liabilities	63	-158	-112	-71	-63	-37	-238	9	-13
Government and government-guaranteed	34	-155	-109	-48	-46	-22	-219	27	9
Disbursements	101	26	73	35	39	39	40	41	21
Project loans	101	24	73	20	30	30	30	31	21
Program loans	0	2	0	15	9	9	10	10	0
Amortization	-67	-181	-181	-83	-85	-61	-259	-13	-12
Parastatals	42	-7	-7	-3	0	0	0	0	0
Disbursements	49	0	0	0	0	0	0	0	0
Amortization	-7	-7	-7	-3	0	0	0	0	0
Other	-12	5	4	-20	-17	-16	-19	-18	-22
Net errors and omissions	-8	14	-17	0	0	0	0	0	0
Overall balance	40	-104	-116	-23	-53	-25	-214	57	48
Financing	-40	104	116	-62	-36	-36	-50	-55	-39
Change in net international reserves (increase: –)	49	5	-27	-57	-36	-36	-50	-55	-39
Change in gross official reserves (increase: –)	49	-4	-36	-61	-40	-50	-50	-50	-30
Prospective liabilities to IMF, net	0	9	10	4	4	14	0	-5	-9
Other NFA (increase: –)	0	-54	0	0	0	0	0	0	0
Change in arrears (increase: +) [1]	-89	152	142	-5	0	0	0	0	0
Of which: public sector new arrears	6	170	154	0	0	0	0	0	0
Debt relief	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	85	89	61	264	-2	-9
Memorandum items:									
Exports growth, percent	-8.2	30.4	25.4	4.3	-24.7	9.1	6.5	6.0	6.0
Tourism growth, percent	25.1	6.6	-2.7	5.0	-25.0	5.0	9.0	10.5	10.5
Imports growth, percent	2.5	16.3	18.2	-10.0	-36.0	6.8	7.4	6.5	6.0
Exports, percent of GDP	42.9	59.4	58.9	72.6	61.4	53.4	53.6	53.2	52.9
Imports, percent of GDP	80.5	99.4	104.1	104.8	92.1	78.4	79.4	79.0	78.6
FDI, percent of GDP	24.6	34.4	42.4	28.4	33.1	27.8	29.5	29.4	29.8
Gross international reserves (stock, e.o.p.) [2]	10	19	51	80	91	141	191	241	271
Months of prospective goods and services imports	0.1	0.2	0.7	0.8	1.2	1.7	2.2	2.6	2.8
Scheduled public external debt service [3, 4]	100	222	222	119	118	92	290	28	31
(Percent of goods and services exports)	11.4	22	21.8	11	15.6	11.4	33.5	3.0	3.1
Public external debt [4]	710	840	763	880	806	858	898	933	944
(percent of GDP)	77.9	97.8	91.4	119.8	133.6	113.4	111.9	108.8	103.2
Of which: arrears [3, 4]	160	331	310	331	310	310	310	310	310
(percent of GDP)	17.6	38.5	37.1	45	51.3	40.9	38.6	36.1	33.9
Cash available for debt service	...	...	...	34.3	28.4	30.6	25.3	30.1	39.9
GDP	912	859	834	734	603	756	802	858	914

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.
[1] In 2008, includes accelerated promissory notes. In 2008–09, includes repayment of accrued investor profits.
[2] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.
[3] Debt service projections are based on existing stock of debt and identified new borrowing, assuming no debt restructuring and no repayment of arrears.
[4] Preliminary and subject to reconciliation with creditors. Includes CBS external debt.

Table 6. Seychelles: Projected Financing Requirements and Sources, 2008–18
(Millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2018
External Financing									
Gross financing requirements	379.7	326.0	328.4	547.8	298.7	289.0	296.2	318.1	407.5
External current account deficit (excl. official transfers)	297.0	200.5	216.8	237.7	229.3	236.9	245.2	257.7	311.1
Amortization of public debt [1]	188.7	85.1	60.8	259.1	13.2	12.0	12.3	11.0	21.4
Change in arrears (repayment = +)	-142.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross reserves accumulation (increase =+)	36.2	40.0	50.0	50.0	50.0	30.0	30.0	45.0	75.0
IMF repurchases and charges	0.0	0.4	0.8	1.0	6.2	10.1	8.7	4.4	0.0
Available financing	379.7	236.9	267.1	283.5	300.7	297.6	320.5	348.7	438.2
Foreign direct investment	353.6	199.9	210.6	236.4	252.2	272.3	293.9	317.3	399.0
Disbursements of program support [2]	0.0	19.0	19.0	20.0	20.0	0.0	0.0	0.0	0.0
Multilateral	0.0	19.0	19.0	20.0	20.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disbursements of project loans	72.8	20.0	20.0	20.0	20.6	21.2	21.9	22.5	24.6
Possible debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	9.6	4.0	13.5	0.0	0.0	0.0	0.0	0.0	0.0
Other flows [3]	-56.3	-6.0	4.0	7.1	7.9	4.1	4.8	8.9	14.6
External flow financing gap	0.0	89.2	61.2	264.3	-1.9	-8.6	-24.3	-30.6	-30.7
External arrears clearance		309.6							
Total financing need		398.8	61.2	264.3	-1.9	-8.6	-24.3	-30.6	-30.7
Fiscal Financing									
Gross fiscal requirements									
Debt service	258.9	173.1	138.1	321.4	46.6	44.9	42.9	41.1	49.4
Interest payments due	70.2	88.0	77.3	62.4	33.4	32.8	30.6	30.0	28.0
Domestic	37.4	55.6	46.2	31.9	23.8	22.9	20.8	20.1	17.1
External	32.8	32.4	31.1	30.5	9.6	9.9	9.9	10.0	11.0
External principal repayments due [1]	188.7	85.1	60.8	259.1	13.2	12.0	12.3	11.0	21.4
Source of funds	246.7	84.0	87.9	67.2	71.4	59.4	69.6	73.8	81.1
Primary balance	35.3	59.1	62.0	36.0	36.1	37.0	37.0	37.5	33.6
Privatization and long-term leases	23.1	24.4	13.0	7.0	7.1	7.2	7.5	7.7	8.5
Domestic (net)	-26.6	-25.3	-26.0	-15.7	-12.4	-6.1	3.2	6.1	14.4
External disbursements	72.8	39.0	39.0	40.0	40.6	21.2	21.9	22.5	24.6
Change in fiscal arrears (net)	142.1	-13.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal flow financing gap [4]	12.2	89.2	50.1	254.2	-24.8	-14.5	-26.6	-32.8	-31.6
External arrears clearance		309.6							
Total financing need		398.8	50.1	254.2	-24.8	-14.5	-26.6	-32.8	-31.6

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

[1] On existing debt and disbursements of new assumed debt, excluding IMF.
[2] Includes loans and grants.
[3] Includes all other net financial flows and errors and omissions.
[4] In 2008, this also includes the statistical discrepancy and valuation changes.

Table 7. Seychelles: Fund Disbursements and Timing of Reviews Under the Two-Year Stand-By Arrangement, 2008–10 [1]

Review	Date availability	Conditions	Amount (millions of SDR)	Amount (percent of quota)
	November 14, 2008	Board approval of the SBA arrangement – disbursed	6.16	70
First	March 15, 2009	Completion of first review (end-December 2008 quantitative performance criteria)	0.88	10
Second	June 15, 2009	Completion of second review (end-March 2009 quantitative performance criteria)	0.88	10
Third	September 15, 2009	Completion of third review (end-June 2009 quantitative performance criteria and relevant structural performance criterion)	0.88	10
Fourth	December 15, 2009	Completion of fourth review (end-September 2009 quantitative performance criteria)	2.20	25
Fifth	March 15, 2010	Completion of fifth review (end-December 2009 quantitative performance criteria)	2.20	25
Sixth	June 15, 2010	Completion of sixth review (end-March 2010 quantitative performance criteria)	2.20	25
Seventh	September 15, 2010	Completion of seventh review (end-June 2010 quantitative performance criteria)	2.20	25

Source: IMF.

[1]The access and phasing in the two year stand by arrangement reflects the access and phasing described in this table.

Table 8. Seychelles: Indicators of Fund Credit, 2008-15
(Millions of SDR)

	2008	2009	2010	2011	2012	2013	2014	2015
		Projections						
Existing Fund credit								
Stock [1]	6.2	6.2	6.2	6.2	3.1	0.0	0.0	0.0
Obligation	0.0	0.1	0.1	0.1	3.2	3.1	0.0	0.0
Proposed SBA								
Disbursements	6.2	2.6	8.8	0.0	0.0	0.0	0.0	0.0
Stock [1]	6.2	8.8	17.6	17.6	14.2	8.1	2.8	0.0
Obligations [2]	0.0	0.3	0.5	0.6	4.0	6.5	5.6	2.8
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	3.4	6.1	5.4	2.8
Charges and interest	0.0	0.3	0.5	0.6	0.6	0.4	0.2	0.1
Stock of existing and prospective Fund credit [1]	6.2	8.8	17.6	17.6	14.2	8.1	2.8	0.0
Percent of quota	70.0	100.0	200.0	200.0	161.3	92.5	31.3	0.0
Percent of GDP	1.1	2.0	3.6	3.4	2.6	1.4	0.4	0.0
Percent of exports of goods and services	0.9	1.8	3.4	3.1	2.3	1.2	0.4	0.0
Percent of gross reserves	18.5	14.9	19.3	14.3	9.1	4.7	1.4	0.0
Obligations to the Fund from existing and prospective Fund arrangements	0.0	0.3	0.5	0.6	4.0	6.5	5.6	2.8
Percent of quota	0.3	3.0	5.7	7.3	45.6	73.8	63.6	31.8
Percent of GDP	0.0	0.1	0.1	0.1	0.7	1.1	0.9	0.4
Percent of exports of goods and services	0.0	0.1	0.1	0.1	0.7	1.0	0.8	0.4
Percent of gross reserves	0.1	0.4	0.5	0.5	2.6	3.7	2.9	1.3

Sources: IMF Finance Department; and IMF staff estimates and projections.
[1] End of period.
[2] Repayment schedule based on repurchase obligations.

Table 9. Seychelles: Financial Soundness Indicators for the Banking Sector, 2004-08

(Percent, at period's end, unless otherwise indicated)

	2004	2005	2006	2007	2008	
					June	December
Financial Sector Indicators						
Regulatory capital to risk-weighted assets	21.6	20.3	19.6	15.4	17.0	12.0
Regulatory tier 1 capital to risk-weighted assets	…	…	…	14.8	…	11.3
Tangible net capitalization	…	…	…	4.5	…	4.4
Capital (net worth) to assets	5.9	6.2	6.6	6.9	7.0	8.6
Foreign exchange loans to total loans	9.5	14.5	21.8	25.1	32.9	50.9
Foreign exchange deposits to total deposits	…	…	…	15.1	15.4	32.6
Foreign exchange loans to total loans	…	…	…	38.1	32.9	50.9
Net open position in forex to capital	…	…	…	88.0	93.8	122.4
Non-performing loans to total loans	5.1	3.6	4.4	2.3	2.1	2.0
Classified loans to total loans	…	…	…	9.9	…	6.3
Provisions & interest in suspense to non-performing loans	…	…	…	93.4	50.3	110.6
Loans to total assets	...	25.9	24.4	27.2	...	26.3
Government securities held to total assets	...	46.4	37.2	29.5	...	18.0
External assets to total assets	...	10.6	16.5	29.3	...	43.6
Earnings and profitability						
Net interest income/gross income	50.7	73.4	43.8	32.3	…	…
Net interest margin	2.9	0.8	0.9	1.1	1.9	…
Net- non interest margin	0.0	-0.2	-0.1	0.5	0.0	…
Non-interest efficiency	99.4	65.2	78.7	167.2	194.3	…
Return on average gross assets	2.6	2.3	3.2	4.4	1.9	5.3
Return on equity	47.1	39.3	45.2	61.4	24.3	66.5
Expense/income	54.0	50.2	38.5	65.1	…	…
Interest rate spread (lending minus demand deposit rates)	7.5	7.3	…	…	…	…
Gross claims on central government / total assets	50.7	68.1	…	…	…	…
Liquid assets / total assets	72.3	68.9	17.0	10.0	…	37.1
Liquid assets / short term liabilities	71.9	68.4	59.0	40.8	61.6	55.5
Net loans / deposits	29.7	32.0	27.5	31.7	27.6	30.5
Excess reserves / broad money	3.1	3.4	…	…	…	…
Liquid assets / total deposits	85.3	83.3	60.0	46.0	…	…

Source: Bank Supervision Division, CBS.

