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# Seychelles: Fifth Review Under the Extended Arrangement, Request for Modification of Performance Criteria, and Financing Assurances Review—Staff Report; Press Release on the completion of the Review.

In the context of the Seychelles - fifth review under the extended arrangement, request for modification of performance criteria, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the Seychelles - fifth review under the Extended Arrangement, request for modification of performance criteria, and financing assurances review, prepared by a staff team of the IMF, following discussions that ended on March 12, 2012, 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 May 22, 2012. 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 on the completion of the review.

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**
**Washington, D.C.**

# SEYCHELLES

May 22, 2012

## FIFTH REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

## KEY ISSUES

**Context.** Decisive policy changes after the 2008 crisis set in motion a solid recovery, which has continued through 2011. A less favorable external environment and fiscal challenges arising from public enterprises are testing the macroeconomic management for 2012.

**Focus.** Discussions centered on policy responses to lower short-term growth prospects, costs of the national airline's restructuring, a depreciating exchange rate, and rising inflation.

**Program performance.** The authorities met all performance criteria and structural benchmarks through end-March 2012 and are on track to meet the end-June 2012 targets.

**Policies in the period ahead.** Monetary policy is being tightened to address the risk of second-round inflationary pressures while the fiscal policy stance is eased only slightly. This policy mix is needed to safeguard the medium-term debt reduction and international reserve accumulation objectives and build policy buffers. In the annexed Letter of Intent and Memorandum of Economic and Financial Policies (MEFP), the authorities propose to update the program for the remainder of 2012. Staff supports the modification of two quantitative performance criteria for end-June 2012 and recommends the completion of the fifth review under the Extended Arrangement and the financing assurances review.

**Risks.** The most important risks to the economic outlook and program performance are external risks, including a further deterioration of the situation in Europe that could lower tourist inflows, and piracy. Homegrown risks to the program include additional losses of key public enterprises that could jeopardize the government's debt reduction objectives and, in an extreme scenario, put into question stabilization gains since 2008. These risks have been mitigated by corrective measures, including a strategic alliance that endows the national airline with new capital and international management expertise, and increases in public utility tariffs to cost-recovery levels. Stricter monitoring of public enterprises and early action in case their financial situation deteriorates will minimize risks of drains to the budget.

Approved by
**Saul Lizondo and David Marston**

The three-year Extended Arrangement (EA) under the Extended Fund Facility (EFF) for SDR 19.8 million (182 percent of quota) expires in December 2012. SDR 15.84 million has been disbursed, SDR 2.64 million will be available upon completion of this review, and the remainder upon completion of the last review, tentatively in December 2012. The arrangement supports a program aimed at consolidating macroeconomic stability and external sustainability, and implementing second-generation structural reforms.

In a cabinet reshuffle in March 2012, Governor of the Central Bank of Seychelles (CBS) Pierre Laporte succeeded Vice President Danny Faure as Minister of Finance. CBS Deputy Governor Caroline Abel was appointed Governor.

Discussions on the fifth review were initiated in Victoria in March 2012 and completed in Washington during the Spring Meetings. The staff team comprised Messrs. Le Dem (head), Culiuc, Peña, and Roy (all AFR). Ms. Bultitude (OED) joined policy discussions.

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**FIGURE**



**BOX**



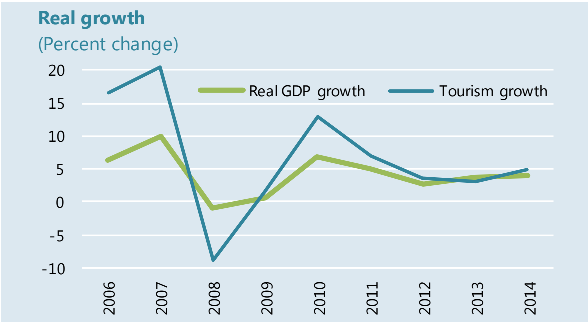
**ANNEX**



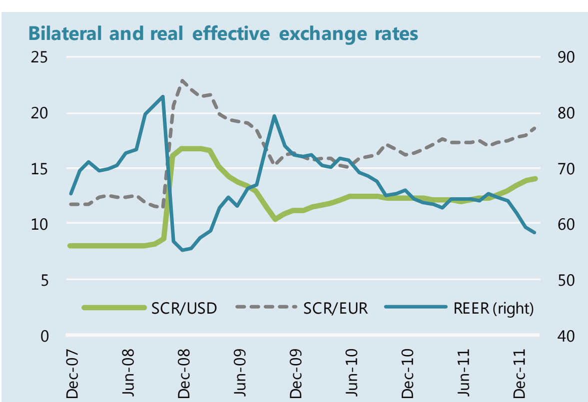
**APPENDIX**

# I. RECENT DEVELOPMENTS AND OUTLOOK

*Economic developments in 2011 were favorable despite a further deterioration in the terms of trade but the worsening environment in Europe is having a negative impact on the outlook for 2012.*

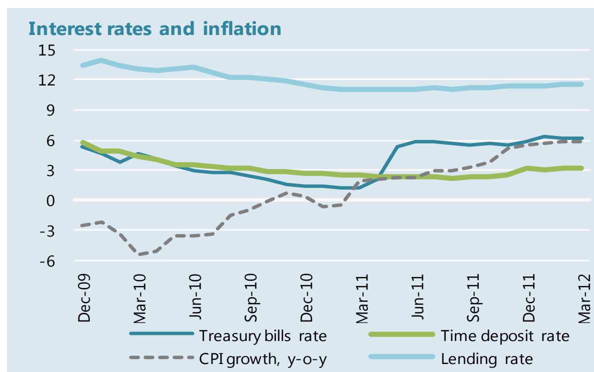



**1. In 2011, Seychelles' economy weathered well rising commodity prices and weakening conditions in Europe, including through exchange rate flexibility.** The tourism sector grew by 7 percent in 2011, driving economic growth at an estimated 4.9 percent. Deteriorating terms of trade, reflecting in part the depreciation of the euro (in which most exports are denominated) against the dollar, and lower transportation services exports have triggered a depreciation of the rupee in the last quarter of 2011. Since then, it has stabilized. In March 2012, the real effective exchange rate was about 11 percent lower than a year ago. The import content of large foreign direct investment flows, notably in the tourism sector, explains the bulk of the high external current account deficit.



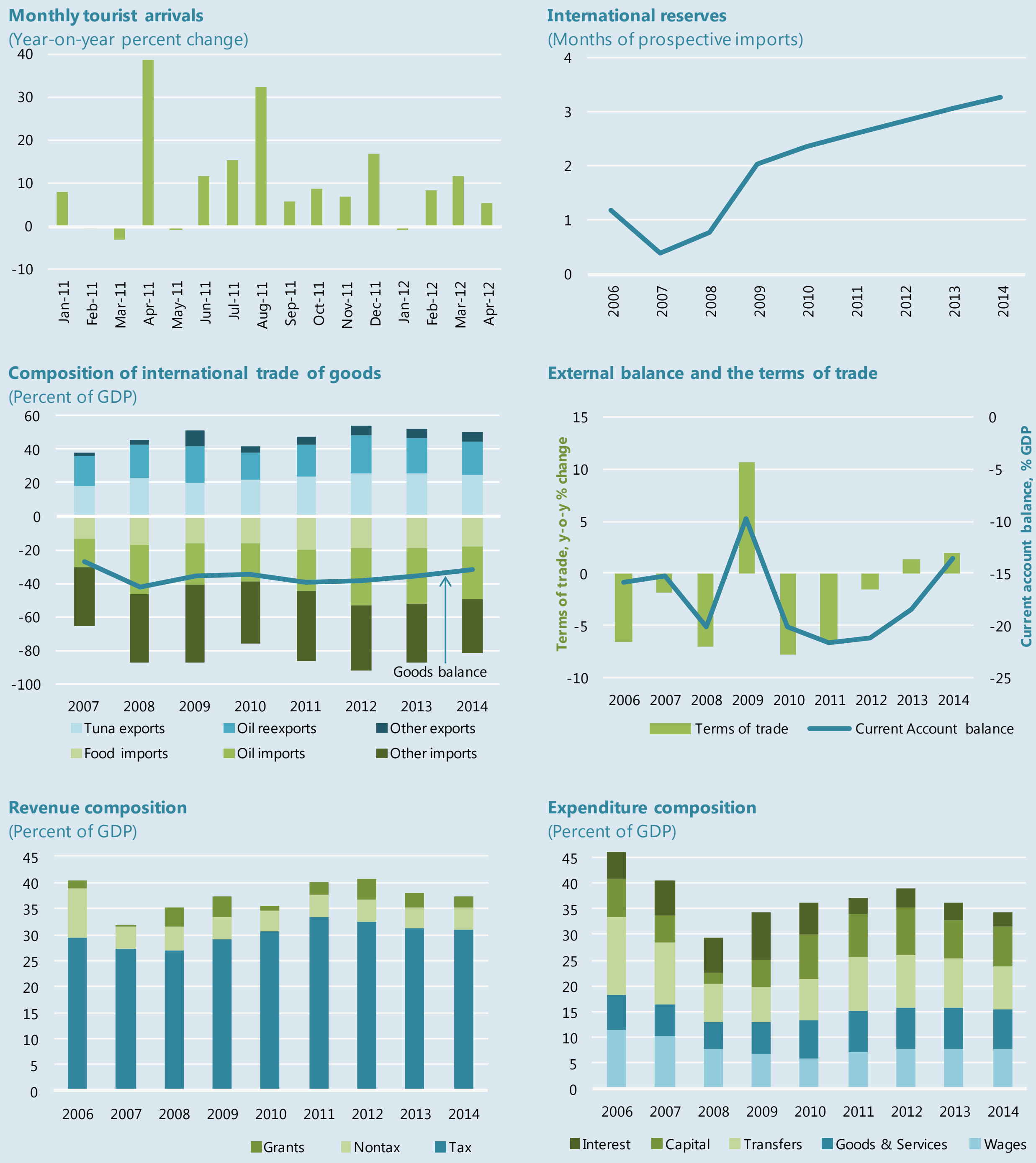

**2. Inflation**. Consumer price inflation increased from almost zero in 2010 to 5.8 percent at end-March 2012, mainly reflecting a partial pass-through of higher international food and fuel prices, and more recently the depreciating rupee.

**3. Economic policies.** Fiscal performance in 2011 was stronger than initially projected despite higher-than-expected losses at the national airline. In response to increasing inflation, the CBS has tightened monetary policy, starting with a raise in the minimum reserve requirements in April 2011. The average interest rates of treasury bills rose in steps, from 1.5 percent in early 2011 to 5.8 percent in December 2011, and 6.8 percent in early May 2012.




**4. Outlook for 2012.** Despite an encouraging first quarter, tourist arrivals growth is conservatively projected at 3.5 percent for the year. This and the projected negative impact of imported inflation on real disposable income will drive economic growth in 2012 down to 2.8 per-cent. Lower growth should improve the external current account balance, starting in the second half of the year. Tighter monetary policy will also alleviate pressures for further depreciation of the exchange rate. Inflation is expected to peak at around 8½ per-cent in mid-2012 (once recent increases of petroleum product prices and utility tariffs are fully reflected in the consumer price index) before sliding down to 6½ at the end of the year.

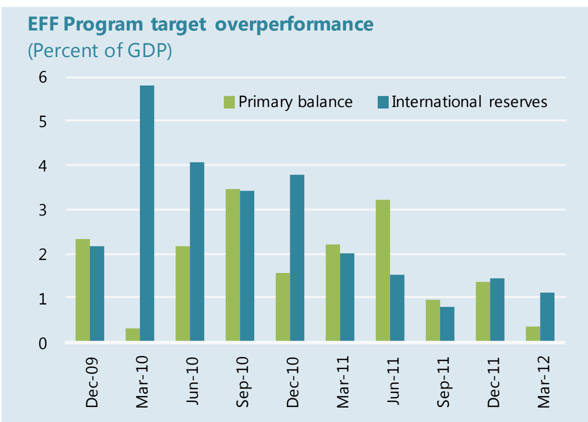
**Figure 1. Seychelles: Macroeconomic developments and projections**



# II. FIFTH REVIEW: PERFORMANCE UNDER THE EXTENDED ARRANGEMENT

*Policy implementation through end-December 2011 has been in line with the program, and the end-June 2012 performance criteria appear within reach.*

**5. The authorities have maintained their long record of strong over-performance on key quantitative targets.** All quantitative performance criteria (PCs) at end-December 2011 were met (MEFP, Table 1). Substantial over-performance for the primary fiscal surplus and international net reserves targets reflect mostly one-off government revenues from a legal settlement with a non-resident at the end of the year. Indicative targets for end-March 2012 were met, and end-June PCs appear within reach.




