

Seychelles: Extended Arrangement—Financing Assurances Review—Staff Report.

In the context of the Extended Arrangement—Financing Assurances Review, the following document has been released:

- The staff report for the Extended Arrangement—Financing Assurances Review, prepared by a staff team of the IMF, briefly outlining performance under the Extended Arrangement, including compliance with end-December targets. The staff report was completed on February 24, 2010. 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.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

SEYCHELLES

Extended Arrangement—Financing Assurances Review

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

Approved by Johannes Mueller and Aasim Husain

February 24, 2010

1. The Executive Board approved a three year Extended Fund Facility with Seychelles effective December 23, 2009 in an amount equivalent to SDR 19.8 million (225 percent of quota), followed by the purchase of SDR 0.88 million (10 percent of quota). The second purchase of SDR 2.2 million (25 percent of quota) is contingent on observance of the end-December 2009 quantitative performance criteria and completion of a financing assurances review.¹ This report briefly outlines performance under the program, including compliance with the end-December targets, before addressing the issue of financing assurances.

I. PROGRAM PERFORMANCE

2. **Macroeconomic performance through end-2009 continued to be encouraging.** Signs of recovery are apparent, on the heels of improving tourism activity. CPI inflation has been near zero since March and finished the year at minus 2.5 percent (end-period). Interest rates declined steadily and the 91-day T-bill stabilized at about 4.3 percent by end-year. Gross external reserves rose to 1.6 months of prospective imports, somewhat above target on building confidence in the rupee (Table 1).

3. **Prudent fiscal and monetary policies have been key to the strong macroeconomic stabilization.** Overall revenues over-performed projections in spite of the difficult environment and expenditures were within budget parameters, yielding a primary surplus of 14.4 percent. The stance of monetary policy remained broadly in line with the program and credit showed the signs of incipient recovery. The authorities have pursued active sterilization in the face of excess liquidity in the banking system as government has rapidly paid down domestic debt.

¹ Where the Fund is providing financial assistance to a member that has outstanding sovereign external payments arrears to private creditors, paragraph 11(c) (ii) of the Guidelines on Conditionality (<http://www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.htm>) calls for the Executive Board to conduct a financing assurances review.

4. **All the quantitative performance criteria at end December 2009 were met with margins** (Table 2). The structural benchmarks were also observed (Table 3). The 2010 budget was passed consistent with program understandings. The structural benchmarks for March 2010 are expected to be met, and the rest of the structural reform agenda continues to be implemented as scheduled.

II. FINANCING ASSURANCES REVIEW

5. **Strong progress continued to be made in implementing the public external debt restructuring.** The exchange offer to holders of external bonds, notes, and certain commercial bank loans, successfully closed on January 14, 2010. The amortizing notes and commercial loans were tendered in their entirety, while 84 percent of the Eurobond debt was tendered, triggering the collective action clause. Tenders for the optional par bonds fell below the minimum threshold and the face value of the entire eligible debt (about US\$283 million, not including arrears and penalties) was restructured with a 50 percent face value reduction and long-term deferral of maturities.² A goodwill cash payment in mid April of US\$17.6 million will be made in partial compensation for foregone interest. The new bonds attracted a rating of B- from Fitch ratings, with a positive outlook. With this exchange, about 70 percent of the public external debt stock at end-2008 eligible for restructuring has been restructured.

6. **Significant progress has also been achieved with remaining non-Paris Club official bilaterals and external commercial banks.** All bilateral creditors but one have either signed agreements or otherwise indicated their willingness to accept Paris Club terms. Agreements in principle have been reached with most commercial banks and discussions with remaining non-Paris Club bilaterals are advancing.

7. **As anticipated, the residual financing gaps for 2010 and the medium term, identified at the time of program approval, have now been markedly reduced through the restructuring, and are expected to be entirely closed in the coming months as the remaining negotiations are concluded.** The restructuring is consistent with program financing assumptions. Staff is of the view that the debt restructuring negotiations have proceeded in a manner consistent with the Fund's LIA policy. The authorities have dealt in good faith with all creditors and ensured inter-creditor equity. Accordingly, staff recommends completion of the financing assurances review.

² US\$169 million of long-term discount bonds were issued to creditors on February 11, 2010.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2007–09