APPENDIX I

REPUBLIC OF SEYCHELLES: LETTER OF INTENT

March 13, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund

Dear Mr. Strauss-Kahn:

1. **The attached updated Memorandum of Economic and Financial Policies for 2009 (MEFP) describes Seychelles' performance through end-2008 as well as our policies for 2009**. We are continuing to implement our reform program with determination and the reform effort is beginning to yield results. We request completion of the first review under the Stand-by arrangement and the release of the second tranche of SDR 0.88 million (10 percent of quota).

2. **All the quantitative performance criteria at end-December 2008 were met except for the primary fiscal surplus and the temporary accumulation of external arrears, for which we request waivers**. The three structural benchmarks for end-December were all observed. We are making progress towards meeting the structural performance criterion for end-June on the tax audit of the 20 largest firms. We are also moving ahead with our strategy for external debt restructuring.

3. **We believe that the economic and financial policies set forth in the MEFP are sufficient to ensure that the objectives of the 2009 program will be met**. If needed, 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. The quarterly quantitative performance criteria and indicative targets for 2009 are shown in Table 1, and the structural benchmarks and performance criteria are shown in Table 2. We are also committed to continue our strong efforts to quickly address the areas of concern identified in the IMF's safeguards assessment of the Central Bank of Seychelles (CBS).

4. **We are elaborating a comprehensive medium-term reform strategy, in support of which we intend to request a 3-year arrangement under the Extended Fund Facility at the time of the 2010 budget**. As noted in my letter of October 31, 2008, we believe our reform strategy will require sustained effort over the medium term with the support of our international partners. We are actively working with IMF, World Bank and African Development Bank staff to elaborate a comprehensive structural reform program to be put in place in the second half of 2009.

5. **In line with our commitment to transparency, we request the IMF publish this letter, the MEFP, the technical memorandum of understanding (TMU), and the staff report**. We will simultaneously publish these documents in Seychelles.

Sincerely yours,

/s/

James Alix Michel
President
Republic of Seychelles

Attachments: MEFP and TMU

ATTACHMENT I

REPUBLIC OF SEYCHELLES: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2009

I. INTRODUCTION

1. **Seychelles embarked on a comprehensive reform program in late 2008 aimed at addressing large fiscal and external deficits and economic inefficiencies that led to persistent macroeconomic imbalances and an unsustainable public debt burden**. The foreign exchange regime was liberalized and the rupee was floated, supported by a further significant tightening of fiscal and monetary policies. Interest rates were freed and are now driven by market forces. We have initiated a comprehensive debt restructuring strategy aimed restoring public debt sustainability and closing external financing gaps. We have implemented our reform program with determination and early results are satisfactory. However, much remains to be done to stabilize the economy and put it on a higher growth path.

2. **This memorandum reviews macroeconomic and financial performance at end December 2008, describes our policies for the remainder of 2009 and outlines some preliminary policies for 2010 under our two year Stand-by Arrangement (SBA) with the IMF approved on November 14, 2008.**

II. PERFORMANCE UNDER THE PROGRAM AT END DECEMBER 2008

3. **Growth in 2008 slowed considerably due to the economic crisis in Seychelles and increasingly on account of the impact of the deteriorating global environment**. Real GDP growth is estimated at zero percent in 2008, down from 3.1 percent expected at the time the program was put in place. While construction grew strongly, manufacturing activity declined and tourism earnings began to fall sharply in the fourth quarter (for an annual decline of 2.7 percent). Unemployment remained in the low single digits but inflation, which had eased to an annual rate of 32.2 percent in October, jumped in November (by 24 percent) to end the year at 63.3 percent. The increase in November was primarily a one-off price level adjustment to the float of the rupee, increases in the goods and services tax (GST) and administered prices on several products, and removal of indirect subsidies.

4. **The quantitative performance criteria for end-December were comfortably met, with the exception of the primary fiscal surplus target and the temporary accumulation of external arrears, for reasons explained in ¶13 below** (Table 1). The three structural benchmarks for end-December were met (Table 2).

- The National Assembly approved a new Public Procurement Act, drafted with the support of the COMESA secretariat and the World Bank.

- A memorandum of understanding between the Ministry of Finance and the CBS that formalizes the operational terms under which the CBS acts as agent for the government was also approved, as recommended by the IMF safeguards assessment.

- A Public Debt Law was approved by the National Assembly in late-December, as an important first step in strengthening the transparency and management of public debt.

- We have hired several expatriate tax inspectors and auditors in early 2009, primarily to conduct audits of the 20 largest firms (structural for June 2009), and expect to meet the target.

5. **Following the float of the rupee in early November the exchange rate depreciated by about 50 percent against the U.S. dollar, and has since stabilized**. The initial depreciation was somewhat greater than expected, but despite transition issues in the exchange market and delays in implementing some supporting measures, the market mechanism is functioning adequately. The parallel exchange market has disappeared. The licensing of foreign exchange bureaus began in December but many took longer than anticipated to become operational. Regulations on net open positions in foreign exchange were approved in late December and came into effect in mid-February.

6. **Monetary policy has been tightened in line with the program objectives**. The weekly bank deposit facility at the central bank (CBS) and the 91-day treasury bill auction (which was opened to the nonbank public) have worked well and are helping to contain domestic liquidity and support the rupee. Following the removal of controls, interest rates have risen strongly—T-bill rates rose to over 29 percent in late December and, importantly, retail deposit and loan rates have also begun to rise. Recent indications are that T-bill rates have peaked, with slight declines recorded in early 2009. Domestic sterilization efforts, including significant T-bill sales to the nonbank public, were key in meeting the reserve money target. In late November, the CBS appointed a new external auditor, PricewaterhouseCoopers, on a five-year contract and began addressing areas of concern identified in the IMF safeguards assessment.

7. **The 2008 fiscal performance was somewhat better than anticipated, abstracting from the reclassification of an on lending operation with the national oil company (SEYPEC), as described below**. External grants exceeding program expectations, a large proportion of which were applied to the clearance of domestic arrears.[1] Despite inflationary pressures, primary spending was kept close to the program target (again, abstracting from the SEYPEC operation), including due to public sector wage restraint. A public sector wage increase—accorded in November to compensate for the higher cost of living resulting from the float of the rupee— averaged 12 percent. Tax revenues were the target for the year as a whole, but softened towards the end of the fourth quarter. We implemented all the fiscal measures described in paragraphs 19-20 of our MEFP of October 31, 2008.

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[1] Grants received totaled US$19.9 million (US$15 million from Abu Dhabi; US$1.5 million from China; and US$3.4 million from South Africa), of which US$7.4 million was used to clear domestic arrears.

8. **The 2009 budget was passed in line with program understandings**. Discretionary tax exemptions were eliminated, some taxes were raised, new taxes introduced, and fees, rents, and licenses were adjusted for inflation through September. Expenditure measures included the replacement of universal subsidies on fuel and other goods with a targeted social safety net and a substantial reduction the public sector workforce, primarily through a voluntary departure scheme. The downsizing of the civil service, initiated in November 2008, was greater than targeted at some 3,300 staff (17 percent of government employees).

9. **We have also made progress with fiscal structural reforms**. We established a public enterprise monitoring unit in the Ministry of Finance to reinforce parastatal monitoring, reporting, and better assess quasi-fiscal risks. We have introduced a full cost recovery policy in the provision of public utilities, supported by more frequent adjustments of administered prices. The privatization and liquidation of former units of the Seychelles Marketing Board (Agro Industries–sold; Animal feed–sold; and Coetivy Prawns-liquidated) progressed, although the privatization of Seychelles Savings Bank has been delayed until the first half of 2009.

10. **The quantitative performance criterion on the primary fiscal balance for 2008 was breached due to the reclassification of financing extended to SEYPEC prior to the commencement of our program**. Following the substantial increase in international oil prices and devaluation of the rupee in 2007 and early 2008, the cost to SEYPEC of administering the Government's legislated subsidy on fuel products increased substantially, exceeding SEYPEC's capacity to fund the subsidy internally. To secure domestic fuel supply in the difficult period from April to October 2008, the Government provided a short-term financing facility to SEYPEC of SR677 million (8.5 percent of GDP), on commercial terms. The loan was initially recorded as a financing item and not captured in the program fiscal data. The appropriate classification under GFS is in on lending, as it reflected the cost of administering the Government's legislated fuel subsidies. Repayment of the loan commenced in January 2009 and will be fully repaid over period of about 18 months. The universal subsidies on fuel were eliminated in November 2008. The revised primary balance profile highlights the cost of the indirect subsidies and the significant fiscal tightening now underway. Moreover, in the absence of the reclassification, and abstracting from higher than anticipated external grants, we would have exceeded the program primary surplus target.

11. **The external current account deficit rose to 32 percent of GDP in 2008, primarily due to the impact of high petroleum and food prices and buoyant FDI-related imports**. The growth rate of tourism earnings began to decline in mid year and turned negative in the fourth quarter, reflecting the global slowdown. The CBS was able to secure the unblocking of a major foreign exchange asset in November, which helped it meet the NIR target. Gross official reserves rose to US$50.9 million (0.7 months of imports), well above the program target adjusted for higher financial support. Public external debt rose to 91.4 percent of GDP in 2008, of which 40.6 percent of GDP was in arrears.

12. **We made progress with the public external debt restructuring strategy**. In November, together with our financial advisors, we conducted a road show, meeting with holders of almost 80 percent of the outstanding securities. On the bilateral side, Paris Club creditors have agreed to treat Seychelles external debts under the Evian approach, and we expect formal negotiations to commence in the Spring 2009. Discussions have also taken place with some non-Paris Club external creditors.

13. **There was a temporary accumulation of arrears to multilateral creditors in late 2008 and early 2009, breaching a continuous performance criterion.** Repayments to the European Investment Bank (EIB) due in early and mid-December were made in late-December, and repayments to BADEA due in early-January were made in late-January. Following these repayments, there are now no outstanding arrears to multilateral creditors. We have also taken comprehensive measures to eliminate the risk of a recurrence, including: centralizing management of repayments to multilateral creditors within the Ministry of Finance; commissioning the assistance of the COMESA Secretariat to strengthen our debt management information technology systems; and bolstering staffing resources in Ministry of Finance's debt management section. We have also requested technical assistance from the IMF's Monetary and Capital Markets (MCM) department to help further strengthen our debt management capacity.

III. Macroeconomic and Financial Program for 2009–10

14. **The objectives of our reform program for 2009 are to consolidate and extend the reforms of late 2008, sustaining our tighter fiscal and monetary policies to stabilize the economy and lay the foundations of a recovery in 2010**. Since the program was put in place in November, the global economic environment has deteriorated sharply, with implications for our program. The outlook is for a deeper decline in GDP and a less favorable fiscal and external performance in 2009. A progressive recovery is projected in 2010 and beyond under the impulse of rising foreign investment in tourism following the lifting of exchange restrictions and other bottlenecks, which hampered investment and growth. We will also pursue our a comprehensive debt restructuring strategy aimed at placing public debt on a sustainable path.

15. **Preliminary projections suggest a contraction of real GDP for 2009 of about 9.6 percent (revised from a forecast contraction of 0.5 percent at the time our program was put in place), with a gradual recovery expected from 2010**. Tourism earnings are expected to drop significantly (by 25 percent), although the balance of payments effect will be offset to a large extent by reduced import volumes and much lower food and fuel prices. Inflation, following a large one-time adjustment in prices in November 2008, is expected to decline steadily in 2009 due to weaker international prices, slower domestic demand, and tight monetary policy. We will be vigilant in guarding against any entrenchment in high inflation expectations, including through continued adherence to public sector wage restraint.

16. **The current account balance is projected to improve in 2009, to a deficit of about 29 percent of GDP, and to decline further through the medium term**. Merchandise imports are expected to decline sharply (by about 37 percent in US dollar terms) in 2009 under the impact of the devaluation and a decline in FDI and tourism-related imports, before a gradual recovery broadly compatible with GDP growth in 2010 and beyond. The growth of goods exports is expected to be moderate at about 4 percent in 2009. Over the medium-term, services exports, largely tourism, are expected to grow strongly under the impulse of a recovery in direct foreign investment on improved competitiveness, and a more conducive business environment.