**6. Most fuel and utility prices have been adjusted to reflect higher energy costs and ensure positive cash flow projections in 2012 for the state petroleum and public utility companies.** In April 2012, SEYPEC, the oil importer, increased gasoline and heavy fuel prices by 15 percent. The increases were partly triggered by losses sustained by the company's international oil tanker business, which previously subsidized domestic oil consumption; SEYPEC's bunkering activities continue to be profitable (MEFP ¶45). The pass-through of higher international oil prices has been almost completed in mid-May with a 15 percent across-the-board increase in electricity, water and sewage tariffs, as well as a doubling of the price of liquefied petroleum gas (LPG) for commercial clients. LPG prices for household consumption and public transportation fare remain below costs for social reasons. To cope with the planned increase in energy prices, the 2012 budget had also incorporated a substantial increase in transfers targeting the most vulnerable households.

**7. The authorities have made substantial progress in their structural reform agenda.** All structural benchmarks through end-March 2012 were met (MEFP, Table 2). A study on the optimal tariff structure for utilities is underway, and preparations for the introduction of the VAT in July 2012 are proceeding.

**8. External debt restructuring is close to completion.** Agreements which were reached in 2011 under best efforts with the remaining two non-Paris Club official creditors (India and Abu Dhabi) are expected to be signed shortly. The signature of another agreement reached in good faith with the remaining commercial creditor is also imminent (MEFP ¶6).

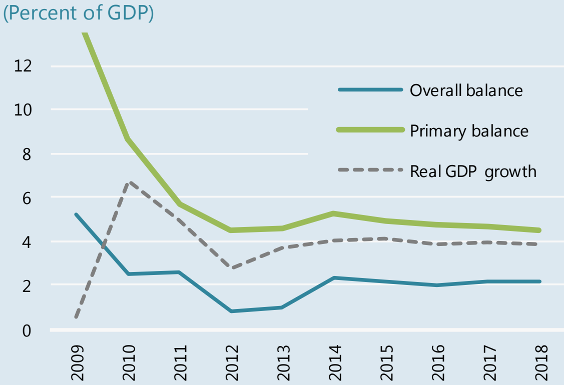
# III. POLICIES IN THE PERIOD AHEAD

*Discussions centered on the policy responses to lower growth prospects, one-off costs related to the restructuring of the national airline, rising energy prices, and a depreciating exchange rate. The fiscal policy stance will be relaxed slightly in the second half of 2012, but the authorities acknowledged that maintaining a credible path towards the 2018 government debt reduction objective does not leave much fiscal room in the medium term. The Central Bank agreed to tighten monetary policy further to prevent second-round inflation and external pressures. Public enterprise monitoring will be strengthened.*

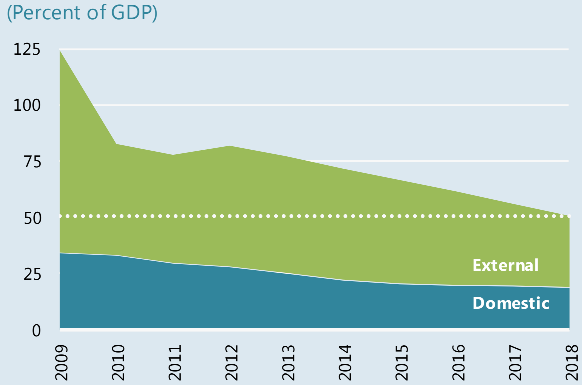
9. **The accommodation of additional government expenditures in 2012 will be largely offset by improved revenue prospects.** The end-year primary fiscal balance is revised downward by 0.2 percent of GDP. On the revenue side, import-related taxes are benefitting from the depreciating rupee (by 0.5 percent of GDP), while higher dividends from other state-owned enterprises will compensate omitted dividends from SEYPEC (due to losses sustained by the tanker business). Expenditure increases reflect the partial accommodation of foreign currency-denominated expenditure (0.2 percent of GDP) and higher current transfers related to the Air Seychelles restructuring (0.4 percentage point). The latter were assumed by the government as part of its commitments under the strategic partnership concluded early this year between the national airline and Etihad Airways (Box 1).

10. **Reaching the medium-term government debt reduction target is likely to require a prolonged tight fiscal stance.** The debt taken over from Air Seychelles (2.3 percent of GDP, 0.3 percentage points of which is external) and the impact of the rupee depreciation on the foreign-currency denominated debt are expected to bring up the end-2012 debt-to-GDP ratio to 82 percent. This ratio is 5 percentage points higher than projected at the time of the last review. Current medium-term projections indicate that, with annual GDP growth averaging some 4 percent, bringing government debt below 50 percent of GDP by 2018 will require sustained primary fiscal surpluses at about the 2013 projected level of 4.5 percent of GDP.

**Medium term projections: fiscal balances and growth**
(Percent of GDP)

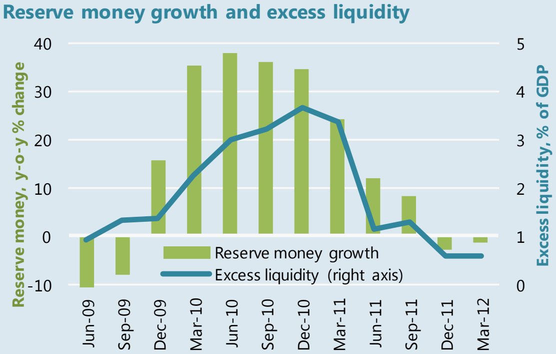



**Medium-term projections: debt stock**
(Percent of GDP)



**11. Risks of second-round inflation pressures and larger dollarization require a further tightening of monetary policy through the remainder of 2012.** The CBS is taking a proactive stance by bringing its key interest rates to positive levels in real terms. This implies reducing the nominal reserve money targets for end-June and beyond below nominal GDP growth, and keeping the average of daily reserve money balances closer to the quarterly targets, through appropriate market-based liquidity sterilization. Increased bank competition and reduced liquidity should speed up the still slow monetary transmission mechanism (EBS/10/225).

Reserve money growth and excess liquidity




Note: Excess liquidity comprises commercial banks' CBS deposit holdings in excess of minimum reserve requirements, plus vault cash.

**12. Monetary policy operations are being strengthened by the increased issuance of treasury bills for monetary purposes.** The rising costs of sterilization threaten to strain the CBS' balance sheet. To support the central bank's sterilization efforts, the Ministry of Finance has started to issue treasury bills in addition to its own financing needs, the proceeds of which will be held in a special account with the CBS (MEFP ¶25). Up to 6 percent of GDP of treasury bills could be issued for monetary purposes in 2012.[1]

**13. Structural reforms in the public sector are broadly proceeding as planned.** VAT implementation in July (structural benchmark under the program) will be critical for completing the cycle of tax reforms under the program, while ongoing reforms at customs promise to increase tax collection and compliance (MEFP ¶¶18-20). With technical support from the IMF, the World Bank, and the European Union, the authorities are implementing a three-year public finance management (PFM) action plan to further modernize and strengthen the budgeting, execution, and auditing of public expenditures (MEFP ¶¶21-23). An important task still pending is the reform of the structure and pricing mechanism of utility tariffs (end-September structural benchmark). The current structure with tariffs differentiated by customer type creates distortions, while ad-hoc adjustments lag behind increases in input costs and are politically sensitive. The upcoming study will propose solutions for rationalizing the utility tariffs system.

**14. The authorities are strengthening supervision of state-owned enterprises (SOEs).** To reduce the risks to the budget of SOE losses (as underlined by recent developments at Air Seychelles and SEYPEC), the Ministry of Finance is strengthening SOEs' legal disclosure requirements and building its monitoring capacity. Simultaneously, a newly-established committee will review large investment projects undertaken by parastatals (MEFP ¶40).

**15. Reforms to remove several obstacles to private sector development are being accelerated.** The government is finalizing, with World Bank support, a set of recommendations to address weaknesses revealed by the latest Doing Business report (MEFP ¶39). Financial sector reforms are also advancing. They include the refocusing of the Development Bank of Seychelles on small and medium enterprises

[1] An amendment to the existing legislation will be submitted to the National Assembly by end-May 2012 to exclude the issuing of treasury bills for monetary purposes from the authorized annual debt ceiling.

(meeting an end-March structural benchmark, MEFP ¶43), the rationalization of the government's housing finance strategy in order to increase private sector involvement (MEFP ¶44), and the preparations for the launch of the Stock Exchange, which will be used to sell government participations in non-strategic parastatals (MEFP, ¶¶36 and 41). The authorities have amended the Anti-Money Laundering Act in order to increase tax compliance and transparency of its offshore financial sector (MEFP, ¶35).

### Box 1. Air Seychelles' restructuring and fiscal impact

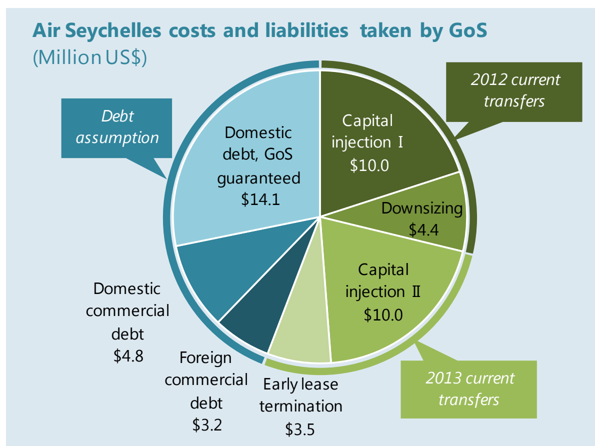
**Background.** Since 1983, the state-owned airline has carried the majority of tourists to Seychelles, operating direct flights from France, the United Kingdom, Italy and Germany – the island nation's four main tourism markets. As the airline struggled to match seat capacity increases with the expansion in tourism capacity, Seychelles has gradually opened its sky to foreign airlines to fill the gap, mostly Gulf carriers.

**Losses in 2010-11.** Management shortcomings and underinvestment resulted in an old and cost-inefficient fleet that left Air Seychelles ill-equipped to face increased competition. Losses started to accumulate from 2010, boosted by an unfavorable exchange rate, rising international fuel prices, and unfavorable code-sharing and charter agreements. They were covered initially by loans from Nouvobanq, a state-controlled bank, for the equivalent of 2.5 percent of GDP, and from 2011 by budget transfers. Total losses in 2011 amounted to 2.5 percent of GDP, of which two-thirds were borne by the central government.

**Initial restructuring**. A first action plan was initiated in early 2011, focusing on renegotiating the code-sharing and charter agreements and eliminating loss-making flights. As losses spiraled rapidly, the government decided in October 2011 to stop the remaining long-haul flights, effective early 2012, downsize the fleet and personnel, and focus on regional and domestic routes.

**Strategic partnership.** In January 2012, a more promising solution for the airline emerged with the signing of a strategic partnership with Etihad Airways. The Abu Dhabi-based airline injected US$20 million in the company against a 40 percent stake and a five-year management contract. It also committed to providing up to $25 million in a shareholder's loan. The partnership would allow Air Seychelles to benefit from Etihad's economies of scale and extended network. The business plan adopted in March 2012 includes flights to the Gulf in code-sharing with Etihad and new routes to Asia, as well as a modernized fleet.

**Government support**. As part of the strategic partnership, the government agreed on capital injections and assumption of liabilities for a total of $50 million, the equivalent of 5 percent of GDP, of which $10 million was injected upfront. The government is liable to cover severance payments and some other downsizing costs, which raises 2012 transfers to the airline to about 1.5 percent of GDP, from 1.1 percent initially budgeted. In addition, the government assumed all liabilities contracted by the airline prior to the partnership, including the outstanding debts to Nouvobanq, totaling 2.4 percent of GDP. In 2013 the government is scheduled to make another capital injection and cover fees for the early termination of an airplane lease, for a total of $13.5 million (around 1.3 percent of GDP). The airline is projected to return to profitability in 2014.




**Lower risks to the budget.** Several factors dramatically reduce risks of further costs to the budget: (i) international managerial expertise brought by Etihad, (ii) strongly aligned incentives for the international partner, and (iii) a shareholder loan that can be used to address short-term liquidity constraints.

# IV. PROGRAM MONITORING AND RISKS

*End-June 2012 program targets have been strengthened. A further deterioration in the Euro area outlook and piracy threats could slow down tourist arrivals and FDI inflows.*

**16. Modifications are proposed for two end-June 2012 performance criteria (PC).** The downward adjustment of the PC on reserve money (and of the end-September and end-December 2012 indicative targets) reflects the monetary policy tightening discussed above. The PC on net international reserves was adjusted slightly upwards reflecting performance to date so as to maintain a path of moderate reserves accumulation in 2012.

**17. The most important risks pertain to a deterioration of economic conditions in Europe.** Increased piracy threats could also lower tourist inflows. Under an extreme downside scenario, a decrease in tourism arrivals by 10 percent in 2012 (13.5 percentage points lower than in the baseline) would reduce GDP growth to close to zero percent, worsen the overall balance of payments by 1.8 percent of GDP, and the primary fiscal surplus by 1.3 percent of GDP. The probability of such a scenario is small, however. Over the past two years tourism flows have shown a strong resilience to the economic slowdown in Europe, including through diversification into other markets (EBS/11/192). Moreover, the experience during the global crisis in 2008 has illustrated the country's strong capacity to adjust to adverse shocks.