	2007	2008	2009	
			Prog.	Est.
National income and prices ¹	(Percentage change, unless otherwise indicated)			
Nominal GDP (millions of Seychelles rupees)	6,877	8,756	10,402	10,322
Real GDP	9.7	-0.9	-7.6	-7.6
CPI (annual average)	5.3	37.0	32.9	31.8
CPI (end-of-period)	16.8	63.3	1.9	-2.5
GDP deflator average	11.4	28.4	28.5	27.5
Money and credit	(Percentage change, unless otherwise indicated)			
Net claims on private sector	9.3	58.4	-12.1	-16.9
Broad money (M3(p)) ²	-7.6	27.2	-0.7	7.5
Reserve money	-23.1	0.6	32.2	15.7
Velocity (GDP/ M3)	1.5	1.5	1.8	1.6
Money multiplier (M3/reserve money)	4.2	5.3	4.0	4.9
Savings-Investment balance	(In percent of GDP)			
External savings	20.8	44.7	22.6	22.5
Gross national savings	8.0	-12.7	6.8	7.0
<i>Of which</i> : government savings	-4.4	4.2	2.8	4.7
Gross investment	28.8	32.1	29.4	29.5
<i>Of which</i> : government investment	5.5	2.1	5.3	5.6
Government budget				
Total revenue, excluding grants	32.0	32.8	35.6	36.7
Expenditure and net lending	40.9	39.8	35.1	34.7
Current expenditure	36.3	28.6	32.8	32.1
Capital expenditure and net lending ³	4.6	11.2	2.3	2.6
Overall balance, including grants	-8.7	-3.3	2.8	4.4
Primary balance	-2.0	3.8	13.3	14.4
Total public debt ^{4, 5}	129.8	135.7	140.1	128.0
Domestic	65.8	52.3	41.6	37.4
External ^{4, 5}	63.9	83.3	98.5	90.6
External sector	(In percent of GDP, unless otherwise indicated)			
Current account balance including official transfers	-20.8	-44.7	-22.6	-22.5
Total stock of arrears (millions of U.S. dollars) ^{4, 5}	160	322	239	209
Total external debt outstanding (millions of U.S. dollars) ^{4, 5}	710	768	755	690
(in percent of GDP) ^{4, 5}	69.2	83.3	98.5	90.6
Terms of trade (= - deterioration)	-1.2	0.7	-2.1	-2.1
Real effective exchange rate (end-of-period, percent change) ⁶	-25.4	-18.4	13.0	13.0
Gross official reserves (end of year, millions of US dollars)	10	51	153	169
In months of imports, c.i.f.	0.1	0.6	1.5	1.6
Exchange rate				
Seychelles rupees per US\$1 (end of period)	8.0	16.6	10.6	11.3
Seychelles rupees per US\$1 (period average)	6.7	9.5	14.1	13.7

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

¹ Historic GDP data have been revised upwards in April 2009.

² In 2007 and earlier, includes domestic currency balances earmarked for pending import requests ("pipeline").

³ In 2010 includes contingency spending of 1.1 percent of GDP

⁴ Assumes April 2009 Paris Club agreement is implemented; does not include any further restructuring of external debt.

⁵ Includes arrears and the external debt of the central bank.

⁶ REER is change from Dec. 2008 through Sep. 2009.

Table 2. Seychelles: Quantitative Performance Criteria Under the EFF, December 2009 - December 2010
(Millions of Seychelles rupees; end-of-period)

	2009			2010			
	December			March	June	September	December
	Program	Adjusted	Actual	Program	Program	Program	Program
Performance criteria							
Net international reserves of the CBS, millions of U.S. dollars (floor) ¹	130	138	153	133	128	142	168
Reserve money (ceiling)	1,480	...	1,296	1,537	1,592	1,676	1,753
Primary balance of the consolidated government (cumulative floor) ^{2, 3}	1,375	...	1,491	261	437	659	761
The contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) ²	39	...	30	2	3	13	37
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
The accumulation of external payments arrears by the public sector (ceiling) ³	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
Memorandum items:							
External non project financing (millions of U.S. dollars; cumulative) ²	-17.2	...	-9.4	1.7	1.8	9.0	31.8
Program financing support	19.6	...	11.2	0.0	0.0	0.0	19.6
Cash payments on foreign debt service	48.1	...	32.1	1.8	5.8	6.9	9.2
External budget grants	11.3	...	11.5	3.5	7.6	15.9	21.4
Program accounting exchange rates							
SR/US\$ (end-of-quarter)	11.00	...	11.25	11.00	11.00	11.00	11.00
US\$/Euro (end-of-quarter)	1.48	...	1.43	1.48	1.48	1.48	1.48
US\$/UK pound (end-of-quarter)	1.65	...	1.62	1.65	1.65	1.65	1.65
US\$/SDR (end-of-quarter)	1.59	...	1.57	1.59	1.59	1.59	1.59

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 non-accumulation of new external payment arrears constitutes a continuous performance criterion. Excludes arrears for which a rescheduling agreement is sought.

Table 3. Seychelles: Structural Benchmarks for 2009–10

Measure	Target date	Macroeconomic rationale	Status
Complete CBS procedures manual (MEFP, ¶46).	End-December 2009	To support improved efficiency and transparency in monetary policy.	Met.
CBS to publish commercial bank supervision report (MEFP, ¶46).	End-December 2009	To promote competition and transparency in the banking system.	Met.
Amend the Business Tax Act in line with the tax reform strategy (MEFP, ¶22).	End-December 2009	To broaden the tax base, modernize tax policy, and remove distortions.	Met.
Cabinet approval of customs reform strategy and implementation plan (MEFP, ¶23).	End-March 2010	To transform customs into a modern and efficient entity.	
Publish general government fiscal statistics (MEFP, ¶29).	End-April 2010	To enhance transparency and coverage of public finance.	
Submit to National Assembly a new customs management act (MEFP, ¶23).	End-June 2010	To institutionalize best international practice and a better business climate.	
Introduce Personal Income Tax (MEFP, ¶22).	July 1, 2010	To broaden the tax base and provide for more equitable taxation.	
Introduce budget submissions protocols and procedures (MEFP, ¶28).	End-July 2010	To strengthen budget preparation.	
Adopt a new chart of accounts for the 2011 budget (MEFP, ¶29).	End-November 2010	To ensure proper classification and increase efficiency of the budget as a policy tool.	
Submit to National Assembly a bill creating a national clearing house and settlement system (MEFP, ¶44).	End-December 2010	To introduce necessary financial infrastructure for improved efficiency and reduced risks.	