A. Fiscal Policy

17. **We will maintain a tight fiscal stance in 2009**. We are taking measures to further strengthen revenue collection, control public expenditure, and raise the efficiency and transparency of public finance. Primary fiscal surpluses of 6.2 percent of GDP on average are targeted in 2009-10, excluding the impact of the repayment of the SEYPEC financing facility of 2008. This will be achieved through expenditure restraint, the full year effect of eliminating indirect product subsidies in late 2008 and a reduction of the government wage bill in real terms (from about 8.7 percent of GDP in 2008 to 6.9 percent of GDP in 2010) as part of our plan to reduce the size of the public sector. A revenue shortfall of 3.5 percent of GDP (largely on trade taxes and GST) from the drop in tourism earnings has been partly compensated for by higher negotiated receipts from the fishing sector (2.8 percent of GDP). At this stage we do not foresee the use of the fiscal recapitalization contingency for public financial institutions provided for under our program in the short-term, but will keep the situation under close supervision.

18. **In the coming months will work with the IMF, World Bank and African Development Bank on a medium-term economic strategy** that will include fundamental reform of our tax system, strengthened tax administration and public financial management, and further privatization of public enterprises.

Fiscal structural reforms

19. **We will continue to strengthen the public financial management framework and the budgetary process in order to facilitate fiscal consolidation**. We will strengthen the budget formulation and execution process to ensure that resources can be allocated and used efficiently and that established spending limits are respected. We will reinforce financial control within major spending ministries and bolster the Ministry of Finance's expenditure oversight and tracking functions. This will include adoption of a Treasury Single Account to consolidate and optimize the use of government cash balances. We will implement rationalization measures recommended in the World Bank's Public Expenditure Review (PER), initially focusing on the health and education sectors. We have also established a public enterprise monitoring unit in the Ministry of Finance to effectively monitor and control quasi-fiscal risks. Beginning with the 2010 Budget, we will present a complete

budget package to parliament, including financing and debt, for approval in replacement of our current appropriations bill.

20. **We are preparing a fundamental reform of the tax system with technical support from the IMF**. The current system has many differentiated rates of tax, high overall tax rates for businesses, and a significant number of exemptions, particularly for the tourism and fishing sectors. Our objective is to have a simple, fair, and equitable system, featuring low, harmonized rates and a broader tax base, which will reduce incentives for evasion. An IMF tax policy mission in February and recommended a plan of action over the medium term, which we intend to launch in mid-2009.

Revenue Measures

Action	Timing
Introduce GST on casinos	March
Remove the GST on animal feed	March
Launch a tax reform strategy following further discussions with IMF staff	May
Complete tax audits of the 20 largest enterprises	June

21. **Strengthening public debt management forms an integral part of our adjustment strategy**. As stipulated by the new Public debt Act, we will formulate a medium-term public debt strategy, aimed at achieving an optimal trade-off between cost and risk of public debt and consistent with long-run debt sustainability. We will increase the transparency and reporting of public debt and strengthen the Ministry of Finance's debt management functions. We also plan to strengthen the rules governing provision of government guarantees and start charging guarantee fees. We will take all the necessary measures to not accumulate new arrears to external or domestic creditors. We have also taken initial steps to improve monitoring of contingent liabilities that may arise within the public sector. We have requested technical assistance from MCM in these areas.

22. **A high-level government task force, headed by the Minister of Finance, is laying the groundwork for major public service reform**. The task force conducted a comprehensive review of the range of functions performed by government employees, with a view to eliminating duplication and to outsourcing services that can be provided more efficiently by the private sector. The review identified scope within most government departments for outsourcing ancillary services (e.g., cleaning, maintenance, security and some administrative functions) to the private sector and steps in this direction have commenced.

23. **In recognition of the need for Government to better manage the process of according fiscal concessions to investment proposals in line with the Government's long term fiscal policy**, to ensure appropriate management of such concessions and enhance the revenue analysis capacity of the Government, the Ministry of Finance will set up a Financial Analysis Branch, involving specialist accountants, internal auditors and graduating economists within the next 12 months. One of the functions of the Financial Analysis Branch will be the assessment of investment proposals of above SR 10 million.

24. **We are actively pursuing the further privatization and reform of public enterprises, with a view to reducing the role of the state and encouraging private sector activity**. We will work closely with the World Bank and African Development Bank on designing a strategy for further privatization and public enterprise reform, and are seeking the support of IFC. Going forward the government and state enterprises will avoid retaining minority stakes in the firms we privatize, and in the context of the government's current financial constraints, acquiring new positions without the approval of the Minister of Finance.

Expenditure measures

Action	**Timing**
Appoint a qualified financial controller to the Ministry of Health to strengthen expenditure control	March
Commence work towards implementation of a treasury single account	March
Close three remaining debt service escrow accounts at CBS	March
Finalize annual report on the public debt	March
Gather comprehensive data on parastatal debt and finances	March
Hire additional qualified staff and equip the public enterprise monitoring unit	June
Seek to revive IFC support and participation in privatization of Nouvobanq	June
Adopt a treasury single account	September
Complete external audits of the 2008 accounts of seven major public enterprises (PUC, STC, SEYPEC, SCAA, IDC, Air Seychelles and Nouvobanq) in accordance with international audit standards and undertaken by a firm acceptable to the Minister of Finance	September
Prepare a debt strategy to be submitted with the 2010 budget	September
Prepare a strategic plan for each major public enterprise	September
Centralize public debt management in the Ministry of Finance and bolster debt management systems and capacity	2009
Set up a Financial Analysis Branch at Ministry of Finance to assess investment proposals.	2009

B. Public Debt Restructuring Strategy

25. **The success of our adjustment and reform program requires external financial support, including a restructuring of our external debt**. We are committed to sustaining a strong fiscal effort over the medium term complemented by a comprehensive debt restructuring, consistent with our payments capacity and the Fund's lending into arrears policy, with particular focus on information transparency, inter-creditor equity, and dialogue with all creditor groups. Immediate and sizable cash flow relief in the short- to medium-term, sustained reduction of our debt service burden, and significant balance of payments support from our international partners, will be necessary. With regard to domestic debt, we will need to assure the stability of our banking system which has a large portion of its assets in government debt.

C. Monetary, Exchange Rate, and Financial Sector Policies

26. **We are committed to maintaining a tight monetary policy stance in 2009 to reestablish price stability, restore confidence in the rupee, and stabilize the economy**. Our new market-based monetary policy framework has yielded encouraging results, with real interest rates rising from highly negative to positive levels and early signs that inflation is slowing after the one-off price level adjustment in November 2008. The external position has been reinforced by the float of the rupee, supporting an increase in international reserves. The coordination of monetary and fiscal policy is also improving, with our 2009 Budget and prudent fiscal targets established under the program supporting the CBS's monetary policy objectives.

27. **We are taking measures to strengthen the operation of monetary policy, improve the efficiency of the financial sector and address areas identified by the IMF safeguards assessment**. The CBS and Ministry of Finance are working together on improving cash flow forecasting, supporting the CBS's liquidity management functions. With IMF technical assistance, we are determined to reinforce the stability, accountability, and transparency of the financial system through the introduction of modernized regulations, conservative financial norms and a Financial Institutions Act that accords with international best practice. We will also continue our efforts to improve governance and internal operations at CBS, including by addressing risk areas identified in the IMF safeguards assessment.

28. **The CBS is materially undercapitalized and profit distribution will be constrained over the next 3-5 years so that capital can be built up to adequate levels (10 percent of monetary liabilities)**. The 2008 profit distribution will be limited to 70 percent of operational profit, excluding unrealized and revaluation gains. In anticipation of the CBS's new capital provisions proposed under the amended CBS act, the CBS and the Ministry of Finance have formally agreed to retain the CBS unrealized and revaluation gains in an escrow account for reapplication to the CBS capital structure following passage of the amended CBS act, expected in April.

29. **The CBS will continue to work with the IMF's technical experts to build capacity on policy monitoring and implementation**. We have benefited from IMF technical assistance on monetary and foreign exchange operations, banking supervision, payment systems, and central bank internal audit control. We welcome visits from the IMF's MCM experts to: assist in the establishment of an automated interbank market in foreign exchange; strengthen reserve money targeting; reinforce and modernize banking supervision; improve CBS capacity in central bank accounting, audit and external reserves management; and modernize our payment systems.

Monetary measures

Action	Timing
Introduce remuneration on statutory commercial bank reserves above a certain threshold at an interest rate that reflects the financial cost to commercial banks	March
Increase required reserves maintenance period to two weeks	June
Reduce the local asset ratio with the aim of phasing it out over the program period as conditions permit, in consultation with IMF staff	2009
Improve liquidity forecasting and strengthen monetary targeting	September

Governance and safeguards measures

30. **We are committed to continued rapid implementation of measures to improve CBS governance, financial and accounting systems, and internal audit and control procedures, as identified in the IMF safeguards report**. We are working closely with MCM to address all of these recommendations over the next two years.

Action	Timing
Full disclosure in 2008 Annual CBS report of all off balance sheet items, including pledged assets and earmarked or blocked funds	March
Submit to Parliament a revised CBS Act, inter alia to strengthen governance and operations.	April
Publish external audit letter and accounts on CBS website	April
Begin transition to IFRS accounting standards at CBS by 2010 financial year	2009
Upgrade CBS' IT system, particularly to introduce an integrated accounting framework	2009

Exchange rate regime

31. **The liberalization of the exchange regime has lifted severe constraints on the development of the economy and we are committed to maintaining a market float of the rupee**. Central Bank interventions in the foreign exchange rate market will be limited to smoothing excessive volatility and ensuring orderly market conditions, subject to the achievement of our reserve money and external reserves targets. We will continue, with IMF technical support, to introduce measures to strengthen nascent foreign exchange institutions and promote efficiency and transparency in the market.

Action	Timing
With technical assistance from the IMF, establish a platform at the CBS for interbank foreign exchange trading/fixing	April
Prepare and submit to the National Assembly a modernized, simplified and transparent foreign exchange act.	June
Reduce to 30 per cent of capital net open positions on foreign exchange	June
Establish a Foreign Reserves Management Committee within the CBS, and	September

adopt investment guidelines	
Establish stronger controls over day-to-day foreign exchange operations by separating key responsibilities and reporting lines	September
Introduce an augmented real-time gross settlement foreign exchange system	2010

Financial sector development and stability

32. **The CBS is committed to improving the efficiency and operations of the financial market.** Outdated financial regulations underpinning the current system of administrative monetary policy instruments will be streamlined and gradually phased out. We will continue to closely monitor the operations and capitalization of the financial sector, in particular of state-owned financial institutions. A reassessment of the strategic role of public nonbank financial institutions will also be undertaken, and we are seeking technical assistance to create a specialized oversight function at the Ministry of Finance to advise on options available to the government.

Financial sector reforms

Action	**Timing**
Presentation to the National Assembly of a modernized and strengthened Financial Institutions Act with IMF technical support	June
Further strengthen financial sector supervision through implementation of the action plan developed in consultation with IMF technical experts in December 2007, including:	2009
• Introduction of new liquidity risk management regulations	March
• Introduce new bank and *bureau de change* licensing regulations and update documentation requirements for banks	March
• Update credit classification and provisioning regulations	April
• Update and strengthen commercial bank capitalization norms	April
• Issue regulations to banks on minimum requirements for appointing external auditors, which will replace existing circular	June
• Update credit concentration regulations and connected lending regulations in parallel with amendments to the Financial Institutions Act	June
• Introduce new regulations on the acquisition of substantial interests	June

D. Statistical Issues

33. **Notwithstanding significant improvements, we recognize that there remain deficiencies in key macroeconomic data** – especially GDP estimates, and external sector statistics, which limit their usefulness for surveillance, economic analysis, and policy formulation. The government will strive to further improve the quality, periodicity, and timeliness of macroeconomic statistics. The government has requested technical assistance in these areas from the IMF Statistics Department. We will also strive to fully implement the

GFS classification system in order to present our fiscal accounts in the IMF format for easier budget monitoring and reporting.

E. Program Financing

34. **For 2009, the external nonproject financing requirement is expected to be covered by** disbursements from the IMF under the SBA (30 percent of quota; SDR 2.64 million; US$3.85 million), from the joint World Bank and African Development Bank Development Policy Loan (US$19 million) and from external debt relief (US$89million).