**18. Homegrown risks to the program include additional losses to key public enterprises that could jeopardize the government's debt reduction objectives.** Corrective measures are expected to mitigate this risk, including restructuring of the national airline, stricter monitoring of public enterprises, and increases in public utility tariffs to cost recovery levels.

# V. STAFF APPRAISAL

**19. Seychelles continues to perform remarkably well under the EFF-supported program.** 2011 was another year of strong growth, with further progress toward debt sustainability and international reserves accumulation despite several adverse developments. Although the external economic environment is more challenging in 2012, the country is set for reasonable, if somewhat lower, growth in 2012, supported by a resilient tourism sector. Properly addressed, inflation pressures from higher energy prices and a weaker exchange rate should subside later this year.

**20. The macroeconomic policy mix remains appropriate and consistent with declining public debt over the medium term.** While the agreement with a major Gulf carrier on a rescue plan for Air Seychelles required a substantial government effort and a temporary relaxation of the fiscal stance, it bodes well for the restoration of the company's financial viability and for the economy as a whole over the medium term. Within the flexible exchange rate regime, the depreciation of the real exchange rate has helped mitigate the worsening terms of trade and other external shocks. Staff supports the authorities' approach to prevent second-round inflationary effects by monetary tightening and higher interest rates. The sharing of the sterilization costs with the Treasury will reduce the negative impact on the central bank's balance sheet. The proposed path of moderate, but continuous foreign-exchange accumulation will extend further the CBS' reserve coverage while avoiding excessive pressure on the exchange rate.

**21. The government should be vigilant about the financial health of the public sector.** As illustrated by the large restructuring costs of the national airline, losses incurred by public enterprises pose serious threats to the budget and the economy. Staff welcomes the envisaged steps to strengthen the oversight of public enterprises and recommends early action to avert these losses, including by a prompt restructuring of SEYPEC's unprofitable tanker activities.

**22. The structural reforms agenda should be timely implemented, with the view to improving conditions for private-sector led growth.** A better business climate will contribute to boosting the country's growth potential, a key condition for the consolidation of stabilization efforts, the meeting of debt reduction objectives, the building of necessary policy buffers and the financing of badly-needed infrastructure. The timely implementation of structural-benchmark measures in the financial sector should also improve access to credit and the monetary transmission mechanism. Staff encourages the authorities to move ahead as planned with the introduction of the VAT, which will be an important step toward a modernized tax system that encourages compliance and avoids tax distortions. Going forward, the implementation of the upcoming recommendations for rationalizing the tariff system for utilities will enhance efficiency of the system and avoid the costs of belated price adjustments.

**23. Staff supports the modification of two quantitative performance criteria for end-June 2012 and recommends the completion of the fifth review under the Extended Arrangement and the financing assurances review.**

**Table 1. Seychelles: Selected Economic and Financial Indicators, 2009–14**

| | 2009 | 2010 | 2011 | | 2012 | | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| | | | Prog. | Est. | Prog. | Proj. | Proj. | Proj. |
| National income and prices | (Percentage change, unless otherwise indicated) | | | | | | | |
| Nominal GDP (millions of Seychelles rupees) | 11,450 | 11,621 | 12,470 | 12,558 | 13,508 | 13,564 | 14,624 | 15,707 |
| Real GDP | 0.5 | 6.7 | 5.0 | 4.9 | 4.0 | 2.8 | 3.7 | 4.1 |
| CPI (annual average) | 31.7 | -2.4 | 2.5 | 2.6 | 4.8 | 7.3 | 4.2 | 3.1 |
| CPI (end-of-period) | -2.6 | 0.4 | 5.4 | 5.5 | 3.5 | 6.5 | 3.1 | 3.1 |
| GDP deflator average | 25.2 | -4.9 | 2.2 | 3.0 | 4.2 | 5.1 | 4.0 | 3.2 |
| Money and credit | (Percentage change, unless otherwise indicated) | | | | | | | |
| Net claims on private sector | -11.4 | 21.4 | 10.1 | 6.2 | 10.4 | 6.7 | 7.8 | 7.4 |
| Broad money | 7.0 | 13.5 | 2.6 | 4.5 | 8.2 | 4.4 | 7.8 | 7.4 |
| Reserve money | 15.7 | 34.7 | 1.1 | -2.7 | 8.2 | 8.9 | 7.8 | 7.4 |
| Velocity (GDP/broad money) | 1.8 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Money multiplier (broad money/reserve money) | 4.9 | 4.2 | 4.2 | 4.5 | 4.2 | 4.3 | 4.3 | 4.3 |
| Savings-Investment balance | (Percent of GDP) | | | | | | | |
| External savings | 9.8 | 20.1 | 22.3 | 21.6 | 20.9 | 21.2 | 18.4 | 13.5 |
| Gross national savings | 17.5 | 16.6 | 14.5 | 13.8 | 14.6 | 15.2 | 12.6 | 13.5 |
| *Of which*: government savings | 8.2 | 7.9 | 11.4 | 11.0 | 10.9 | 10.7 | 8.8 | 10.3 |
| Gross investment | 27.3 | 36.7 | 36.8 | 35.4 | 35.5 | 36.3 | 31.0 | 27.0 |
| *Of which*: government investment | 5.3 | 8.7 | 9.8 | 8.4 | 8.4 | 9.3 | 7.4 | 7.5 |
| Government budget | | | | | | | | |
| Total revenue, excluding grants | 33.1 | 34.5 | 37.0 | 37.4 | 35.9 | 36.6 | 35.2 | 35.1 |
| Expenditure and net lending | 32.0 | 32.8 | 39.0 | 37.3 | 37.2 | 39.7 | 36.9 | 34.9 |
| Current expenditure | 29.1 | 27.5 | 29.2 | 28.8 | 28.8 | 30.4 | 29.6 | 27.4 |
| Capital expenditure and net lending | 2.9 | 5.3 | 9.9 | 8.5 | 8.4 | 9.3 | 7.3 | 7.5 |
| Overall balance, including grants | 5.2 | 2.5 | 1.6 | 2.6 | 1.9 | 0.8 | 1.0 | 2.3 |
| Primary balance | 14.3 | 8.7 | 4.6 | 5.6 | 4.7 | 4.5 | 4.6 | 5.2 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total public debt | 124.4 | 82.5 | 78.5 | 77.6 | 76.9 | 81.7 | 77.0 | 71.4 |
| Domestic [1] | 33.9 | 32.8 | 28.7 | 29.3 | 25.8 | 27.7 | 24.8 | 21.8 |
| External [2] | 90.5 | 49.7 | 49.8 | 48.3 | 51.1 | 54.0 | 52.2 | 49.6 |
| External sector | (Percent of GDP, unless otherwise indicated) | | | | | | | |
| Current account balance including official transfers | -9.8 | -20.1 | -22.3 | -21.6 | -20.9 | -21.2 | -18.4 | -13.5 |
| Total stock of arrears (millions of U.S. dollars) | 251 | 30.3 | ... | 9.0 | ... | ... | ... | ... |
| Total public external debt outstanding (millions of U.S. dolla | 761 | 478 | 503 | 490 | 528 | 515 | 521 | 521 |
| (percent of GDP) | 90.5 | 49.7 | 49.8 | 48.3 | 51.1 | 54.0 | 52.2 | 49.6 |
| Terms of trade (= - deterioration) | 10.7 | -7.9 | ... | -6 | ... | -1.5 | 1.3 | 2.0 |
| Real effective exchange rate (average, percent change) | -6.7 | 4.4 | ... | -7 | ... | ... | ... | ... |
| Gross official reserves (end of year, millions of U.S. dollars) | 196 | 254 | 263 | 277 | 283 | 301 | 328 | 354 |
| Months of imports, c.i.f. | 2.0 | 2.4 | 2.3 | 2.6 | 2.5 | 2.8 | 3.1 | 3.3 |
| Exchange rate | | | | | | | | |
| Seychelles rupees per US$1 (end of period) | 11.3 | 12.1 | 12.4 | 13.7 | ... | ... | ... | ... |
| Seychelles rupees per US$1 (period average) | 13.6 | 12.1 | 12.2 | 12.4 | ... | ... | ... | ... |

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

[1] Excludes debt issued in 2012 for monetary purposes.

[2] Includes public guarantees on €8 million loan to SCS for underwater cable project in 2011, €36.8 million loan to PUC for water project in 2011-12 and €30 million loan to PUC for electricity project in 2011.

**Table 2. Seychelles: Balance of Payments, 2009–14**
(Millions of U.S. dollars)

| | 2009 | 2010 | 2011 | | 2012 | | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| | Revised[1] | Prel. | Prog. | Est. | Prog. | Proj. | Proj. | Proj. |
| Current account | -83 | -193 | -225 | -219 | -217 | -202 | -184 | -142 |
| (percent of GDP) | -9.8 | -20.1 | -22.3 | -21.6 | -20.9 | -21.2 | -18.4 | -13.5 |
| Balance of goods and services | -84 | -171 | -191 | -204 | -181 | -174 | -158 | -118 |
| Exports of goods | 432 | 400 | 505 | 478 | 516 | 516 | 522 | 526 |
| *Of which:* oil re-exports | 184 | 158 | 210 | 194 | 207 | 215 | 212 | 207 |
| *Of which:* tuna exports | 165 | 210 | 246 | 242 | 256 | 249 | 257 | 265 |
| Imports of goods | -733 | -733 | -877 | -878 | -902 | -880 | -875 | -859 |
| *Of which:* oil imports | -209 | -218 | -268 | -255 | -315 | -323 | -335 | -326 |
| FDI-related imports | -126 | -164 | -156 | -140 | -133 | -132 | -112 | -95 |
| other | -398 | -352 | -453 | -483 | -454 | -426 | -429 | -438 |
| Exports of services | 600 | 592 | 618 | 614 | 657 | 586 | 605 | 641 |
| *Of which:* tourism earnings | 256 | 274 | 298 | 291 | 318 | 304 | 318 | 338 |
| Imports of services | -383 | -430 | -437 | -418 | -452 | -396 | -410 | -426 |
| Income, net | -47 | -47 | -42 | -51 | -42 | -43 | -41 | -39 |
| *Of which:* interest due [1] | -33 | -24 | -17 | -17 | -20 | -18 | -17 | -18 |
| transfers of profits and dividends | -6 | -6 | -8 | -19 | -9 | -11 | -12 | -12 |
| Current transfers, net | 48 | 25 | 7 | 36 | 7 | 15 | 15 | 15 |
| *Of which:* general government, net | 45 | 26 | 8 | 29 | 8 | 8 | 8 | 8 |
| Capital and financial account | 144 | 494 | 226 | 202 | 228 | 221 | 218 | 172 |
| Capital account | 52 | 275 | 49 | 47 | 26 | 29 | 18 | 15 |
| Of which: debt forgiveness | 41 | 267 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial account | 92 | 219 | 177 | 155 | 202 | 193 | 200 | 157 |
| Direct investment, net | 163 | 213 | 201 | 181 | 168 | 170 | 143 | 121 |
| Portfolio investment, net [2] | -6 | 10 | -54 | -18 | 11 | 20 | 38 | 28 |
| Other investment, net | -65 | -3 | 31 | -8 | 23 | 2 | 18 | 8 |
| Government and government-guaranteed | -71 | 19 | 19 | 4 | 6 | 8 | -5 | -13 |
| Disbursements | 19 | 48 | 14 | 7 | 19 | 22 | 15 | 12 |
| Project loans | 10 | 20 | 14 | 7 | 12 | 15 | 8 | 5 |
| Program loans | 9 | 28 | 0 | 0 | 7 | 7 | 7 | 7 |
| Amortization | -81 | -46 | -11 | -10 | -11 | -14 | -20 | -25 |
| Private sector [3] | 7 | -22 | 12 | -14 | 17 | 9 | 24 | 21 |
| Net errors and omissions | 39 | -34 | 0 | 27 | 0 | 0 | 0 | 0 |
| Overall balance | 101 | 267 | 1 | 10 | 11 | 19 | 34 | 30 |
| Financing | -101 | -267 | -2 | -9 | -12 | -19 | -34 | -30 |
| Change in net international reserves (increase: –) | -114 | -43 | -5 | -17 | -14 | -19 | -34 | -30 |
| Change in gross official reserves (increase: –) | -123 | -58 | -11 | -23 | -20 | -25 | -26 | -26 |
| Liabilities to IMF, net | 9 | 13 | 6 | 6 | 6 | 6 | -8 | -4 |
| Other net foreign assets (increase: –) | -13 | 10 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exceptional financing | 27 | -234 | 4 | 8 | 2 | 0 | 0 | 0 |
| Change in arrears (increase: +) | 27 | -234 | 0 | 8 | 0 | 0 | 0 | 0 |
| Clearance of arrears | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 4 | 0 | 2 | 0 | 0 | 0 |
| *Memorandum items:* | | | | | | | | |
| Exports G&S growth, percent | -1.5 | -3.9 | 13.2 | 10.1 | 4.4 | 0.9 | 2.3 | 3.5 |
| Tourism growth, percent | -16.9 | 7.0 | 8.6 | 6.1 | 6.9 | 4.5 | 4.6 | 6.3 |
| Imports G&S growth, percent | -7.5 | 4.3 | 12.4 | 11.4 | 3.1 | -1.5 | 0.7 | 0.0 |
| Exports G&S, percent of GDP | 123 | 103 | 111 | 108 | 113 | 115 | 113 | 111 |
| Imports G&S, percent of GDP | 133 | 121 | 130 | 128 | 131 | 134 | 129 | 122 |
| FDI (incl. loans), US$ million | 163 | 213 | 201 | 181 | 168 | 170 | 143 | 121 |
| FDI (incl. loans), percent of GDP | 19.4 | 22.1 | 19.9 | 17.8 | 16.3 | 17.8 | 14.3 | 11.5 |
| Gross international reserves (stock, e.o.p.) | 196 | 254 | 263 | 277 | 283 | 301 | 328 | 354 |
| Of which: program definition[4] | 169 | 238 | 237 | 254 | 256 | 269 | 296 | 322 |
| (Months of imports of goods & services) | 2.0 | 2.4 | 2.3 | 2.6 | 2.5 | 2.8 | 3.1 | 3.3 |
| Scheduled public external debt service | 115 | 72 | 22 | 22 | 25 | 27 | 35 | 44 |
| (Percent of exports of goods & services) | 10.8 | 8.1 | 2.0 | 2.0 | 2.1 | 2.3 | 2.9 | 3.4 |
| Public and publicly guaranteed external debt [5] | 761 | 478 | 503 | 490 | 528 | 515 | 521 | 521 |
| (Percent of GDP) | 90.5 | 49.7 | 49.8 | 48.3 | 51.1 | 54.0 | 52.2 | 49.6 |
| GDP | 841 | 963 | 1,011 | 1,014 | 1,034 | 954 | 999 | 1,050 |