IV. Program Monitoring

35. **The SBA will continue to be monitored by quarterly program and financing assurances reviews**. The quarterly quantitative performance criteria for 2009 are shown in Table 1. The structural benchmarks and performance criterion for 2009 are shown in Table 2. The non zero ceilings on the contracting or guaranteeing of external debt are to allow for budgeted public project finance and program support from multilateral institutions exclusively.

36. **The completion of the first and second reviews under the program are based on meeting the quantitative performance criteria (QPCs) at end-December 2008 and end-March 2009, respectively**. The second review will also focus on strengthening governance and operations at the CBS, progress reinforcing public financial management, progress on normalizing relations with external creditors, upgraded bank capitalization and credit quality norms, and progress on a tax policy reform strategy. The third, fourth, and fifth program reviews under the SBA are based on meeting the QPCs at end June, end September and end December 2009 and are scheduled to be completed by end September, end December and end March 2010, respectively. Financing assurance reviews will coincide with the program reviews.

37. **The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets and adjusters under the program**. Seychelles will avoid introducing new exchange restrictions, multiple currency practices, or bilateral payments agreements in contradiction with Article VIII of the IMF's Articles of Agreement and imposing any import restrictions for balance of payments reasons. We stand ready to adopt any additional measures, in consultation with IMF staff, which may become necessary to ensure program success.

Table 1. Seychelles: Quantitative Performance Criteria Under the Stand-By Arrangement, June 2008–December 2009
(Millions of Seychelles rupees; end-of-period)

	2008						2009						
	June	September		December			March	June		September		December	
	Actual	Estimates	Actual	Country Report No. 08/365	Adjusted	Actual	Country Report No. 08/365	Country Report No. 08/365	Rev. Prog	Country Report No. 08/365	Rev. Prog.	Country Report No. 08/365	Rev. Prog.
Performance criteria													
Net international reserves of the CBS, millions of U.S. dollars (floor) [1]	14.0	14.0	14.0	19.0	26.0	41.2	20.0	18.0	51.9	57.0	60.5	80.0	77.2
Reserve money (ceiling)	1,282.3	1,271.0	1,271.1	1,151.0	...	1,119.9	1,146.0	1,261.0	1,265.9	1,393.0	1,310.6	1,386.0	1,350.8
Primary balance of the consolidated government (cumulative floor) [2, 3, 4]	-2.3	420.0	184.2	560.0	...	335.7	73.0	88.0	386.9	299.0	641.6	622.0	945.6
The contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]				15		10.3	10.0	10.0	10.0	30.0	30.0	35.0	35.0
The contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]				0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The accumulation of external payments arrears by the public sector (ceiling) [5]				0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The accumulation of domestic payment arrears by the public sector (ceiling)				0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
External non project financing (millions of U.S. dollars; cumulative) [2]				-0.4	6.6	6.6	-10.0	-23.0	-16.1	-11.0	-4.0	-19.0	-8.2
Program financing support [2]				1.6	19.9	19.9	0.0	0.0	0.0	15.0	19.0	15.0	19.0
Cash payments on foreign debt service [2]				2.0	13.3	13.3	10.0	23.0	16.7	26.0	23.9	34.0	28.4
External budget grants [2]									0.6		0.9		1.2
Program accounting exchange rates													
SR/US$ (end-of-quarter)	8.00	8.00	8.26	14.00		16.57	14.00	14.00	16.00	14.00	16.00	14.00	16.00
US$/Euro (end-of-quarter)	1.58	1.46	1.28	1.46		1.39	1.46	1.46		1.46		1.46	
US$/UK pound (end-of-quarter)	1.99	1.84	1.78	1.84		1.44	1.84	1.84		1.84		1.84	
US$/SDR (end-of-quarter)	1.63	1.56	1.56	1.56		1.54	1.56	1.56		1.56		1.56	
Reserve requirement (percent of deposits)	13	13	13	13		13	13	13		13		13	
Local asset ratio (percent of deposits)	50	45	45	45		45	45	45		45		45	

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

[1] The floor will be adjusted downwards (upwards) for any shortfall (excess) in external nonproject financial support from that assumed in the program.
[2] Cumulative flows from the beginning of the calendar year.
[3] The floor will be adjusted upwards for any unused amounts of the contingency in the budget for the recapitalization of the banking sector assumed in the program. Amounts of the contingency in excess of programmed amounts need to be funded within the program limits.
[4] The floor on the primary fiscal surplus will be adjusted upwards (downwards) by any excess (shortfall) of external budget grants from that assumed in the program.
[5] The non-accumulation of new external payment arrears constitutes a continuous performance criterion. Excludes arrears for which a rescheduling agreement is sought. Some external arrears were accumulated in December 2008, but cleared before end-December.

Table 2. Seychelles: Structural Benchmarks and Performance Criterion, 2008–09

Measure	Target date	Status
Structural performance criterion		
• Complete tax audits by Seychelles Revenue Commission of the 20 largest companies	End-June 2009	Work in progress
Structural benchmarks		
• Submit to Parliament a Public Debt Law, defining a legal framework for public debt management, and specifying the roles and responsibilities of the bodies engaged in contracting and managing public debt.	End-December 2008	Met. Law approved by the National Assembly.
• Parliamentary approval of a Public Procurement Act.	End-December 2008	Met.
• Approve a memorandum of understanding, under Article 34 of the CBS act, formalizing the operational terms and conditions under which the CBS acts as agent for the government.	End-December 2008	Met.
• Submit to the National Assembly a revision of the CBS act to strengthen governance and operations (MEFP, ¶ 30).	End-April 2009	
• Promulgate updated credit classification and provisioning regulations and strengthened commercial bank capitalization norms. (MEFP, ¶ 32).	End-April 2009	
• Adopt a tax policy reform strategy with FAD TA (MEFP, ¶ 20).	End-June 2009	
• Adopt a modernized and strengthened financial institutions act, with IMF T/A support. (MEFP, ¶ 32).	End-June 2009	
• Introduce a treasury single account (MEFP, ¶ 19).	End-September 2009	
• Establish a foreign reserves management committee and adopt investment guidelines (MEFP, ¶ 31).	End-September 2009	

ATTACHMENT II

REPUBLIC OF SEYCHELLES: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding presents the definitions of variables included in the quantitative performance criteria and indicative targets set out in the memorandum of economic and financial policies (MEFP), the key assumptions, and the reporting requirements of the Government and the Central Bank of Seychelles (CBS) needed to adequately monitor economic and financial developments. The quantitative performance criteria and indicative targets, and the structural performance criterion and benchmarks for 2008-09 are listed in Tables 1 and 2 of the MEFP, respectively.

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Net International Reserves of the CBS (Floor)

Definition

2. Net international reserves (NIR) of the CBS are defined for program monitoring purposes as reserve assets of the CBS, minus reserve liabilities of the CBS (including liabilities to the IMF). Reserve assets of the CBS are claims on nonresidents that are readily available (i.e., liquid and marketable and free of any pledges or encumberments and excluding project balances held in CBS accounts), controlled by the CBS, and held for the purpose of intervening in foreign exchange markets. They include holdings of SDRs, holdings of foreign exchange, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and any holdings of investment-grade securities. Reserve liabilities of the CBS comprise liabilities to nonresidents contracted by the CBS, any net off-balance-sheet position of the CBS (futures, forwards, swaps, or options) with either residents or nonresidents, including those to the IMF.

Calculation method

3. For program monitoring purposes, reserves assets and liabilities at each test date, must be converted into U.S. dollars using the end of period exchange rates assumed in the program.

Monitoring and reporting

4. At each program test date, the quarterly net international reserves data submitted by the CBS to the IMF will be audited by the CBS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports should be submitted to the CBS, with a copy to the IMF, no later than two months after each test date.

Adjusters

5. The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the new external balance of payments financing exceeds (falls short of) the amounts assumed in the program (MEFP Table 1). The floors will also be adjusted upwards (downwards) by the amount that external debt service payments fall short (exceed) the amounts assumed in the program.

B. Reserve Money (Ceiling)

Definition

6. Reserve money is equivalent to currency issued and deposits held by financial institutions at the central bank (bank reserves). Evaluation of performance of reserve money with respect to the program ceiling will take account of any changes in regulations affecting the level of banks' required reserves.

Monitoring and reporting

7. For each program test date, the quarterly reserve money data submitted by the CBS to the IMF will be audited by the CBS' external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition. Reports should be submitted to the CBS, with a copy to the IMF, no later than two months after each test date.

Adjusters

8. The reserve money target would be lowered (raised) for any reduction (increase) in the reserve requirements from those assumed in the program. A change in the reserve requirement coefficient will change the reserve money (RM) ceilings according to the following formula:

$$\Delta RM = \Delta r_D * DD_0 + \Delta r_F * DF_0,$$

where: DD_0 denotes the level of domestic currency deposits and DF_0 denotes the level of foreign currency deposits to which the reserve requirements for domestic currency and foreign currency deposits, respectively, apply during the period immediately preceding the date when the new reserve regulation becomes effective; Δr_D and Δr_F denote the change in the reserve requirement coefficient for domestic currency and foreign currency deposits, respectively.

C. Primary Balance of the Consolidated Government (Cumulative Floor)

9. The consolidated government primary balance from above the line on a commitment basis is defined as total consolidated government and social security fund revenues (excluding privatization and long-term lease income receipts) less all noninterest (primary) expenditures of the government and social security fund.

Adjusters

10. The floor on the primary surplus of the consolidated government will be adjusted upwards by the cumulative amount of the contingency for recapitalizing the state-controlled financial institutions which is not used for that purpose. Any amounts spent for the recapitalizing of the state-controlled financial institutions in excess of programmed contingency will need to be funded within the program limit on the primary balance.

11. The floor on the primary surplus of the consolidated government will be adjusted upward (downward) by the amount by which external budget grants exceeds (falls short of) the amounts assumed in the program (MEFP Table 1).

D. Public External Debt (Ceiling)

12. The ceiling applies to the contracting or guaranteeing of new external liabilities by the public sector (including the central government, the CBS, and all public agencies and parastatals for operations that are not directly linked to commercial activities). The ceiling does not apply to the use of Fund resources, operations related to external debt restructuring; normal import related credits; purchases of treasury securities by nonresidents; or borrowing by parastatals in the conduct of normal commercial operations. The non zero ceilings on the contracting or guaranteeing of external debt are to allow for normal public project finance and program support from multilateral institutions exclusively. Debt shall be valued in U.S. dollars at program exchange rates.

- A zero subceiling on short-term external debt applies continuously to the contracting or guaranteeing of short-term external debt by the public sector, with an original maturity of up to and including one year.

13. For the purpose of this performance criterion, the term "debt" has the meaning set forth in point No. 9 of the Executive Board's Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85)). Debt is understood to mean a current, non 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 points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. The ceiling on contracting official and officially guaranteed external debt includes all form of debt, including:

(i) 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);

(ii) suppliers credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and,

(iii) 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 leasor retains title to the property. 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.

(iv) Arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt.

E. External Arrears of the Public Sector

14. The nonaccumulation of arrears to external creditors will be a continuous performance criterion under the program. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, including contractual and late interest. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

F. Budget Expenditure Arrears

15. The nonaccumulation of budget expenditure arrears will be a continuous performance criterion under the program. Budget expenditure arrears are defined as the sum of (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 30 days; (2) unpaid wages, pensions, or transfers, pending for longer than 30 days to domestic or foreign residents, irrespective of the currency denomination of the debt.

II. Data and Information

16. 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):
- Reserve money.
- A summary table on the foreign exchange market transactions.
- The results of the liquidity deposit auctions, primary treasury bill auctions, and secondary auctions.

Monthly (within 4 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 2 weeks from the end of the month):

- Consolidated government operations on a commitment basis and cash basis in the IMF-supported program format.
- The detailed revenues and expenditures of the central government and social security fund.
- Monthly accounts of the public nonbank financial institutions.
- Import and export data from the customs department.
- Monthly public debt report.

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.

APPENDIX II

SEYCHELLES: PUBLIC EXTERNAL DEBT SUSTAINABILITY ANALYSIS

This debt sustainability analysis (DSA) confirms that Seychelles' public debt is unsustainable. The analysis demonstrates that, in addition to a strong and sustained fiscal effort assumed under the program, a deep reduction of the external debt burden is needed, in the context of a comprehensive debt restructuring, in order to decisively restore sustainability. Against this background, engagement in constructive good-faith discussions with all external creditors is critical.

Macroeconomic Assumptions

The debt sustainability analysis is based on the following medium- and long-term macroeconomic assumptions, which are fully consistent with the macroeconomic framework presented in the staff report:

- Against the background of sharply decelerating tourism activity, near-term economic growth is projected to be depressed, with real GDP shrinking by about 9.5 percent in 2009. Economic growth is expected to recover only gradually from 2010, supported by the recovery of FDI-financed projects in the pipeline in tourism. Annual real GDP growth is assumed to be around 5 percent in the long term, broadly consistent with Seychelles' historical average.

- Reflecting the pass-through of the exchange rate depreciation and administrative price and tax adjustments, inflation would peak in 2009 at about 39 percent but, supported by tighter fiscal and monetary stance, would gradually decline to its long-term level of about 3 percent by 2013.

- Notwithstanding a US$ 3.4 billion pipeline of approved foreign-financed projects in tourism, net FDI inflows in the medium-term are projected to decline significantly, with 2009 inflows falling by over 43 percent in absolute terms (a drop of about 12 percent of GDP) relative to its 2008 level. This reflects reduced supply of external finance, as well as deteriorating near-term outlook for the demand for tourism services. FDI inflows are expected to recover gradually over the medium term to the levels of 2007-08 by 2014-16.[1] This path reflects an assumption that going forward investors will face higher costs of financing projects in Seychelles due to the country's higher risk premium and, more generally, higher cost and availability of capital on account of tight world-wide credit conditions. The long-term FDI-to-GDP ratio is assumed to stabilize at about 30 percent of GDP.

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[1] FDI inflows are relatively neutral for the balance of payments as foreign-financed investments have import content of 85-90 percent. As a result, the debt sustainability outlook is not very sensitive about the specific assumption on FDI inflows.

- The near-term outlook for tourism is dire with earnings projected to drop by 25 percent in 2009. In the medium-term, however, tourism earnings growth is projected to be buoyant after the recovery of foreign direct investment, peaking at 10.5 percent in 2012-14 before moderating to its long-run rate of about 8 percent per year.

- The noninterest external current account deficit is projected to improve from about 32 percent of GDP in 2008 to 29 percent of GDP in 2009, mostly reflecting a significant import compression (a drop of about 36 percent) following liberalization of the exchange rate regime and a sharp drop in FDI-related imports. Over the longer term, the noninterest external current account deficit is projected to improve moderately to about 21 percent of GDP, with rising tourism earnings roughly being offset by higher tourism- and FDI-related imports and mounting repatriation abroad of investors' profits and dividends.

- The foreign reserves target of about four months of prospective imports is assumed to be reached by 2018 in all considered scenarios.

Nonconcessional Flow Refinancing Scenario

The nonconcessional flow refinancing scenario clearly reveals that public external debt is unsustainable (Tables 2 and 3 and Figure 1). The scenario assumes that all arrears and external financing gaps in the medium-term are closed by a flow rescheduling on market terms at LIBOR plus 1300 basis points with 3 year maturity.[2] Over the course of the next ten years, the external debt-to-GDP ratio would be projected to rise to over 415 percent of GDP, the level clearly inconsistent with debt sustainability and implying an enormous burden of debt service (215 percent of exports). Furthermore, the bound tests highlight that the evolution of external debt is extremely sensitive to the underlying assumptions, with even moderate shocks triggering even more dramatic explosive dynamics. From a total public (fiscal) debt point of view (Table 4 and Figure 2), the analysis indicates a similar unsustainable profile, driven by the dynamics of external debt and notwithstanding the strong fiscal adjustment.

[2] The assumed risk premium is designed to mimic the current level of EMBI spreads on sovereign external debt of other highly indebted countries with significant vulnerabilities, for which trading of debt securities is more active.

Table 1. External Debt

	End-2008
External debt stock [1]	764.7
Multilateral	52.2
Bilateral	245.3
Paris Club	139.8
Non-Paris Club	105.4
Commercial	467.2
External debt arrears	309.6
Multilateral	1.0
Bilateral	170.6
Paris Club	112.4
Non-Paris Club	58.3
Commercial	137.9

[1] Includes arrears.

Table 2. Seychelles: Balance of Payments for Nonconcessional Refinancing Scenario, 2007-18
(in millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-213	-267	-259	-316	-430	-494	-573	-675	-795	-949	-1,139	-1,375
(Percent of GDP)	-23	-32	-43	-42	-54	-58	-63	-68	-75	-82	-91	-102
Trade balance	-175	-235	-105	-109	-113	-106	-94	-80	-69	-60	-49	-38
Income, net	-72	-84	-200	-260	-371	-442	-534	-651	-783	-947	-1,148	-1,395
Of which: interest payments	-33	-33	-115	-160	-254	-305	-377	-471	-579	-716	-889	-1,106
Current transfers, net	33	51	47	53	54	54	55	56	57	57	58	59
Capital and financial account	261	168	604	352	480	549	612	713	844	1,004	1,204	1,449
Capital account	8	5	3	3	4	5	5	5	5	5	5	5
Financial account	254	164	601	349	476	545	608	709	840	1,000	1,199	1,445
Direct investment, net	225	354	200	211	236	252	272	294	317	342	370	399
Portfolio investment, net	31	1	0	0	0	0	0	0	0	0	0	0
Other investment, net	-2	-191	402	138	240	293	336	415	523	657	829	1,046
Net errors and omissions	-8	-17	0	0	0	0	0	0	0	0	0	0
Overall balance	40	-116	346	36	50	55	39	38	49	55	65	75
Financing	-40	116	-346	-36	-50	-55	-39	-38	-49	-55	-65	-75
Change in net international reserves (increase: –)	49	-27	-36	-36	-50	-55	-39	-38	-49	-55	-65	-75
Change in gross official reserves (increase: –)	49	-36	-40	-50	-50	-50	-30	-30	-45	-55	-65	-75
Prospective liabilities to IMF, net	0	10	4	14	0	-5	-9	-8	-4	0	0	0
Other NFA (increase: –)	0	0	0	0	0	0	0	0	0	0	0	0
Change in arrears (increase: +) [1]	-89	142	-310	0	0	0	0	0	0	0	0	0
Of which: public sector new arrears	6	154	0	0	0	0	0	0	0	0	0	0
Financing gap [2]	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Gross international reserves (stock, e.o.p.) [3]	10	51	91	141	191	241	271	301	346	401	466	541
Months of prospective G&S imports	0.1	0.7	1.2	1.7	2.2	2.6	2.8	2.9	3.1	3.4	3.7	4.1
Scheduled public external debt service [4, 5]	100	222	200	381	790	855	1,045	1,356	1,638	2,026	2,524	3,130
(Percent of G&S exports)	11.4	21.8	26.6	47.4	91.2	91.4	103.2	123.8	138.7	160.0	185.6	214.8
Public external debt [5]	710	763	891	1,074	1,342	1,657	2,015	2,453	2,998	3,677	4,528	5,595
(Percent of GDP)	77.9	91.4	147.8	141.9	167.2	193.1	220.4	248.3	280.9	318.9	363.5	415.7
Of which: arrears [4, 5]	160	310	0	0	0	0	0	0	0	0	0	0
(Percent of GDP)	17.6	37.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	912	834	603	756	802	858	914	988	1,067	1,153	1,246	1,346

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

[1] In 2008, includes accelerated promissory notes. In 2008-09, includes repayment of accrued investor profits.

[2] Financing gaps are assumed to be closed by not yet identified commercial financing.

[3] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

[4] Debt service projections are based on exhisting stock of debt and identified new borrowing, assuming no debt restructuring and no repayment of arrears.

[5] Preliminary and subject to reconcilliation with creditors. Includes CBS external debt.

Table 3. Seychelles: External Debt Sustainability Framework for Nonconcessional Refinancing Scenario, 2005-2018
(In percent of GDP, unless otherwise indicated)

	Actual			Projections										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							I. Baseline Projections							
External debt 1/	55.0	53.8	77.9	**91.4**	**147.8**	**141.9**	**167.2**	**193.1**	**220.4**	**248.3**	**280.9**	**318.9**	**363.5**	**415.7**
Change in external debt	0.2	-1.2	24.0	13.6	56.4	-5.9	25.3	25.9	27.3	27.9	32.6	38.0	44.6	52.2
Identified external debt-creating flows (4+8+9)	5.9	-5.1	2.0	-3.0	44.7	-16.1	16.0	17.3	21.0	22.2	26.3	31.7	38.0	45.4
Current account deficit, excluding interest payments	19.0	12.7	19.9	29.6	23.8	20.5	22.0	22.0	21.5	20.7	20.3	20.2	20.0	20.0
Deficit in balance of goods and services	18.7	13.9	19.1	28.2	17.4	14.4	14.0	12.4	10.3	8.1	6.4	5.2	3.9	2.9
Exports	81.4	88.6	95.7	121.6	124.9	106.4	107.9	109.1	110.8	110.9	110.6	109.9	109.2	108.3
Imports	100.1	102.5	114.9	149.8	142.3	120.7	121.9	121.5	121.1	119.0	117.0	115.0	113.1	111.1
Net non-debt creating capital inflows (negative)	-8.9	-14.2	-24.6	-42.4	-33.1	-27.8	-29.5	-29.4	-29.8	-29.8	-29.7	-29.7	-29.7	-29.7
Net foreign direct investment, equity	8.9	14.2	24.6	42.4	33.1	27.8	29.5	29.4	29.8	29.8	29.7	29.7	29.7	29.7
Net portfolio investment,equity	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
Automatic debt dynamics 2/	-4.2	-3.7	6.8	9.7	54.1	-8.8	23.5	24.7	29.4	31.2	35.7	41.2	47.6	55.1
Contribution from nominal interest rate	0.7	1.1	3.5	2.4	19.1	21.2	31.6	35.5	41.2	47.6	54.2	62.1	71.4	82.2
Contribution from real GDP growth	-3.7	-4.2	-4.1	-0.1	12.2	-3.0	-5.1	-8.4	-9.1	-10.2	-11.5	-13.0	-14.8	-16.8
Contribution from price and exchange rate changes 3/	-1.2	-0.6	7.4	7.4	22.8	-26.9	-3.0	-2.4	-2.8	-6.2	-7.0	-7.9	-9.0	-10.2
Residual, incl. change in gross foreign assets (2-3)	-5.7	4.0	22.0	16.6	11.6	10.2	9.3	8.6	6.3	5.7	6.3	6.3	6.5	6.8
External debt-to-exports ratio (in percent)	67.5	60.8	81.3	75.2	118.4	133.4	155.0	177.1	199.0	223.9	254.0	290.3	332.9	383.9
Gross external financing need (in billions of US dollars) 4/	0.2	0.3	0.3	0.5	0.3	0.5	1.0	1.0	1.2	1.6	1.9	2.3	2.8	3.4
in percent of GDP	25.6	26.4	30.7	54.7	57.0	70.9	120.4	121.7	135.8	158.0	173.8	196.0	222.6	252.6
Key Macroeconomic Assumptions														
Real GDP growth (in percent)	7.5	8.3	7.3	0.1	-9.6	2.6	3.8	5.4	5.0	5.0	5.0	5.0	5.0	5.0
Exchange rate appreciation (US dollar value of local currency, change in percent)	0.0	-0.4	-17.6	-29.5	-40.6	4.1	-3.2	-1.6	-1.4	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	2.3	1.5	6.7	29.6	34.7	17.5	5.6	3.1	2.9	2.9	2.9	2.9	2.9	2.9
GDP deflator in US dollars (change in percent)	2.3	1.1	-12.1	-8.6	-20.0	22.3	2.2	1.5	1.5	2.9	2.9	2.9	2.9	2.9
Nominal external interest rate (in percent)	1.4	2.2	6.2	2.9	15.1	18.0	23.6	22.7	22.7	23.3	23.6	23.9	24.2	24.4
Growth of exports (US dollar terms, in percent)	14.7	19.2	1.8	16.2	-25.7	6.8	7.6	8.1	8.2	8.2	7.7	7.3	7.4	7.2
Growth of imports (US dollar terms, in percent)	33.5	12.1	5.6	19.2	-31.3	6.4	7.1	6.5	6.2	6.2	6.2	6.2	6.2	6.2
Current account balance, excluding interest payments	-19.0	-12.7	-19.9	-29.6	-23.8	-20.5	-22.0	-22.0	-21.5	-20.7	-20.3	-20.2	-20.0	-20.0
Net non-debt creating capital inflows	8.9	14.2	24.6	42.4	33.1	27.8	29.5	29.4	29.8	29.8	29.7	29.7	29.7	29.7
							II. Stress Tests for External Debt Ratio							
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2008-2013 5/				**91.4**	**100.6**	**109.6**	**117.6**	**124.8**	**130.0**	**134.6**	**139.5**	**144.4**	**149.3**	**154.4**
B. Bound Tests														
B1. Nominal interest rate is at baseline plus one standard deviation				**91.4**	**151.2**	**148.3**	**178.4**	**210.5**	**245.7**	**283.3**	**327.9**	**380.9**	**444.2**	**519.7**
B2. Real GDP growth is at baseline minus two standard deviations				**91.4**	**149.3**	**144.5**	**171.3**	**199.0**	**228.3**	**258.4**	**293.8**	**335.2**	**383.9**	**441.3**
B3. Non-interest current account is at baseline minus one standard deviations				**91.4**	**156.3**	**158.5**	**195.1**	**233.6**	**275.6**	**319.9**	**371.3**	**431.1**	**500.9**	**582.6**
B4. Combination of B1-B3 using 1/4 standard deviation shocks				**91.4**	**151.0**	**148.0**	**177.5**	**208.3**	**241.5**	**276.2**	**316.9**	**364.5**	**420.5**	**486.5**
B5. One time 15 percent of additional real depreciation in 2009				**91.4**	**170.2**	**159.8**	**184.4**	**209.1**	**234.6**	**260.2**	**290.2**	**325.4**	**366.7**	**415.3**
Memorandum items														
Present value of external debt (in percent of exports)														
with 5 percent discount factor				78.3	130.7	144.9	171.1	195.3	219.5	247.8	281.2	321.7	369.5	426.5
with 15 percent discount factor				68.4	107.9	122.1	142.5	163.1	184.8	209.2	238.4	273.7	315.1	364.6