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

[1] Includes major revisions in statistical methodology

[2] Including coupons on the eurobonds, amortizing

[3] Includes parastatals for which data are available.

[4] Excludes foreign-currency denominated required

[5] Includes outstanding IMF credit.

## Table 3. Seychelles: Consolidated Government Operations, 2009–14[1]
(Millions of Seychelles rupees; cumulative from the start of the year)

| | 2009 | 2010 | 2011 | | 2012 | | | | | | | | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Q1 | | Q2 | | Q3 | | Q4 | | | |
| | | | Prog. | Act. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Proj. | Proj. |
| Total revenue and grants | 4,262 | 4,108 | 5,069 | 5,014 | 1,165 | 1,260 | 2,348 | 2,518 | 3,683 | 3,900 | 5,282 | 5,490 | 5,536 | 5,852 |
| Total revenue | 3,793 | 4,008 | 4,610 | 4,695 | 1,047 | 1,178 | 2,174 | 2,342 | 3,429 | 3,632 | 4,843 | 4,970 | 5,154 | 5,507 |
| Tax | 3,318 | 3,533 | 4,093 | 4,165 | 928 | 982 | 1,899 | 2,035 | 3,024 | 3,176 | 4,272 | 4,390 | 4,538 | 4,846 |
| Personal income tax | … | 195 | 584 | 612 | 158 | 170 | 327 | 331 | 484 | 484 | 646 | 666 | 692 | 728 |
| Social security tax | 384 | 220 | … | … | … | … | … | … | … | … | … | … | … | … |
| Trade tax | 437 | 356 | 423 | 421 | 104 | 94 | 207 | 204 | 315 | 320 | 446 | 450 | 476 | 507 |
| Excise tax | … | 580 | 720 | 727 | 168 | 180 | 347 | 362 | 534 | 544 | 738 | 741 | 784 | 833 |
| Goods and services tax (GST) / VAT [2] | 1,349 | 1,047 | 1,215 | 1,208 | 304 | 327 | 635 | 690 | 968 | 1,051 | 1,377 | 1,449 | 1,415 | 1,519 |
| Business tax | 802 | 790 | 872 | 893 | 134 | 141 | 280 | 321 | 547 | 594 | 778 | 770 | 848 | 911 |
| Other | 346 | 346 | 279 | 304 | 61 | 70 | 104 | 126 | 175 | 182 | 287 | 314 | 324 | 348 |
| Nontax | 474 | 474 | 517 | 530 | 120 | 196 | 274 | 308 | 405 | 456 | 571 | 580 | 616 | 661 |
| Fees and charges | 182 | 191 | 272 | 306 | 44 | 50 | 103 | 110 | 159 | 168 | 220 | 226 | 233 | 250 |
| Dividends from parastatals | 148 | 206 | 194 | 161 | 60 | 131 | 140 | 171 | 198 | 245 | 290 | 292 | 319 | 343 |
| Other | 144 | 77 | 51 | 63 | 15 | 15 | 32 | 26 | 47 | 42 | 62 | 62 | 64 | 69 |
| External grants | 470 | 101 | 459 | 319 | 118 | 82 | 174 | 176 | 254 | 268 | 438 | 520 | 382 | 345 |
| Expenditure and net lending | 3,666 | 3,815 | 4,866 | 4,689 | 1,115 | 1,165 | 2,221 | 2,465 | 3,487 | 3,894 | 5,020 | 5,381 | 5,397 | 5,486 |
| Current expenditure | 3,328 | 3,194 | 3,637 | 3,620 | 885 | 963 | 1,779 | 1,956 | 2,732 | 2,977 | 3,813 | 4,047 | 4,249 | 4,235 |
| Primary current expenditure | 2,284 | 2,482 | 3,263 | 3,236 | 760 | 830 | 1,597 | 1,695 | 2,417 | 2,552 | 3,437 | 3,546 | 3,722 | 3,778 |
| Wages and salaries | 766 | 693 | 935 | 891 | 259 | 227 | 508 | 496 | 766 | 763 | 1,029 | 1,035 | 1,118 | 1,184 |
| Goods and services | 715 | 843 | 1,022 | 999 | 180 | 204 | 421 | 451 | 668 | 731 | 1,077 | 1,118 | 1,170 | 1,257 |
| Transfers | 783 | 935 | 1,287 | 1,330 | 321 | 390 | 657 | 735 | 970 | 1,042 | 1,313 | 1,374 | 1,417 | 1,318 |
| Social program of central government | 290 | 233 | 267 | 266 | 52 | 54 | 125 | 137 | 211 | 224 | 315 | 318 | 331 | 356 |
| Transfers to public sector from central government [3] | 180 | 349 | 676 | 727 | 188 | 247 | 378 | 437 | 519 | 571 | 672 | 730 | 742 | 593 |
| Benefits and programs of Social Security Fund | 313 | 353 | 344 | 338 | 81 | 89 | 155 | 161 | 240 | 247 | 326 | 326 | 344 | 369 |
| Other | 20 | 12 | 19 | 15 | 1 | 9 | 11 | 13 | 13 | 16 | 17 | 19 | 17 | 19 |
| Interest due | 1,044 | 712 | 374 | 384 | 125 | 133 | 182 | 261 | 315 | 425 | 375 | 501 | 527 | 457 |
| Foreign interest | 428 | 402 | 135 | 137 | 49 | 48 | 71 | 72 | 143 | 144 | 168 | 170 | 217 | 241 |
| Domestic interest | 616 | 310 | 239 | 247 | 76 | 85 | 111 | 189 | 172 | 281 | 207 | 331 | 309 | 216 |
| Capital expenditure | 608 | 1,009 | 1,216 | 1,060 | 232 | 172 | 446 | 471 | 723 | 868 | 1,141 | 1,267 | 1,076 | 1,182 |
| Net lending | -273 | -389 | 13 | 9 | -2 | 3 | -4 | 1 | -6 | -4 | -8 | -8 | -3 | -7 |
| Contingency | 3 | 0 | 0 | 0 | 0 | 28 | 0 | 38 | 38 | 53 | 75 | 75 | 75 | 75 |
| Primary balance | 1,640 | 1,006 | 577 | 709 | 175 | 227 | 309 | 314 | 512 | 431 | 637 | 610 | 666 | 824 |
| Overall balance, commitment basis [4] | 596 | 293 | 203 | 325 | 50 | 94 | 127 | 53 | 197 | 6 | 261 | 109 | 139 | 366 |
| Change in arrears | 98 | -3 | -6 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| External interest | 323 | 90 | 0 | 27 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Budget | -224 | -92 | -6 | -11 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in float | | | -192 | -217 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance, cash basis (after grants) | 694 | 291 | 5 | 124 | 50 | 94 | 127 | 53 | 197 | 6 | 261 | 109 | 139 | 366 |
| Financing | -694 | -291 | -5 | -124 | -50 | -94 | -127 | -53 | -197 | -6 | -261 | -109 | -139 | -366 |
| Foreign financing | -53 | 236 | 94 | 2 | -12 | -5 | -13 | 9 | -17 | 83 | 98 | 108 | -76 | -194 |
| Disbursements | 258 | 584 | 170 | 83 | 1 | 12 | 29 | 76 | 44 | 174 | 245 | 309 | 215 | 178 |
| Project loans | 137 | 247 | 170 | 83 | 1 | 12 | 29 | 76 | 44 | 174 | 155 | 209 | 113 | 73 |
| Program/budget support | 121 | 337 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 90 | 100 | 102 | 105 |
| Scheduled amortization | -1,096 | -554 | -130 | -126 | -13 | -16 | -42 | -67 | -61 | -91 | -147 | -201 | -291 | -372 |
| Change in amortization arrears | -1,217 | -2,811 | 0 | 44 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Clearance of arrears | 1,945 | 3,017 | 54 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt service relief | 57 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic financing, net [5] | -784 | -701 | -237 | -177 | -54 | -150 | -141 | -130 | -237 | -182 | -484 | -373 | -126 | -210 |
| Bank financing | -814 | -346 | -219 | -181 | -48 | -137 | -127 | 242 | -213 | 337 | -435 | -336 | -113 | -189 |
| CBS | -376 | -131 | 0 | 45 | -400 | -309 | -400 | -559 | -400 | -759 | -400 | -959 | 0 | 0 |
| CBS recapitalization | 0 | 188 | … | … | … | … | … | … | … | … | … | … | … | … |
| Commercial banks | -439 | -403 | -207 | -226 | 348 | 172 | 268 | 800 | 182 | 1,096 | -41 | 623 | -113 | -189 |
| Nonbank financing | 30 | -355 | -30 | 4 | -2 | -14 | -10 | -13 | -20 | -18 | -43 | -37 | -13 | -21 |
| Privatization and long-term lease of fixed assets | 232 | 156 | 100 | 99 | 9 | 7 | 14 | 14 | 37 | 39 | 97 | 102 | 53 | 38 |
| Statistical discrepancy | -88 | 18 | -8 | -47 | 0 | 53 | 0 | 53 | 0 | 53 | 0 | 53 | 10 | 0 |
| Fiscal financing gap | 0 | 0 | 45 | 0 | 7 | 0 | 14 | 0 | 21 | 0 | 28 | 0 | 0 | 0 |
| *Memorandum item:* | | | | | | | | | | | | | | |
| Pension Fund contribution | … | … | 64 | 67 | 24 | 13 | 49 | 46 | 73 | 72 | 97 | 92 | 95 | 98 |
| Pension Fund benefits payment | … | … | 75 | 78 | 21 | 23 | 44 | 46 | 69 | 71 | 92 | 88 | 89 | 92 |
| External debt service due | 1,524 | 957 | 265 | 263 | 63 | 64 | 113 | 139 | 204 | 234 | 315 | 371 | 509 | 613 |

Sources: Seychelles authorities and IMF staff estimates and projections.

[1] Includes the central government and the social security system. Program columns reflect reclassification of Social Pension Fund revenue and spending, and contingency spending. These changes entail a slight revision in programmed 2012 primary fiscal balance (from SR 642m in EBS/11/192 to SR 637m).

[2] VAT replaces GST in July 2012.

[3] Includes subsidies to Air Seychelles in 2011 and a two-stage recapitalization of the airline in 2012-13.

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

[5] Includes one-off operations in 2011: repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million).