1/ Includes CBS external debt. External financing gaps and arrears are assumed to be closed by external borrowing at LIBOR plus 1300bps, with 3 year maturity.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

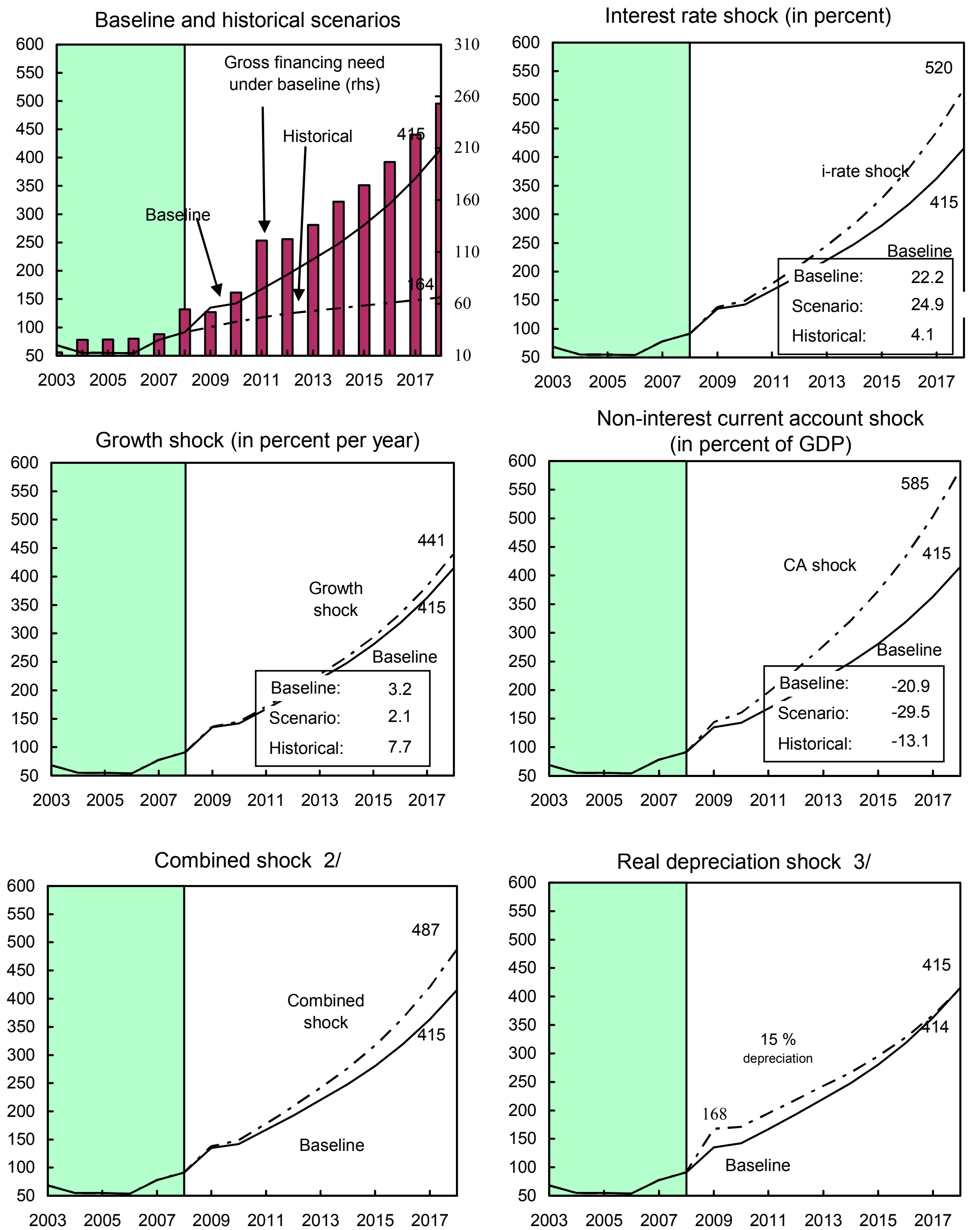
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Table 4. Seychelles: Public Sector Debt Sustainability Framework for Nonconcessional Refinancing Scenario, 2005-2018
(In percent of GDP, unless otherwise indicated)

	Actual				Projections									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public sector debt 1/	147.1	139.5	146.0	**149.3**	**192.5**	**175.6**	**196.0**	**218.1**	**242.9**	**269.5**	**301.1**	**339.0**	**383.5**	**435.3**
o/w foreign-currency denominated	46.6	53.7	71.9	91.4	147.8	141.9	167.2	193.1	220.4	248.3	280.9	318.9	363.5	415.7
Change in public sector debt	-15.1	-7.6	6.5	3.3	43.2	-16.9	20.4	22.2	24.8	26.5	31.6	38.0	44.5	51.8
Identified debt-creating flows (4+7+12)	-11.0	-5.6	0.8	-10.5	49.6	-19.5	21.1	20.6	24.9	26.4	31.2	37.3	44.0	51.7
Primary deficit (negative means surplus)	-7.3	0.6	2.3	-4.2	-9.8	-8.2	-4.5	-4.2	-4.0	-3.8	-3.5	-3.0	-2.8	-2.5
Revenue and grants	41.1	42.0	35.9	36.2	35.3	34.7	34.2	34.8	35.0	35.2	35.7	35.5	35.6	35.3
Primary (noninterest) expenditure	33.7	42.6	38.2	32.0	25.5	26.5	29.7	30.6	31.0	31.4	32.2	32.6	32.8	32.8
Automatic debt dynamics 2/	-2.4	-7.5	0.7	-3.2	63.4	-9.6	26.5	25.6	29.7	31.0	35.5	41.0	47.4	54.9
Contribution from interest rate/growth differential 3/	-2.4	-7.6	-10.2	-27.4	-0.9	-3.9	21.1	22.6	26.6	31.0	35.5	41.0	47.4	54.9
Of which contribution from real interest rate	9.2	3.5	-1.3	-27.3	-12.7	0.2	27.2	32.3	36.6	42.2	48.0	54.9	63.1	72.6
Of which contribution from real GDP growth	-11.5	-11.1	-8.9	-0.1	11.8	-4.1	-6.1	-9.7	-10.1	-11.2	-12.5	-13.9	-15.7	-17.7
Contribution from exchange rate depreciation 4/	0.0	0.2	10.8	24.2	64.4	-5.7	5.4	3.0	3.1	0.0	0.0	0.0	0.0	0.0
Denominator = 1+g+p+gp	1.1	1.1	1.1	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other identified debt-creating flows	-1.3	1.3	-2.2	-3.2	-4.0	-1.7	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Privatization receipts (negative)	-1.3	-3.8	-2.2	-3.2	-4.0	-1.7	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Recognition of implicit or contingent liabilities	0.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	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
Residual, including asset changes (2-3)	-4.1	-2.1	5.7	13.8	-6.4	2.6	-0.7	1.6	-0.1	0.1	0.4	0.7	0.5	0.1
Public sector debt-to-revenue ratio 1/	358.3	332.4	406.7	412.7	545.5	506.3	572.7	626.7	694.3	765.3	843.5	953.9	1078.5	1233.4
Gross financing need 5/	61.3	55.9	44.3	47.9	44.5	53.5	86.5	79.0	92.0	104.3	111.0	124.2	140.6	158.9
in billions of U.S. dollars	0.5	0.5	0.4	0.4	0.3	0.4	0.7	0.7	0.8	1.0	1.2	1.4	1.8	2.1
Key Macroeconomic and Fiscal Assumptions														
Real GDP growth (in percent)	7.5	8.3	7.3	0.1	-9.6	2.6	3.8	5.4	5.0	5.0	5.0	5.0	5.0	5.0
Average nominal interest rate on public debt (in percent) 6/	3.7	4.2	6.1	5.3	21.0	18.0	22.8	21.2	21.2	21.8	22.3	22.7	23.2	23.5
Average nominal interest rate on forex debt (in percent) 6/	1.7	2.6	7.5	4.4	25.4	17.3	24.4	23.1	23.1	23.3	23.6	23.9	24.2	24.4
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.8	2.7	-0.6	-24.2	-13.7	0.6	17.2	18.1	18.3	18.9	19.4	19.8	20.3	20.6
Nominal depreciation of local currency (LC per dollar)	0.0	0.4	21.4	41.8	68.4	-4.0	3.3	1.6	1.4	0.0	0.0	0.0	0.0	0.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	-0.4	-17.6	-29.5	-40.6	4.1	-3.2	-1.6	-1.4	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	-2.1	1.5	6.7	29.6	34.7	17.5	5.6	3.1	2.9	2.9	2.9	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	36.7	-3.8	-16.2	-28.0	6.4	16.6	8.5	6.4	6.5	7.4	6.3	5.7	5.0
Primary deficit	-7.3	0.6	2.3	-4.2	-9.8	-8.2	-4.5	-4.2	-4.0	-3.8	-3.5	-3.0	-2.8	-2.5
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2008-12 7/				**149.3**	**193.5**	**197.0**	**211.0**	**225.6**	**239.3**	**250.7**	**263.1**	**276.5**	**290.4**	**304.4**
A2. No policy change (constant primary balance) in 2008-12				**149.3**	**204.6**	**197.6**	**228.1**	**261.0**	**298.0**	**337.6**	**384.0**	**438.6**	**502.1**	**575.7**
B. Bound Tests														
B1. Real interest rate is at baseline plus one-half standard deviations				**149.3**	**203.3**	**195.9**	**230.6**	**270.6**	**318.1**	**372.3**	**438.7**	**520.3**	**619.8**	**740.7**
B2. Real GDP growth is at baseline minus two standard deviation				**149.3**	**195.4**	**181.0**	**205.4**	**232.7**	**264.0**	**298.5**	**340.0**	**390.4**	**450.1**	**520.7**
B3. Primary balance is at baseline minus one standard deviation				**149.3**	**197.5**	**185.4**	**212.2**	**241.5**	**274.5**	**310.1**	**352.0**	**401.9**	**460.2**	**528.0**
B4. Combination of B1-B3 using one-quarter standard deviation shocks				**149.3**	**199.4**	**188.6**	**218.0**	**250.9**	**288.9**	**331.3**	**382.2**	**443.9**	**517.7**	**605.5**
B5. One time 15 percent additional real depreciation in 2009 9/				**149.3**	**246.1**	**226.6**	**254.6**	**284.5**	**318.3**	**354.4**	**397.2**	**448.2**	**508.0**	**577.6**
B6. 10 percent of GDP increase in other debt-creating flows in 2009				**149.3**	**202.5**	**185.1**	**206.9**	**230.5**	**257.0**	**285.3**	**319.0**	**359.4**	**406.7**	**461.9**