**Table 3. Seychelles: Consolidated Government Operations, 2009–14[1]** (continued)
(Percent of GDP; cumulative from the start of the year)

| | 2009 | 2010 | 2011 | | 2012 | | | | | | | | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Q1 | | Q2 | | Q3 | | Q4 | | | |
| | | | Prog. | Act. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Proj. | Proj. |
| Total revenue and grants | 37.2 | 35.4 | 40.7 | 39.9 | 8.6 | 9.3 | 17.4 | 18.6 | 27.3 | 28.8 | 39.1 | 40.5 | 37.9 | 37.3 |
| Total revenue | 33.1 | 34.5 | 37.0 | 37.4 | 7.8 | 8.7 | 16.1 | 17.3 | 25.4 | 26.8 | 35.9 | 36.6 | 35.2 | 35.1 |
| Tax | 29.0 | 30.4 | 32.8 | 33.2 | 6.9 | 7.2 | 14.1 | 15.0 | 22.4 | 23.4 | 31.6 | 32.4 | 31.0 | 30.9 |
| Personal income tax | ... | 1.7 | 4.7 | 4.9 | 1.2 | 1.3 | 2.4 | 2.4 | 3.6 | 3.6 | 4.8 | 4.9 | 4.7 | 4.6 |
| Social security tax | 3.4 | 1.9 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Trade tax | 3.8 | 3.1 | 3.4 | 3.4 | 0.8 | 0.7 | 1.5 | 1.5 | 2.3 | 2.4 | 3.3 | 3.3 | 3.3 | 3.2 |
| Excise tax | ... | 5.0 | 5.8 | 5.8 | 1.2 | 1.3 | 2.6 | 2.7 | 4.0 | 4.0 | 5.5 | 5.5 | 5.4 | 5.3 |
| Goods and services tax (GST) / VAT [2] | 11.8 | 9.0 | 9.7 | 9.6 | 2.3 | 2.4 | 4.7 | 5.1 | 7.2 | 7.7 | 10.2 | 10.7 | 9.7 | 9.7 |
| Business tax | 7.0 | 6.8 | 7.0 | 7.1 | 1.0 | 1.0 | 2.1 | 2.4 | 4.1 | 4.4 | 5.8 | 5.7 | 5.8 | 5.8 |
| Other | 3.0 | 3.0 | 2.2 | 2.4 | 0.4 | 0.5 | 0.8 | 0.9 | 1.3 | 1.3 | 2.1 | 2.3 | 2.2 | 2.2 |
| Nontax | 4.1 | 4.1 | 4.1 | 4.2 | 0.9 | 1.4 | 2.0 | 2.3 | 3.0 | 3.4 | 4.2 | 4.3 | 4.2 | 4.2 |
| Fees and charges | 1.6 | 1.6 | 2.2 | 2.4 | 0.3 | 0.4 | 0.8 | 0.8 | 1.2 | 1.2 | 1.6 | 1.7 | 1.6 | 1.6 |
| Dividends from parastatals | 1.3 | 1.8 | 1.6 | 1.3 | 0.4 | 1.0 | 1.0 | 1.3 | 1.5 | 1.8 | 2.1 | 2.2 | 2.2 | 2.2 |
| Other | 1.3 | 0.7 | 0.4 | 0.5 | 0.1 | 0.1 | 0.2 | 0.2 | 0.4 | 0.3 | 0.5 | 0.5 | 0.4 | 0.4 |
| External grants | 4.1 | 0.9 | 3.7 | 2.5 | 0.9 | 0.6 | 1.3 | 1.3 | 1.9 | 2.0 | 3.2 | 3.8 | 2.6 | 2.2 |
| Expenditure and net lending | 32.0 | 32.8 | 39.0 | 37.3 | 8.3 | 8.6 | 16.4 | 18.2 | 25.8 | 28.7 | 37.2 | 39.7 | 36.9 | 34.9 |
| Current expenditure | 29.1 | 27.5 | 29.2 | 28.8 | 6.6 | 7.1 | 13.2 | 14.4 | 20.2 | 21.9 | 28.2 | 29.8 | 29.1 | 27.0 |
| Primary current expenditure | 19.9 | 21.4 | 26.2 | 25.8 | 5.6 | 6.1 | 11.8 | 12.5 | 17.9 | 18.8 | 25.4 | 26.1 | 25.5 | 24.1 |
| Wages and salaries | 6.7 | 6.0 | 7.5 | 7.1 | 1.9 | 1.7 | 3.8 | 3.7 | 5.7 | 5.6 | 7.6 | 7.6 | 7.6 | 7.5 |
| Goods and services | 6.2 | 7.2 | 8.2 | 8.0 | 1.3 | 1.5 | 3.1 | 3.3 | 4.9 | 5.4 | 8.0 | 8.2 | 8.0 | 8.0 |
| Transfers | 6.8 | 8.0 | 10.3 | 10.6 | 2.4 | 2.9 | 4.9 | 5.4 | 7.2 | 7.7 | 9.7 | 10.1 | 9.7 | 8.4 |
| Social program of central government | 2.5 | 2.0 | 2.1 | 2.1 | 0.4 | 0.4 | 0.9 | 1.0 | 1.6 | 1.7 | 2.3 | 2.3 | 2.3 | 2.3 |
| Transfers to public sector from central government [3] | 1.6 | 3.0 | 5.4 | 5.8 | 1.4 | 1.8 | 2.8 | 3.2 | 3.8 | 4.2 | 5.0 | 5.4 | 5.1 | 3.8 |
| Benefits and programs of Social Security Fund | 2.7 | 3.0 | 2.8 | 2.7 | 0.6 | 0.7 | 1.1 | 1.2 | 1.8 | 1.8 | 2.4 | 2.4 | 2.3 | 2.3 |
| Other | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest due | 9.1 | 6.1 | 3.0 | 3.1 | 0.9 | 1.0 | 1.3 | 1.9 | 2.3 | 3.1 | 2.8 | 3.7 | 3.6 | 2.9 |
| Foreign interest | 3.7 | 3.5 | 1.1 | 1.1 | 0.4 | 0.4 | 0.5 | 0.5 | 1.1 | 1.1 | 1.2 | 1.3 | 1.5 | 1.5 |
| Domestic interest | 5.4 | 2.7 | 1.9 | 2.0 | 0.6 | 0.6 | 0.8 | 1.4 | 1.3 | 2.1 | 1.5 | 2.4 | 2.1 | 1.4 |
| Capital expenditure | 5.3 | 8.7 | 9.8 | 8.4 | 1.7 | 1.3 | 3.3 | 3.5 | 5.4 | 6.4 | 8.4 | 9.3 | 7.4 | 7.5 |
| Net lending | -2.4 | -3.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 |
| Contingency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.3 | 0.3 | 0.4 | 0.6 | 0.6 | 0.5 | 0.5 |
| Primary balance | 14.3 | 8.7 | 4.6 | 5.6 | 1.3 | 1.7 | 2.3 | 2.3 | 3.8 | 3.2 | 4.7 | 4.5 | 4.6 | 5.2 |
| Overall balance, commitment basis [4] | 5.2 | 2.5 | 1.6 | 2.6 | 0.4 | 0.7 | 0.9 | 0.4 | 1.5 | 0.0 | 1.9 | 0.8 | 1.0 | 2.3 |
| Change in arrears | 0.9 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External interest | 2.8 | 0.8 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Budget | -2.0 | -0.8 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in float | 0.0 | 0.0 | -1.5 | -1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis (after grants) | 6.1 | 2.5 | 0.0 | 1.0 | 0.4 | 0.7 | 0.9 | 0.4 | 1.5 | 0.0 | 1.9 | 0.8 | 1.0 | 2.3 |
| Financing | -6.1 | -2.5 | 0.0 | -1.0 | -0.4 | -0.7 | -0.9 | -0.4 | -1.5 | 0.0 | -1.9 | -0.8 | -1.0 | -2.3 |
| Foreign financing | -0.5 | 2.0 | 0.8 | 0.0 | -0.1 | 0.0 | -0.1 | 0.1 | -0.1 | 0.6 | 0.7 | 0.8 | -0.5 | -1.2 |
| Disbursements | 2.3 | 5.0 | 1.4 | 0.7 | 0.0 | 0.1 | 0.2 | 0.6 | 0.3 | 1.3 | 1.8 | 2.3 | 1.5 | 1.1 |
| Project loans | 1.2 | 2.1 | 1.4 | 0.7 | 0.0 | 0.1 | 0.2 | 0.6 | 0.3 | 1.3 | 1.1 | 1.5 | 0.8 | 0.5 |
| Program/budget support | 1.1 | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 0.7 | 0.7 | 0.7 |
| Scheduled amortization | -9.6 | -4.8 | -1.0 | -1.0 | -0.1 | -0.1 | -0.3 | -0.5 | -0.4 | -0.7 | -1.1 | -1.5 | -2.0 | -2.4 |
| Change in amortization arrears | -10.6 | -24.2 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Clearance of arrears | 17.0 | 26.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt service relief | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic financing, net [5] | -6.9 | -6.0 | -1.9 | -1.4 | -0.4 | -1.1 | -1.0 | -1.0 | -1.8 | -1.3 | -3.6 | -2.7 | -0.9 | -1.3 |
| Bank financing | -7.1 | -3.0 | -1.8 | -1.4 | -0.4 | -1.0 | -0.9 | 1.8 | -1.6 | 2.5 | -3.2 | -2.5 | -0.8 | -1.2 |
| CBS | -3.3 | -1.1 | 0.0 | 0.4 | -3.0 | -2.3 | -3.0 | -4.1 | -3.0 | -5.6 | -3.0 | -7.1 | 0.0 | 0.0 |
| CBS recapitalization | ... | 1.6 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Commercial banks | -3.8 | -3.5 | -1.7 | -1.8 | 2.6 | 1.3 | 2.0 | 5.9 | 1.3 | 8.1 | -0.3 | 4.6 | -0.8 | -1.2 |
| Nonbank | 0.3 | -3.1 | -0.2 | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.3 | -0.3 | -0.1 | -0.1 |
| Privatization and long-term lease of fixed assets | 2.0 | 1.3 | 0.8 | 0.8 | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | 0.3 | 0.7 | 0.8 | 0.4 | 0.2 |
| Statistical discrepancy | -0.8 | 0.2 | -0.1 | -0.4 | 0.0 | 0.4 | 0.0 | 0.4 | 0.0 | 0.4 | 0.0 | 0.4 | 0.1 | 0.0 |
| Fiscal financing gap | 0.0 | 0.0 | 0.4 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | | | | | | |
| Nominal GDP | 11,450 | 11,621 | 12,470 | 12,558 | 13,508 | 13,564 | 13,508 | 13,564 | 13,508 | 13,564 | 13,508 | 13,564 | 14,624 | 15,707 |
| Pension Fund contribution | ... | ... | 0.5 | 0.5 | 0.2 | 0.1 | 0.4 | 0.3 | 0.5 | 0.5 | 0.7 | 0.7 | 0.7 | 0.6 |
| Pension Fund benefits payment | ... | ... | 0.6 | 0.6 | 0.2 | 0.2 | 0.3 | 0.3 | 0.5 | 0.5 | 0.7 | 0.7 | 0.6 | 0.6 |
| Public domestic debt (% GDP) [6] | 33.9 | 32.8 | 28.7 | 29.3 | 26.1 | 28.5 | 25.4 | 31.3 | 24.7 | 31.9 | 25.8 | 33.6 | 30.3 | 26.9 |
| Excl. t-bills issued for monetary purposes | ... | ... | ... | ... | ... | 27.4 | ... | 28.3 | ... | 26.0 | ... | 27.7 | 24.8 | 21.8 |
| Publicly guaranteed domestic debt (% GDP) | 1.5 | 2.1 | 2.6 | 2.5 | 1.7 | 1.1 | 1.7 | 1.1 | 1.7 | 1.1 | 1.7 | 1.1 | 0.9 | 0.7 |

Sources: Seychelles authorities and IMF staff estimates and projections.

[1] Includes the central government and the social security system. Program columns reflect reclassification of Social Pension Fund revenue and spending, and contingency spending. These changes entail a slight revision in programmed 2012 primary fiscal balance (from SR 642m in EBS/11/192 to SR 637m).

[2] VAT replaces GST in July 2012.

[3] Includes subsidies to Air Seychelles in 2011 and a two-stage recapitalization of the airline in 2012-13.

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

[5] Includes one-off operations in 2011: repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million).

[6] From 2010 reflects conversion of foreign-currency debt held by commercial banks to domestic-currency debt as part of debt restructuring.

## Table 4. Seychelles: Monetary Survey and Central Bank Accounts, 2009–12

| | 2009 | 2010 | 2011 | | | | | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Mar. | June | Sep. | Dec. | | Mar. | | June | | Sep. | | Dec. | |
| | | | Act. | Act. | Act. | Prog. | Act. | Prog. | Act. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. |
| **Monetary survey** | | | | | | | | | | | | | | | |
| Net foreign assets | 2,897 | 3,644 | 3,984 | 4,340 | 4,051 | 4,131 | 4,450 | 4,311 | 4,929 | 4,463 | 4,978 | 4,598 | 4,981 | 4,876 | 5,155 |
| Central bank | 1,998 | 2,709 | 2,788 | 2,952 | 2,860 | 2,891 | 3,303 | 2,936 | 3,536 | 2,978 | 3,569 | 3,002 | 3,560 | 3,147 | 3,724 |
| Deposit money banks | 899 | 935 | 1,195 | 1,388 | 1,191 | 1,240 | 1,147 | 1,375 | 1,393 | 1,485 | 1,409 | 1,597 | 1,421 | 1,729 | 1,430 |
| Net domestic assets | 3,504 | 3,622 | 3,427 | 3,186 | 3,325 | 3,335 | 3,145 | 3,345 | 2,886 | 3,320 | 2,754 | 3,308 | 2,751 | 3,204 | 2,774 |
| Domestic credit | 4,814 | 5,652 | 5,691 | 5,517 | 5,670 | 5,772 | 5,657 | 5,798 | 5,563 | 5,790 | 5,486 | 5,792 | 5,516 | 5,684 | 5,547 |
| Net claims on the government | 2,273 | 2,567 | 2,380 | 2,275 | 2,397 | 2,376 | 2,380 | 2,325 | 2,249 | 2,245 | 2,627 | 2,159 | 2,723 | 1,936 | 2,050 |
| Credit to the economy | 2,540 | 3,085 | 3,311 | 3,242 | 3,273 | 3,396 | 3,277 | 3,473 | 3,314 | 3,546 | 2,859 | 3,633 | 2,793 | 3,748 | 3,497 |
| Other items, net | -1,310 | -2,029 | -2,264 | -2,332 | -2,345 | -2,437 | -2,511 | -2,453 | -2,677 | -2,470 | -2,732 | -2,484 | -2,765 | -2,480 | -2,773 |
| Broad money | 6,401 | 7,266 | 7,411 | 7,526 | 7,376 | 7,466 | 7,596 | 7,655 | 7,815 | 7,783 | 7,732 | 7,906 | 7,732 | 8,079 | 7,928 |
| Currency in circulation | 500 | 580 | 588 | 578 | 581 | 581 | 623 | 595 | 602 | 605 | 603 | 615 | 603 | 628 | 620 |
| Foreign currency deposits | 1,610 | 1,708 | 2,011 | 2,163 | 2,226 | 2,272 | 2,406 | 2,330 | 2,710 | 2,369 | 3,035 | 2,406 | 3,094 | 2,459 | 3,143 |
| Local currency deposits | 4,291 | 4,979 | 4,812 | 4,785 | 4,570 | 4,613 | 4,566 | 4,730 | 4,503 | 4,809 | 4,093 | 4,885 | 4,034 | 4,992 | 4,165 |
| **Central bank** | | | | | | | | | | | | | | | |
| Net foreign assets | 1,998 | 2,709 | 2,788 | 2,952 | 2,860 | 2,891 | 3,303 | 2,936 | 3,536 | 2,978 | 3,569 | 3,002 | 3,560 | 3,147 | 3,724 |
| Foreign assets | 2,207 | 3,087 | 3,177 | 3,410 | 3,320 | 3,365 | 3,800 | 3,460 | 4,102 | 3,540 | 4,181 | 3,551 | 4,160 | 3,708 | 4,336 |
| Foreign liabilities | 210 | 379 | 389 | 458 | 460 | 474 | 497 | 523 | 566 | 562 | 612 | 549 | 600 | 561 | 612 |
| Net domestic assets | -702 | -962 | -1,016 | -1,223 | -1,133 | -1,126 | -1,604 | -1,126 | -1,786 | -1,138 | -1,769 | -1,132 | -1,760 | -1,237 | -1,874 |
| Domestic credit | -657 | -506 | -486 | -716 | -672 | -570 | -883 | -547 | -987 | -534 | -900 | -507 | -846 | -600 | -942 |
| Government (net) | 724 | 780 | 762 | 728 | 801 | 791 | 835 | 391 | 527 | 391 | 277 | 391 | 77 | 391 | -123 |
| Commercial banks | -1,266 | -1,135 | -1,079 | -1,256 | -1,298 | -1,185 | -1,512 | -762 | -1,315 | -749 | -977 | -722 | -723 | -815 | -619 |
| Other (parastatals) | -114 | -151 | -170 | -188 | -175 | -175 | -206 | -175 | -199 | -175 | -199 | -175 | -199 | -175 | -199 |
| Other items, net | -45 | -456 | -530 | -507 | -461 | -556 | -721 | -580 | -799 | -604 | -869 | -626 | -914 | -637 | -932 |
| Reserve money | 1,296 | 1,746 | 1,772 | 1,728 | 1,727 | 1,765 | 1,699 | 1,810 | 1,750 | 1,840 | 1,800 | 1,869 | 1,800 | 1,910 | 1,850 |
| Currency in circulation | 500 | 580 | 588 | 578 | 581 | 581 | 623 | 595 | 602 | 605 | 603 | 615 | 603 | 628 | 620 |
| Commercial bank reserves (includes cash in vault) | 796 | 1,166 | 1,184 | 1,150 | 1,146 | 1,184 | 1,075 | 1,215 | 1,148 | 1,235 | 1,197 | 1,254 | 1,197 | 1,282 | 1,230 |
| Of which: required reserves in foreign currency [1, 2] | 170 | 193 | 215 | 299 | 302 | 313 | 322 | 319 | 392 | 325 | 395 | 330 | 402 | 337 | 409 |
| required reserves in domestic currency [2] | 467 | 545 | 547 | 708 | 684 | 727 | 679 | 743 | 678 | 753 | 670 | 763 | 662 | 777 | 680 |
| *Memorandum items:* | | | | | | | | | | | | | | | |
| Gross international reserves (US$ millions) [3] | 196 | 254 | 262 | 283 | 267 | 263 | 277 | 269 | 292 | 274 | 295 | 274 | 291 | 283 | 301 |
| Foreign currency deposits (US$ millions) | 143 | 141 | 166 | 179 | 179 | 176 | 175 | 180 | 193 | 182 | 214 | 184 | 216 | 186 | 218 |
| Broad money growth (12–month percent change) | 7.0 | 13.5 | 13.0 | 15.3 | 7.6 | 2.6 | 4.5 | 3.2 | 5.4 | 3.3 | 2.7 | 7.1 | 4.8 | 8.2 | 4.4 |
| Credit to the economy (12–month percent change) | -11.4 | 21.4 | 22.9 | 18.0 | 15.8 | 10.1 | 6.2 | 4.9 | 0.1 | 9.4 | -11.8 | 11.0 | -14.7 | 10.4 | 6.7 |
| Reserve money (12–month percent change) | 15.7 | 34.7 | 24.5 | 11.9 | 8.5 | 1.1 | -2.7 | 2.1 | -1.3 | 6.5 | 4.2 | 8.2 | 4.2 | 8.2 | 8.9 |
| Money multiplier (broad money/reserve money) | 4.9 | 4.2 | 4.2 | 4.4 | 4.3 | 4.2 | 4.5 | 4.2 | 4.5 | 4.2 | 4.3 | 4.2 | 4.3 | 4.2 | 4.3 |
| Velocity (GDP/broad money; end of period) | 1.8 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.8 | 1.7 | 1.7 | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 |

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

[1] Reserve requirements on foreign currency deposits were introduced in 2009.

[2] Reserve requirements were lowered from 13% to 10% in 2009, but raised back to 13% in April 2011.

[3] The definition was revised in June 2011 to include foreign-currency denominated required reserves held by banks and project and blocked accounts at the CBS.

[4] Broad money growth in 2011 is lower than in the program owing to reclassification of about SR 300 million from domestic deposits to foreign liabilities.

## Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2008–11 [1]

| | 2008 | | | | 2009 | | | | 2010 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **Capital adequacy** | | | | | | | | | | | | | | | | |
| Regulatory capital to risk weighted assets | 18.4 | 17.6 | 17.9 | 19.4 | 13.6 | 17.8 | 22.0 | 21.7 | 21.4 | 22.1 | 21.7 | 21.5 | 23.3 | 24.8 | 26.3 | 24.2 |
| Regulatory tier 1 capital to risk weighted assets | 12.9 | 14.0 | 13.4 | 10.4 | 12.9 | 17.1 | 21.3 | 21.0 | 20.7 | 21.5 | 21.1 | 20.8 | 16.8 | 21.0 | 21.1 | 17.3 |
| Capital to assets (net worth) | 6.9 | 6.6 | 7.0 | 8.4 | 9.6 | 8.7 | 9.7 | 9.9 | 9.3 | 8.7 | 9.1 | 9.2 | 9.3 | 9.6 | 10.1 | 9.0 |
| Net tangible capitalization [2] | 7.0 | 6.6 | 7.1 | 8.4 | 9.6 | 8.7 | 9.8 | 9.9 | 9.4 | 8.8 | 9.1 | 9.3 | 9.4 | 9.7 | 10.2 | 9.1 |
| **Asset quality** | | | | | | | | | | | | | | | | |
| Foreign exchange loans to total loans | 32.7 | 32.9 | 31.6 | 50.8 | 50.5 | 43.0 | 41.1 | 37.2 | 34.3 | 29.7 | 27.8 | 25.5 | 23.7 | 20.1 | 18.5 | 18.4 |
| Nonperforming loans to gross loans | 2.0 | 2.1 | 2.0 | 2.0 | 2.3 | 4.3 | 4.2 | 3.8 | 4.1 | 6.9 | 6.4 | 5.5 | 5.4 | 5.6 | 5.3 | 8.1 |
| Provisions as percentage of nonperforming loans | 51.2 | 50.3 | 59.6 | 58.3 | 56.8 | 35.2 | 32.6 | 33.8 | 41.7 | 26.0 | 26.0 | 31.4 | 30.9 | 37.3 | 40.4 | 33.8 |
| **Earnings and profitability** | | | | | | | | | | | | | | | | |
| Return on assets (annualized) | 4.3 | 3.4 | 2.8 | 16.1 | 5.3 | 3.0 | -0.2 | 3.2 | 3.4 | 5.0 | 3.0 | 3.7 | 3.9 | 3.1 | 3.6 | 5.6 |
| Return on equity (annualized) | 59.5 | 47.9 | 39.3 | 199.4 | 55.1 | 35.4 | -2.8 | 32.4 | 33.6 | 54.3 | 33.7 | 40.0 | 40.8 | 32.6 | 36.4 | 61.6 |
| Interest margin to gross income | 58.7 | 62.8 | 58.3 | 24.2 | 62.1 | 83.7 | 105.5 | 68.6 | 56.5 | 60.2 | 59.9 | 50.6 | 46.8 | 56.3 | 61.6 | 55.8 |
| Noninterest expense to gross income | 33.2 | 43.5 | 49.4 | 17.8 | 36.4 | 48.7 | 116.5 | 49.1 | 44.0 | 52.0 | 47.6 | 39.9 | 46.7 | 49.3 | 46.4 | 22.3 |
| Net interest margin (annualized) [3] | 3.8 | 3.8 | 3.1 | 4.8 | 5.1 | 4.8 | 4.2 | 4.0 | 3.1 | 3.6 | 3.4 | 3.1 | 3.0 | 3.5 | 4.2 | 3.9 |
| Net noninterest margin (annualized) [4] | 0.5 | -0.4 | -0.4 | 11.4 | 0.1 | -1.9 | -4.9 | -1.0 | 0.0 | -0.7 | -0.4 | 0.6 | 0.4 | -0.3 | -0.5 | 1.5 |
| Expense to income | 46.6 | 55.9 | 62.5 | 25.5 | 52.3 | 62.2 | 111.2 | 58.0 | 53.0 | 58.0 | 53.6 | 46.6 | 50.8 | 53.6 | 50.1 | 28.5 |
| Interest expense to gross income | 25.0 | 28.0 | 35.0 | 10.2 | 33.2 | 35.8 | 47.1 | 21.2 | 19.0 | 14.2 | 12.8 | 12.5 | 8.5 | 9.3 | 7.4 | 8.7 |
| **Liquidity** | | | | | | | | | | | | | | | | |
| Core liquid assets to total assets [5] | 30.8 | 34.6 | 36.4 | 37.8 | 36.0 | 35.0 | 37.7 | 43.2 | 43.5 | 44.7 | 44.7 | 46.9 | 47.1 | 47.1 | 47.7 | 49.9 |
| Broad liquid assets to total assets [6] | 59.2 | 60.9 | 60.0 | 55.7 | 50.8 | 53.0 | 57.6 | 58.4 | 58.6 | 60.0 | 58.1 | 58.9 | 56.6 | 55.7 | 57.0 | 58.8 |
| Liquid assets (broad) to short term liabilities | 59.3 | 61.6 | 87.1 | 56.5 | 53.2 | 56.2 | 62.1 | 62.7 | 65.0 | 63.4 | 62.1 | 62.9 | 60.0 | 58.8 | 60.9 | 63.0 |
| Liquid assets (broad) to total liabilities | 63.9 | 65.5 | 64.8 | 61.2 | 56.2 | 58.0 | 63.8 | 64.7 | 64.7 | 65.7 | 63.8 | 64.9 | 62.4 | 61.6 | 63.4 | 64.7 |
| Liquid assets to deposit liabilities | 68.3 | 72.4 | 71.7 | 66.4 | 63.1 | 63.8 | 71.4 | 69.4 | 72.4 | 72.0 | 69.1 | 69.1 | 65.5 | 64.5 | 68.7 | 71.0 |
| **Foreign exchange exposure** | | | | | | | | | | | | | | | | |
| Net open foreign exchange position to capital | 24.9 | 31.3 | 21.3 | 58.9 | 44.4 | 32.4 | 21.9 | 33.1 | 22.2 | 24.7 | 29.2 | 5.6 | 3.8 | 2.2 | 1.5 | 1.9 |

Source: Central Bank of Seychelles.