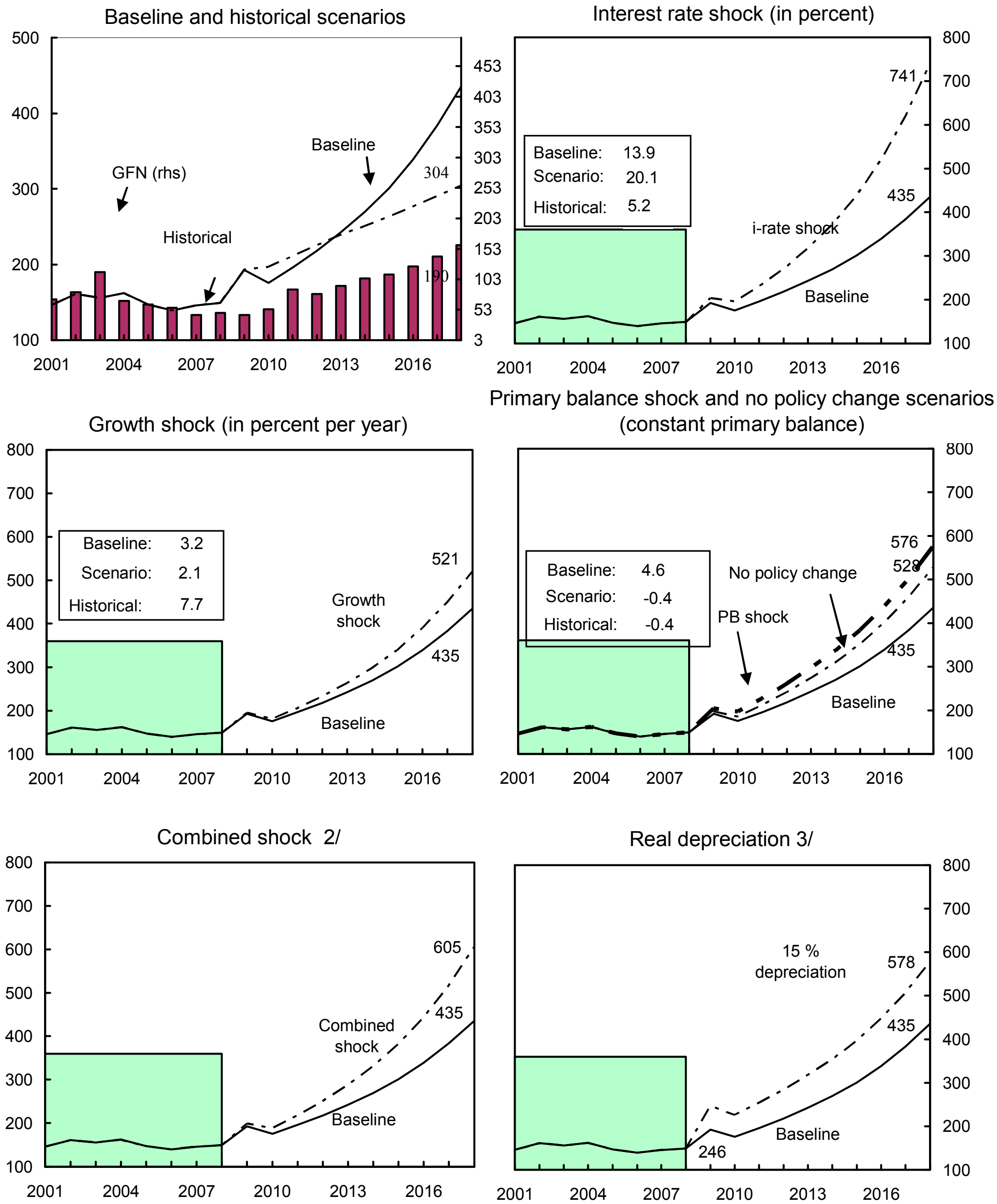
1/ Public sector covers non-finacial public sector and the IMF loan to the CBS. Debt is on a gross basis. External and domestic financing gaps are assumed to be closed by additional borrowing.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. External DSA: Bound Tests for Nonconcessional Refinancing Scenario 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ External financing gap is assumed to be closed by external borrowing at LIBOR plus 1300bps, with 3 year maturity. Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two standard deviations for growth shock). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Figure 2. Public DSA: Bound Tests for Non-Concessional Flow Refinancing Scenario 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two s.d. for growth). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time additional real depreciation of 15 percent in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

SEYCHELLES

First Review Under the Stand-By Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, and Financing Assurance Review —Informational Annex

Prepared by the African Department
(In consultation with other departments)

Approved by George Tsibouris (AFR) and Philip Gerson (SPR)

March 13, 2009

- **Relations with the Fund**
- **Joint World Bank–IMF Work Program**
- **Relations with the African Development Bank Group**

I. SEYCHELLES: RELATIONS WITH THE FUND

(As of March 06, 2009)

I. Membership Status: Joined 6/30/77. Article VIII.

II. General Resources Account	SDR Million	% Quota
Quota	8.80	100.0
Fund holdings of currency	14.96	169.97
Reserve Position in Fund	0.00	0.04

III. SDR Department	SDR Million	% Allocations
Net cumulative allocation	0.41	100.0
Holdings	0.05	12.98

IV. Outstanding Purchases and Loans:	6.16	70.00

V. Financial Arrangements:

Type	Arrangement	Expiration	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Nov.14, 2008	Nov. 13, 2010	17.60	6.16

VI. Projected Obligations to the Fund (SDR Million: based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	**2010**	**2011**	**2012**	**2013**
Principal			3.08	3.08	
Charges/interest	0.10	0.10	0.08	0.04	0.00
Total	0.10	0.10	3.16	3.12	0.00

VII. Implementation of HIPC Initiative: Not applicable

VIII. Safeguards Assessments:

As part of the Stand-By Arrangement, a safeguards assessment mission was conducted in September 2008. It found high risks in all areas of the central bank (CBS) safeguards assessment framework, including significant weaknesses in financial reporting that were not identified by the external auditor and internal control vulnerabilities. The authorities are implementing remedial measures including steps monitored under the program. In late November the CBS appointed a new external auditor, PricewaterhouseCoopers, on a five-year contract.

IX. Exchange Rate Arrangement:

The authorities launched a comprehensive reform effort in November 2008, with reforms including a fundamental liberalization of the exchange regime. The exchange market liberalization resulted in all the elimination of restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The exchange rate policy is a managed float. On March 9, 2009, US$ 1 = SR16.65 (mid rate).

X. Article IV Consultations:

Seychelles is currently under a two year Stand-By Arrangement, with quarterly reviews.

XI. Technical Assistance (2004–March 2009):

Department	Head of Mission	Subject	Date
STA	Mr. Freeman	National Accounts/CPI	May/June 2005
MFD/LEG	Mr. Lonnberg	Strengthening Capacity in Critical Central Banking Areas, including AML/CFT-Legal, Institutional, and Supervisory Frameworks	July 2006
LEG	Mr. Beekarry	Advise on AML/CFT measures and the establishment of the FIU	September/October 2006
STA	Mr. Alexander	National accounts/CPI/GDDS	October/ November 2006
MCM	Mr. Bartholomew	Multipurpose mission: Monetary operations, monetary research, banking supervision, payment systems, foreign exchange markets, and nonbank financial institution supervision.	November/ December 2007
STA	Mr. Dessart	Dissemination of GDDS National Summary Data Page	April 2008
STA	Mr. Armknecht	Consumer price index	April 2008
MCM	Mr. Faulk	Banking supervision, drafting of new financial sector related regulations	April 2008
MCM	Mr. Robotham	National payment systems project	May/June 2008
FAD	Mr. Khemani	Strengthening expenditure rationalization and budget management	July 2008
LEG	Mr. Baban	Exchange Rate and Exchange Control Regimes	September 2008

Department	Head of Mission	Subject	Date
FIN	Mr. Hauge	Safeguards assessment	October 2008
FAD	Mr. Krelove	Reform of Tax Policy	January/February 2009
MCM	Mr. Bartholomew	Central Bank Capacity Building after the 2008 Float	February 2009

XII. Resident Representative None

II. SEYCHELLES: JOINT WORLD BANK-IMF WORK PROGRAM, 2009

(As of March 13, 2009)

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank	**A. Strategy and Analytical Work**		
	Interim Strategy Note	November 2008 and February 2009	April/May 2009 April 2009
	Public Expenditure Review (PER)	October 2008	February 2010
	Public Expenditure Review (PER, Phase 2)	September 2009	February 2010
	Update to FIAS report (improving the business environment and private sector development)	September 2009	
	Joint Country Procurement Assessment Report (CPAR) and Country Financial Accountability Assessment (CFAA)		Ongoing
	B. Ongoing and New Projects	Ongoing	
	GEF grant implementation (tsunami reconstruction, disaster management, fisheries capacity)	Identification mission:	April-May 2009
	Development Policy Loan (DPL 1)	November 2008	
	Development Policy Loan (DPL 2)	Identification mission: November 2009	April-May 2010
Fund	**Program and surveillance work**		
	1. Article IV consultation and approval of 2-year Stand-By Arrangement (SBA)		November14, 2009
	2. Quarterly program and financing assurances reviews under the SBA		
	▪ First review	February 2009	March 27, 2009
	▪ Second review	May 2009	June 2009
	▪ Third review	August 2009	September 2009
	▪ Fourth review (if needed)	November 2009	December 2009
	3. Discussion on medium-term structural reform agenda that could be supported by a successor arrangement under the EFF.	August 2009 (preliminary)	October 2009 (preliminary)
	Technical assistance and capacity building		
	1. FAD technical assistance mission on tax policy and revenue administration review.	February 2009	March 2009
	2. MCM technical assistance on reforming the monetary policy framework (long-term monetary advisor, automation of interbank market, reserve money management) strengthening bank supervision, and CBS governance.	Ongoing	Ongoing
	3. MCM technical assistance on public debt management.	Ongoing	March 2009

Title	Products	Provisional timing of mission	Expected delivery date
B. Requests for work program inputs			
Bank request to Fund	Medium-term macro-economic and fiscal framework to inform Public Expenditure Reviews Debt Sustainability Analysis	n.a. n.a.	Ongoing March 2009
Fund request to Bank	1. Assessment of the poverty impact of a devaluation, strategy on strengthening the social safety net and enhancing targeting of social assistance. 2. Policy note on parastatal reform and privatization. 3. Strategy on improving business environment and promoting private sector investment	TBD TBD TBD TBD	October 2009 June 2009 November 2009 June 2009
C. Agreement on joint products and missions			
Joint products	Joint mission to discuss a medium-term structural reform agenda focusing on: social safety net targeting; civil service reform, parastatal reform; and promoting private sector investment	May 2009 (preliminary)	August 2009 (preliminary)

III. Seychelles: Relations with the African Development Bank Group

(As of October 2008)

The African Development Bank Group commenced operations with the Republic of Seychelles in 1978 and has since approved 19 operations comprising 15 projects, one study and three lines of credit for the country. Cumulative approvals as of October 2008 (there were no approvals between 2001 and 2006 when the country was under sanctions) amounted to UA 84.87 million,[1] of which 73 percent was from the African Development Bank (ADB), 14 percent from the Nigeria Trust Fund (NTF), and the remaining 13 percent from the African Development Fund (ADF) (Table 1). Reflecting government priorities, most of the operations were in the social sector (46 percent). This was followed by the financial sector (16 percent), agricultural sector (15 percent), transportation (13 percent), water supply and sanitation (10 percent) and industrial sector (1 percent). Before sanctions were imposed, about 76.8 percent of the total commitments on all approved loans had been disbursed and the balance of 23.2 percent was cancelled after sanctions were applied.

The country was under sanctions with the African Development Bank Group since February 16, 2000 due to the arrears situation. On October 6, 2006 the Seychelles authorities made a payment of US$ 40 million as a first installment towards the clearance of its arrears owed to the African Development Bank Group and paid the balance of US$ 6.75 million on November 14, 2006. The African Development Bank Group consequently lifted all sanctions and started discussions on possible reengagement with the country. Unfortunately, progress was limited because from the second half of 2007 the country occasionally experienced difficulties in meeting its obligations and intermittently slipped back into arrears. Seychelles is now current on its obligations and an agreement has been reached with the government for a joint ADB-World Bank reengagement strategy.