[1] Excluding purely offshore banks.

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

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

[4] Defined as: (Noninterest income - noninterest expense)/average assets.

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

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

**Table 6. Seychelles: Fund Disbursements and Timing of Reviews Under the Three-Year Extended Arrangement, 2009–12**

| Program Review | Date of availability | Conditions | Amount (Millions of SDR) | Amount (Percent of quota) |
|---|---|---|---|---|
| | December 22, 2009 | Board approval of the Extended Arrangement | 0.88 | 8.1 |
| | March 15, 2010 | Compliance with end-December 2009 quantitative performance criteria and completion of a financing assurances review (if needed) | 2.20 | 20.2 |
| First | June 15, 2010 | Completion of first program review and financing assurances review (if needed) and compliance with end-March 2010 quantitative performance criteria | 2.20 | 20.2 |
| | September 15, 2010 | Compliance with end-June 2010 quantitative performance criteria and completion of a financing assurances review (if needed) | 2.20 | 20.2 |
| Second | December 15, 2010 | Completion of second program review and financing assurances review (if needed) and compliance with end-September 2010 quantitative performance criteria | 1.76 | 16.1 |
| Third | March 31, 2011 | Compliance with end-December 2010 quantitative performance criteria and completion of a financing assurances review (if needed) | 3.52 | 32.3 |
| Fourth | September 30, 2011 | Compliance with end-June 2011 quantitative performance criteria and completion of a financing assurances review (if needed) | 3.08 | 28.3 |
| Fifth | March 31, 2012 | Compliance with end-December 2011 quantitative performance criteria and completion of a financing assurances review (if needed) | 2.64 | 24.2 |
| Sixth | September 30, 2012 | Compliance with end-June 2012 quantitative performance criteria and completion of a financing assurances review (if needed) | 1.32 | 12.1 |
| **Total** | | | **19.8** | **181.7** |

**Table 7. Seychelles: Indicators of Fund Credit, 2008–17**
(in millions SDR)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Existing Fund credit** | | | | | | | | | | |
| Stock [1] | 6.2 | 11.9 | 20.2 | 23.8 | 23.4 | 17.9 | 15.5 | 13.7 | 11.3 | 8.7 |
| Obligation | 0.0 | 0.1 | 0.2 | 0.4 | 3.6 | 5.8 | 2.6 | 2.0 | 2.5 | 2.8 |
| Principal (repayments/repurchases) | 0.0 | 0.0 | 0.0 | 0.0 | 3.4 | 5.5 | 2.4 | 1.8 | 2.4 | 2.6 |
| Charges and interest | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 |
| Disbursements | 6.2 | 5.7 | 8.4 | 3.5 | 3.1 | | | | | |
| **Projected EFF** | | | | | | | | | | |
| Disbursements | | | | | 4.0 | | | | | |
| Stock [1] | | | | | 4.0 | 4.0 | 4.0 | 4.0 | 3.7 | 3.1 |
| Obligations [2] | | | | | 0.0 | 0.0 | 0.1 | 0.1 | 0.3 | 0.7 |
| Principal (repayments/repurchases) | | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.7 |
| Charges and interest | | | | | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 |
| **Stock of existing and prospective Fund credit [1]** | 6.2 | 11.9 | 20.2 | 23.8 | 27.4 | 21.9 | 19.5 | 17.6 | 15.0 | 11.7 |
| In percent of quota | 70.0 | 135.0 | 230.0 | 218.0 | 251.3 | 200.8 | 178.6 | 161.8 | 137.9 | 107.6 |
| In percent of GDP | 1.0 | 2.2 | 3.2 | 3.7 | 4.4 | 3.4 | 2.9 | 2.5 | 2.0 | 1.5 |
| In percent of exports of goods and services | 0.9 | 1.8 | 3.1 | 3.4 | 3.8 | 3.0 | 2.6 | 2.2 | 1.8 | 1.3 |
| In percent of gross reserves | 12.9 | 9.6 | 12.2 | 13.3 | 14.0 | 10.3 | 8.5 | 7.2 | 5.7 | 4.2 |
| **Obligations to the Fund from existing and prospective Fund arrangements** | | | | | | | | | | |
| Disbursements | 6.2 | 5.7 | 8.4 | 3.5 | 7.0 | | | | | |
| Obligations | 0.0 | 0.1 | 0.2 | 0.4 | 3.7 | 5.8 | 2.7 | 2.1 | 2.8 | 3.5 |
| Principal (repayments/repurchases) | | 0.0 | 0.0 | 0.0 | 3.4 | 5.5 | 2.4 | 1.8 | 2.6 | 3.3 |
| Charges and interest | | 0.1 | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| In percent of quota | 0.3 | 1.3 | 2.2 | 3.9 | 33.6 | 53.1 | 24.5 | 18.9 | 25.7 | 31.7 |
| In percent of GDP | 0.0 | 0.0 | 0.0 | 0.1 | 0.6 | 0.9 | 0.4 | 0.3 | 0.4 | 0.4 |
| In percent of exports of goods and services | 0.0 | 0.0 | 0.0 | 0.1 | 0.5 | 0.8 | 0.4 | 0.3 | 0.3 | 0.4 |
| In percent of gross reserves | 0.1 | 0.1 | 0.1 | 0.2 | 1.9 | 2.7 | 1.2 | 0.8 | 1.1 | 1.2 |

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

[1] End of period.

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

# ANNEX I. SEYCHELLES: RELATIONS WITH THE FUND

(As of April 30, 2012)

**A. Membership Status**: Joined 6/30/1977. Article VIII member since 01/03/1978

| **B. General Resources Account** | SDR Million | % Quota |
|---|---|---|
| Quota | 10.90 | 100.0 |
| Fund holdings of currency | 36.44 | 334.34 |
| Reserve Position in Fund | 0.53 | 4.85 |

| **C. SDR Department** | SDR Million | % Allocations |
|---|---|---|
| Net cumulative allocation | 8.28 | 100.0 |
| Holdings | 6.69 | 80.75 |

| **D. Outstanding Purchases and Loans:** | | |
|---|---|---|
| Stand-by Arrangement | 10.23 | 93.85 |
| Extended Arrangement | 15.84 | 145.32 |

**E. Financial Arrangements**:

| | | | SDR Million | |
|---|---|---|---|---|
| Type | Arrangement | Expiration | Amount Approved | Amount Drawn |
| EFF | Dec 23, 2009 | Dec. 22, 2012 | 19.80 | 15.84 |
| Stand-By | Nov 14, 2008 | Dec. 22, 2009 | 17.60 | 11.00 |

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

| | *Forthcoming* | | | | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2016** |
| Principal | 2.64 | 5.50 | 2.42 | 1.83 | 2.38 |
| Charges/interest | 0.22 | 0.25 | 0.20 | 0.18 | 0.15 |
| **Total** | 2.86 | 5.75 | 2.62 | 2.01 | 2.54 |

**G. Implementation of HIPC Initiative:** Not applicable

**H. Safeguards Assessments:**

The Central Bank of Seychelles (CBS) was subject to a safeguards assessment with respect to the Stand-By Arrangement for Seychelles. The assessment completed in 2008 found high risks in all areas of the CBS's safeguards framework, and several measures were included in the program. An update assessment in relation to the Extended Fund Facility, which was completed in July 2010, found that the authorities had implemented most of the measures recommended by the 2008 assessment. In particular, governance oversight at the CBS is now exercised by the Board and management committees, and transparency improved through application of International Financial Reporting Standards and the publication of financial statements that have been audited in accordance with international standards. The draft amendments to the CBS Act, approved by Cabinet in April 2011, will strengthen the legal framework and the independence of the central bank. CBS governance is also being improved through ongoing strengthening of the internal audit and control mechanisms.

**I. Exchange Rate Arrangement:**

The exchange market was liberalized in November 2008, which resulted in the elimination of all 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 floating. On April 30, 2012 US$ 1 = SR 14.06 (mid rate).

**J. Article IV Consultations:**

Seychelles is currently under a 24 month consultation cycle.

**K. Technical Assistance (2008–April 2012):**

| Department | Head of Mission | Subject | Date |
|---|---|---|---|
| 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 Regimes | September 2008 |
| FIN | Mr. Hauge | Safeguards assessment | October 2008 |
| FAD | Mr. Krelove | Reform of Tax Policy | January/February 2009 |

| Department | Head of Mission | Subject | Date |
|---|---|---|---|
| MCM | Mr. Bartholomew | Central Bank Capacity Building | February 2009 |
| LEG | Mr. Baban | Reform of Exchange Rate Law | May 2009 |
| STA | Mr. Jones | Government Finance Statistics | May 2009 |
| MCM | Mr. Faulk | Bank Supervision | June 2009 |
| MCM | Mr. Vollan | Monetary Operations | June 2009 |
| MCM | Mr. Robotham | Payments Systems | June 2009 |
| FAD | Mr. Ljungman | Public Financial Management | July 2009 |
| LEG | Mr. Burns | Fiscal Law | July 2009 |
| FAD | Mr. Kloeden | Tax Administration | September 2009 |
| STA | Mr. Hughes | National Accounts Statistics | September 2009 |
| MCM | Mr. Sullivan | Accounting | October 2009 |
| MCM | Mr. Faulk | Bank Supervision | October 2009 |
| MCM | Mr. Robotham | Payments Systems | November 2009 |
| STA | Ms. Razin | BoP Statistics | December 2009 |
| MCM | Mr. Bartholomew | Central Bank Capacity Building | March 2010 |
| MCM | Mr. Sullivan | Central Bank Accounting and Audit | October 2010 |
| MCM | Mr. Vollan | Monetary Operations | October 2010 |
| FAD | Mr. Bodin | Tax Policy (VAT) | October 2010 |
| STA | Mr. Hughes | Quarterly National Accounts Statistics | November 2010 |
| STA | Ms. Razin | External Sector Statistics | January 2011 |
| MCM | Mr. Sullivan | Central Bank Financial Reporting and Risk Management | February 2011 |
| FAD | Mr. Kloeden | Tax Reform | February 2011 |
| STA | Mr. Jones | Government Finance Statistics | March 2011 |
| MCM | Mr. Bartholomew | Central Bank Capacity Building | April 2011 |
| STA | Ms. Winston | Producer Price/Industrial | April 2011 |

| Department | Head of Mission | Subject | Date |
|---|---|---|---|
| | | Production Indices | |
| FAD | Mr. Ljungman | PFM Legal Framework | August 2011 |
| STA | Ms. Razin | External Sector Statistics | January 2012 |
| MCM | Ms. Radzewicz-Bak | Central Bank Capacity Building | March 2012 |
| AFS | Mr. Helis | PFM Regulatory Framework | March 2012 |

**L. Resident Representative:** None

# APPENDIX I. LETTER OF INTENT

May 22, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund

Dear Ms. Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) describes Seychelles' performance through March 2012, and sets out our policy and reform priorities for the remainder of the Extended Arrangement with the Fund.

We request completion of the fifth review under our Extended Arrangement and the release of the eighth tranche of SDR 2.64 million (24 percent of quota). We have made significant progress in our reforms and the program remains on track. All quantitative performance criteria (PCs) at end-December 2011 and indicative targets for end-March 2012 were met with margins, and monetary and fiscal developments remain favorable.

**The Extended Arrangement continues to support our comprehensive medium-term structural reform strategy** aimed at consolidating macroeconomic stability, improving debt sustainability, and promoting private sector-led growth; and to guide our macroeconomic policies in the remainder of 2012.

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

**We request the modification of the performance criteria for end-June 2012**. The increase of the NIR target reflects better-than-expected outcomes in December 2011 and March 2012, coupled with our intention to continue the path of moderate reserves accumulation. The reduction of the reserve money target signals our determination to tighten monetary policies to fend-off inflationary pressures. It is expected that the sixth and final review will be completed by end-September 2012. Financing assurance reviews will continue as long as public debt arrears to external private creditors remain outstanding.

**In line with our commitment to transparency, we request that 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/ | /s/ |
| Pierre Laporte<br>Minister of Finance, Trade and Investment<br>Republic of Seychelles | Caroline Abel<br>Governor<br>Central Bank of Seychelles |

Attachments: MEFP and TMU

# ATTACHMENT 1

# SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011 AND 2012

## I. INTRODUCTION

1. This document tracks progress after two years of macroeconomic and financial structural reforms under the three-year program supported by an Extended Arrangement under the Extended Fund Facility (EFF). It updates the MEFP of 23 December 2011 and details our policies for the remainder of 2012 to support completion of the fifth review.