In the interim, the African Development Bank Group has been focusing on the possibilities for the country to access grant resources, such as those available under the African Water Facility and the Middle Income Countries' (MIC) Technical Assistance Fund. Under the African Water Facility, a grant amounting to € 955,000 was signed in May 2008 to finance the preparation of the Water Development Plan aimed at improved water management and governance, and identifying priority investment projects for funding, in order to meet Seychelles' water needs up to 2030. The study is expected to be completed by December 2009. In addition, two proposals that the Government has submitted for consideration under

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[1] UA 1 = US$ 1.55722 as at October 27, 2008.

the MIC Technical Assistance Fund are being processed. One request for a grant amounting to UA 600,000 aims mainly to support human resource development, training and capacity building as well as the establishment of the Seychelles University Foundation. The other request is for a grant amounting to US$ 500,000 to finance studies for a Submarine Cable System to link Seychelles to East Africa.

Table 1. Operations Summary as at 15 October 2008

Operations since: 1978

Total Number of operations 19: 15 Projects, 1 Study; 3 Lines of Credit

Source of Financing	Commitments (UA million)	Percentage Share	Disbursed Amount (UA million)	Percentage Disbursed
ADB	62.19	73	44.12	70.9
ADF/TAF	10.68	13	10.68	100.0
NTF	12.00	14	10.39	86.6
Total	84.87	100	65.19	76.8

Press Release No. 09/102
FOR IMMEDIATE RELEASE
March 31, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review under Seychelles' Stand-By Arrangement and Approves US$1.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Seychelles' economic performance under the two-year Stand-by Arrangement. The approval enables Seychelles to draw immediately an amount equivalent to SDR 0.88 million from the IMF (about US$1.3 million).

The Executive Board also granted waivers for the nonobservance of the performance criterion related to the primary balance of the consolidated Government budget and the continuous performance criterion related to the nonaccumulation of external payment arrears by the public sector.

The two-year SDR 17.6 million (about US$26.6 million) Stand-By Arrangement for Seychelles was approved on November 14, 2008 (see Press release 08/282).

Following the Executive Board discussion, Mr.Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"The authorities are to be commended for their determination to implement the program despite difficult circumstances and a major deterioration of the external environment. The program has made a good start, reflecting the authorities' strong commitment and ownership of the reforms. Early signs of success of the macroeconomic stabilization efforts are encouraging and have strengthened confidence in the reforms. The establishment of the social welfare agency is an important element in the reform process, and it will be essential to ensure that the targeted social safety net protects the most vulnerable segments of society.

"Maintaining the tightened fiscal and monetary polices are critical to achieving the program's objectives. The rise in real interest rates to positive levels has been a key component of the program's progress so far. Further coordinated efforts by the Central Bank of Seychelles and Ministry of Finance on liquidity and treasury management need to be pursued as planned.

“The program includes an appropriate strengthening of public financial management, which is critical to support the fiscal sustainability effort and improved economic efficiency. A major program objective is to reinforce financial discipline and accountability of the parastatal sector through enhanced oversight by the Ministry of Finance.

“The authorities are committed to reinforce their debt management capacity and pursue their public external debt restructuring strategy, aimed at normalizing relations with creditors through good faith negotiation efforts. Given the impact of the deteriorating external environment on growth prospects, the program financing needs are now somewhat higher than previously expected, but the program is financed for 2009, assuming that a public debt restructuring consistent with Seychelles’ more limited payments capacity can be achieved.

“Increased technical assistance, and project and program financial support by development partners, are important to the success of the program. Donor coordination has been initiated and is expected to be strengthened in the months ahead,” Mr. Kato said.

Statement by Christopher Legg, Alternate Executive Director for Seychelles and Simon Duggan, Advisor to Executive Director
March 30, 2009

The government of Seychelles is pursuing its economic reform agenda with determination. Our Seychellois authorities launched their ambitious reform agenda in early-November 2008 and since then have: floated the rupee and removed foreign exchange restrictions; introduced a market-based monetary policy framework; reduced the dominance of the public sector through privatization of some commercial public enterprises and a substantial voluntary and involuntary departure scheme for civil servants; and replaced indirect subsidies on essential goods and services with a targeted social safety net. While placing a substantial up-front adjustment burden on the people of Seychelles, these measures are now starting to bear fruit.

The rupee depreciated around 60 per cent following the float, but has since stabilized at about 16.5 rupees to the $US. Interest rates on Treasury Bills rose to almost 30 per cent in January, but have since eased to around 24 per cent. After the severe foreign exchange shortages experienced in early- and mid-2008, the NIR target for end-December was comfortably met. The public sector workforce has been reduced by some 3,300 employees (17 per cent of staff), supporting a projected reduction in the public sector wage bill of some 3 percentage points of GDP from 2008 to 2010. Replacing indirect subsidies with a means-tested social safety net has improved both the government's fiscal position and its ability to target income support at the most vulnerable elements of society. And the coherence of fiscal and monetary policy has improved considerably, supported by Seychelles' macroeconomic framework and enhanced by frequent coordination meetings involving the President, Minister of Finance and Central Bank Governor.

These measures were a bold and convincing response to the macroeconomic imbalances that emerged over time, exacerbated and pushed to crisis point by the global food and fuel price shock. The results thus far are largely as anticipated, which is a credit to the initial program design, the discipline of Seychellois policymakers to stay the course through the early difficult adjustment period, and further tangible evidence of the government's strong resolve to lay the policy foundations for macro stabilization and sustainable medium-term growth. The government has also pursued a strategy of communicating challenges and the evolving reform agenda openly, including through regular press conferences involving opposition party journalists. This has helped to reinforce the constituency for change, support confidence and shape public expectations for the future.

Recent Developments

Since Seychelles' program was approved in mid-November 2008, the external environment has deteriorated sharply. The Seychelles economy is heavily dependent on tourism, with visitors from Western Europe and Russia the main source of export income, foreign direct investment in the tourism sector a major driver of growth, and some 60 per cent of government revenues dependant (either directly or indirectly) on the tourism sector. Tourism earnings fell 15 per cent in the December quarter and were around 25-30 per cent lower in the March quarter than in the same period last year. A substantial decline in tourism arrivals is reflected in the program projections and FDI inflows are forecast to almost halve. The forecast contraction in Seychelles' real GDP of 9½ per cent in 2009 balances both upside and downside risks. The only silver lining in the global recession for Seychelles is the decline in world oil and food prices, which has taken some pressure off inflation and the external accounts. Seychelles' current account deficit is forecast to be 29 per cent in 2009, a modest improvement on the 32 per cent outcome for 2008.

The depreciation of the rupee, increases in the goods and services tax (GST) and administered prices on some products, and removal of indirect subsidies caused a one-off jump in the price level of 24 per cent in November. Subsequent monthly inflation data shows no evidence of persistent inflationary pressures and anecdotal evidence suggests that most contract prices (including wages) are being adjusted by substantially less than the current inflation rate. This has been assisted by public sector wage restraint, with the government increasing public sector wages by a relatively modest 12.5 per cent since the float. Nonetheless, with the removal of subsidies on essential goods and services (including a doubling of local bus fares and a large increase in utility prices) and the significant increase in domestic interest rates, many Seychellois have experienced a substantial decrease in their purchasing power. Inflation is forecast to decline through 2009, providing some respite. However, as tourism numbers fall and GDP contracts, unemployment is likely to increase, with some hotels and export manufacturers already shedding foreign workers.

The level of income support available under the means-tested social safety net was set at a conservative level initially, containing government expenditure in this area to well below the amount projected in the program. The government has recently increased benefit payments, within the confines of the program's fiscal targets, to alleviate pressure on the most vulnerable segments of society.

Seychelles' financial sector is not well-integrated into international financial markets and therefore the global financial crisis and associated deleveraging have not yet had a material impact on financial sector stability. Nevertheless, the central bank is monitoring developments closely and taking measures to strengthen financial sector supervision and prudential regulations, with excellent technical support from MCM. As noted in the staff report, three banks are less than adequately capitalized and the central bank is actively promoting capital restoration. The key risk in the short-term is the potential for rising mortgage defaults as the banks pass through the substantial increase in their domestic funding costs. However, stress tests conducted by MCM in this regard suggest that financial system stability will remain intact under the most extreme scenarios. Moreover, with commercial bank interest rates (including on mortgages) already starting to decline, this has reduced the default risk somewhat. The central bank has requested that a full FSAP be conducted in 2011, and in the interim the central bank will embark on self-evaluation - using the FSAP templates and with MCM support - in priority areas.

Discussions with external creditors are progressing well. The authorities conducted an initial roadshow in November, meeting with holders of almost 80 per cent of Seychelles' outstanding external securities, and a second round of discussions is now underway. Paris Club creditors have agreed to treat Seychelles' debts under the Evian approach and formal negotiations with Paris Club creditors are expected to commence in mid-April. There have also been some preliminary discussions with non-Paris Club official creditors.

Program Performance

Seychelles' program performance during the period of the first review was strong and this has continued into early 2009. The monetary and reserves targets for end-December were met, the three structural benchmarks were observed and the 2009 Budget (delivered in December 2008) established the fiscal policies to achieve the substantial tightening targeted in 2009. Our authorities are also confident that they will meet the end-June structural performance criterion on tax audits for the 20 largest firms. Notwithstanding this strong program performance, two waivers are required to complete the first review.

The reclassification of a loan extended by the government to the state-owned public oil company (SEYPEC) - to secure fuel supply in the difficult period before the program commenced - has resulted in a technical breach of the full year target for the primary fiscal surplus. Our authorities agree with the decision to reclassify the transaction, with the revised fiscal balance profile a better reflection of the extent of fiscal adjustment in 2009 (some 5½ per cent of GDP). Two points are worth emphasising: the policies that led to the need for the financing operation were abolished prior to the program being put in place; and the considerable room for judgment on the classification of loans 'above or below the line' under GFS guidelines, with the joint decision to reclassify the transaction very much an on-balance assessment. Our authorities will continue to adhere to the requirement in the TMU that they consult with Fund staff on all economic and financial measures that would have an impact on program implementation. As noted in the staff report and MEFP, abstracting from the reclassification and higher than anticipated external grants (providing an unanticipated boost to the fiscal position), the primary surplus target for 2008 would have been exceeded by some 1.8 per cent of GDP.

Seychelles also temporarily accrued new arrears to multilateral creditors in both December and January, exposing weaknesses in the authorities' debt management procedures. The amounts were small (less that $US1 million in aggregate), were repaid in full within 2 and 4 weeks of the due dates and no new arrears have accrued to multilateral creditors since. Our authorities are implementing comprehensive corrective measures that include: centralizing management of repayments to multilateral creditors within the Ministry of Finance; commissioning the assistance of the Commonwealth Secretariat to strengthen debt management information technology systems; and bolstering staffing resources in the Ministry of Finance's debt management section. The Ministry of Finance has also requested technical assistance from MCM to help further strengthen debt management capacity. Given that the second episode occurred in January, under the existing Board policy Seychelles would also be required to seek a waiver at the second review.

Future Reviews and Medium-Term Reform Agenda

Given the deterioration in the external environment, discussions between staff and the authorities highlighted the importance of keeping the program targets and financing assumptions for 2009 under close review. As indicated in the staff report, the fiscal balance and reserves targets for 2009 have been adjusted down modestly as a direct consequence of the more difficult external environment.

In the period to the second review, our Seychellois authorities will focus on: meeting the quantitative performance criteria; bolstering debt management capacity; strengthening governance and operations at the CBS, including addressing risk areas identified in the IMF safeguards assessment; reinforcing public financial management within the Ministry of Finance, spending ministries and state-owned enterprises; working with external creditors towards normalizing relations; upgrading bank capitalization and credit quality norms, with MCM support; and elaborating a tax policy reform strategy based on the recommendations of an FAD technical assistance mission concluded in early-February.

As stated in President Michel's letter of intent, the government intends to request a 3-year arrangement under the Extended Fund Facility (EFF) in the second half of 2009. The structural balance of payments problems that led to Seychelles' economic difficulties evolved over many years and will require sustained effort over the medium-term to address. Our Seychellois authorities are actively working with the IMF, World Bank and African Development Bank to elaborate a comprehensive medium-term reform program. In terms of the IMF's involvement, they are convinced that the EFF provides the appropriate framework and financing structure through which to address their medium-term challenges.

Finally, our Seychellois authorities would like to express their gratitude to Management for their ongoing support and the mission chief and his team for their continued hard work in support of Seychelles' economic reform agenda and constructive approach to the program discussions.