2. This MEFP aims at cementing gains in areas where progress has been swift and tangible (notably, public financial management and taxation reform), whilst accelerating measures in areas where progress has been less rapid (e.g. monitoring of public enterprises).

## II. MACROECONOMIC PERFORMANCE IN 2011 AND OUTLOOK FOR 2012 AND BEYOND

3. **Macroeconomic outcomes for 2011 were in line with our projections** at the time of the fourth review (December 2011)**.** Real GDP grew by 4.9 percent, inflation reached 5.5 percent, and the current account deficit was 22 percent of GDP at end-December. Tourism arrivals were 11 percent above the 2010 level, much better than expected given the economic turmoil in the Eurozone. Despite slightly shorter stays on average, the sector is estimated to have grown by approximately 7 percent in real terms.

4. **Growth is expected to slow markedly in 2012,** to less than 3 percent (down from 4 percent forecast in December). Tourism numbers have been buoyant (9 percent up year on year for first quarter) despite developments in the Eurozone and the cessation of Air Seychelles' direct flights to Europe. However, we forecast lower activity in non-tourism sectors as a result of the impact of higher import prices on domestic demand and the need to tighten monetary policy as described in the next paragraph.

5. **A weakened rupee continues to add to inflationary pressures**. The weakened Euro in relation to the greenback continues to negatively impact the terms of trade, and partly explains the sharp depreciation of the rupee versus the dollar in the past three months (from 12 SR/USD to 14 SR/USD). The remaining pass-through of international food, fuel and commodity prices temporarily puts further upwards pressure on inflation. Through tight monetary policy, we expect to limit inflation figures to less than seven percent by the end of the year.

6. **The external balance will remain stable.** The current account deficit is expected to stay at 22 percent of GDP in 2012 and further improve over the medium term, as FDI moderates following the completion of major projects. While the current account deficit remains large, it continues to be financed by non-debt incurring capital inflows including net FDI inflows of 18 percent of GDP in 2012. This will allow us to steadily reduce the external debt burden over the medium term. Our external debt restructuring is close to completion, with agreements with two non-Paris Club bilateral and one

commercial creditor—accounting for less than US$9 million of claims—awaiting signatures. For one of the bilateral creditors one of two agreements has been signed and the other is in the final approval stage. The authorities of the second bilateral creditor have advised that agreements will be signed shortly. Representatives of the commercial creditor will visit Seychelles at end-May during which the agreement is expected to be signed.

7. **Despite large downside risks, there are grounds for optimism.** The improvement in communications which will follow the installation of Seychelles' first submarine cable later this year is expected to lead to growth and diversification of the economy. Traders and fishing operators (both domestic and foreign) have implemented practices to address piracy risks. We have also received assistance from a number of partner countries who are helping us combat the threat of piracy in the Indian Ocean. Increased tourism marketing in the Far East has begun to pay dividends, and increases in flight connectivity will support tourism activity over the medium-term. Moreover, our continued efforts to reduce public debt will boost investor confidence and maintain substantial inflows of foreign capital, mainly in the tourism industry.

## III. PROGRAM IMPLEMENTATION

8. **We achieved—and in some cases comfortably exceeded—the quantitative targets of the program.** All quantitative performance criteria as of end-December 2011 were met (Table 1), and we are on track to achieve end-June targets.

9. **We exceeded our fiscal target by 1.1 percent of GDP**. Overall expenditure was within 0.4 percent of expectations, with some additional payments to the national airline being more than offset by deferred capital expenditure. Revenue was 1.1 percent of GDP higher than forecast, largely reflecting a one-off recovery of revenues worth approximately 0.7 percent of GDP.

10. **We tightened monetary policy to address inflationary risks.** Reduced excess liquidity has led to a marked increase in market interest rates (three month T-bill rates rose from 0.5 percent in the first quarter of the year to 5.0 percent in December). To ease the cost of sterilization treasury bills are now being issued for monetary policy purposes to help absorb part of liquidity, as needed.

11. **We have taken additional decisive steps to return the national airline to profitability**. Air Seychelles entered into a strategic partnership with Gulf carrier Etihad from 1 February. Etihad purchased 40 percent of the airline, providing: a much-needed capital injection of USD 20m; and provided a loan of USD 25m; code-sharing access to Etihad's global network; and valuable management expertise including a new CEO. As a condition of the deal, in early 2012 the Government made a capital injection (1 percent of GDP) and absorbed the airline's existing liabilities (2.2 percent of GDP) and restructuring costs (0.5 percent of GDP). In 2013, the government will contribute another capital injection (1 percent of GDP) and cover fees for the early termination of an airplane lease (0.3 percent of GDP). As a result of this restructuring, coupled with the new business plan, the company will return to profitability in 2014.

12. **We implemented another tariff adjustment, after some delays, and are now at virtually full pass-through as the next step in transitioning to an optimal electricity tariff.** Lower than expected profits of SEYPEC (the state-owned importer, distributor and re-exporter of petroleum products and oil tanker business) resulted in an unanticipated review of SEYPEC's cost and pricing

structure, including the price of fuel sold to the Public Utilities Company for electricity generation. The tariff adjustment scheduled for January was therefore delayed to 15th May, so that any potential changes in PUC's cost structure could be taken into account. The remaining steps to be taken to implement an optimal electricity tariff structure are described in paragraph 41. The cost of fuel at the pump was revised in mid-April, and cost of LPG was revised to full pass-through for commercial customers from 15th of May as a first step.

13. **Structural benchmarks were implemented according to schedule**. The credit information system was established, with information on prospective customers' non-performing loans being available to banks from end-March. Information on total loans outstanding is available since end-April. The Commercial Court was established in March 2012 and will commence hearings on new cases from June. In the interim, the Chief Justice will assume responsibility for the Commercial Court until a second judge is appointed later in 2012. The Cabinet approved a new mandate for the Development Bank of Seychelles in March, focusing on financing higher-risk small enterprises that commercial banks would normally be reluctant to finance.

# IV. POLICIES FOR 2012 AND BEYOND

## A. Fiscal Policy

14. We remain committed to achieving debt sustainability over the medium term, despite the additional pressures from Air Seychelles' restructuring. Sizeable budget surpluses will be delivered over the next five years to reduce public debt to 50 percent of GDP by 2018 (one of two over-arching goals of the program). This is despite slightly revising downwards the primary surplus target for 2012 to 4.5 percent of GDP from 4.7 percent at the time of the last review – mostly on account of increased spending on the national airline and a weaker rupee.

15. **The outlook for revenue has improved.** In view of the revised macroeconomic outlook, nominal tax collections are expected to be 0.6 percent of GDP higher than budgeted. This is further helped by gains in grant receipts of 0.3 percent of GDP on account of the weaker rupee. The introduction of the VAT in July 2012 is expected to be revenue neutral, and it will improve the efficiency of the tax system.

16. **Expenditure increases have been largely on account of external developments.** Aside from the increased transfers to Air Seychelles, the increases are on account of the weaker rupee (0.3% of GDP), increased spending on security, and increased foreign-financed capital expenditure.

17. **The government is enhancing the social safety net.** The 2012 budget of the Agency for Social Protection was increased 20% from 2011 to account for the projected impact of higher utility tariffs on the cost of the reference consumption basket. At the same time, eligibility requirements have been clarified, and beneficiaries are incentivized to return to employment as soon as possible.

## B. Tax and Customs Reform

18. **The VAT implementation scheduled for 1 July 2012 remains on track.** Following extensive consultation with the private sector, a number of amendments were approved by Cabinet in May. These amendments broadly reflect the advice of the IMF FAD technical mission, and include measures such as:

- Exempting farmers and fishermen rather than zero-rating the two sectors.
- Local alcohol producers will be charged VAT at the applicable rate of 15 percent rather than being zero-rated as currently outlined in the legislation.
- SEYPEC—the domestic distributor of petroleum products—will be exempt rather than zero-rated.

The measures will facilitate the administration of the taxes and limit areas of potential losses.

19. **We are seeking advice from the South African Revenue Service (SARS) on transfer pricing in the tourism sector.** A memorandum of co-operation has been signed with SARS for the provision of technical assistance for capacity building to allow SRC staff to see evidence of this practice during audits. SARS will also provide capacity building in other areas.

20. **We are continuing with efforts to improve customs administration.** We are seeking additional technical assistance in the areas of staff integrity and post-clearance audit. A roadmap outlining SRC's actions in an effort to improve integrity within its administration will be presented to the Ministry of Finance, Trade and Investment in June 2012. This remains a priority following technical assistance from the World Customs Organization. A risk-management strategy was developed in parallel to the integrity framework, with Fund technical assistance, and has been implemented by the Revenue Commission.

## C. Public Financial Management (PFM)

**21. Numerous reforms have been implemented in the past three years with tangible impacts on PFM performance.** Government has used the 2011 PEFA assessment (following the 2008 assessment) as a basis to prepare a 2012-14 PFM action plan that will be launched in June. The action plan includes the new Public Finance Management Act, introduction of a new chart of accounts; steps towards Program Based Budgeting and enhanced external scrutiny and audit.

22. **Submission to the National Assembly of the Public Finance Management Bill was an important milestone**. The expected approval of the bill by the National Assembly this June will bring our public finance legislation in line with international best practices. We plan to implement the 2013 budget based on the new legislation with AFRITAC-South providing capacity building. Amongst a number of reforms included in the Bill (see Paragraph 28 of the MEFP of 23 December 2011) is the oversight of the National Assembly on the budget for capital expenditure. The PFM Act is also formalizing the Government Audit Committee, which will oversee the implementation of recommendations of the Auditor General's annual reports. The Committee will consist of full-time dedicated employees and will be independent of the Ministry of Finance. The Charter of the Government Audit Committee will be submitted to the Cabinet of Ministers by end-June 2012.

23. We are progressing further key reforms to our accounting and budgeting systems (paragraphs 29-32 of the MEFP of 23 December 2011).

- ***Financial Instructions and Accounting Manual:*** We are incorporating the revised articles of the new Public Finance Act into the financial instructions and accounting manual to explain to the users the regulations and procedures. Training will start during the second half of the year.

- ***Public Sector Investment Program*:** A detailed manual has been finalized to help line Ministries prepare their investment plans in line with their medium term plans. Technical assistance is also being sought from the World Bank.

- ***Chart of accounts:*** We are developing the structure for the Chart of Accounts, benefitting from additional recommendations from a recent AFRITAC mission. The new chart of accounts will be reflected in the revised accounting instructions and manual, in line with the new PFM Act. We are also taking appropriate measures to facilitate the migration between the old and the new Chart of Accounts. It will be first deployed in the preparation of the 2013 budget.

- ***Program based budgeting (PBB):*** Progress is being made on the move to PBB. The Government is developing a policy paper for Cabinet, Parliament and other public servants on program based budgeting and its implications for the public finance of Seychelles. The Government is seeking technical assistance from the World Bank to develop a guideline on Program Based Budgeting and an implementation strategy.

24. **Our reforms to the social security system are well advanced.** The Agency for Social Protection, created in January, is now the only institution administering social benefits, following the incorporation of statutory benefits previously administered by the Social Security Fund (see Paragraph 33 of the MEFP of 23 December 2011). The Social Security Fund Board of Trustees, which oversees the management of the assets of the former institution (totaling approximately 2.6 percent of GDP), has presented a strategic investment plan to Government. The income generated by these assets will be used (but not necessarily earmarked) to improve the social protection of all Seychellois. The 2012 returns will be transferred to the government budget.

## D. Monetary and Exchange Rate Policies

25. **CBS is tightening monetary policy to reverse the current upward inflation trend**. If needed, the CBS will tighten further to contain any additional second round effects of the domestic currency depreciation and increases in fuel prices and energy tariffs. CBS is determined to maintain single-digit inflation throughout the year, aiming to end the year below 7 percent. The Central Bank will continue to use reserve money targeting as its policy framework.

26. **Government has begun issuing treasury bills to help CBS' liquidity management efforts.** This arrangement will be formalized and enhanced by a Memorandum of Understanding between the Central Bank and the MOF, which spells out the modalities of issuance of T-bills for monetary purposes, will be signed by end-June 2012. Proceeds from issuance of these T-bills will be deposited in a blocked account at the CBS and government is to bear the interest cost.

27. **We remain committed to a floating exchange rate regime to allow the rupee to adjust to domestic and global developments.** CBS will intervene in the foreign exchange market only to smooth out excessive volatility and ensure orderly market conditions.

28. **CBS will continue to build up international reserves, which will provide Seychelles with an adequate buffer against external shocks.** To achieve this objective, in the coming months CBS will purchase foreign currency for reserves accumulation purposes on the domestic interbank market. This new approach will assist in the deepening of the domestic foreign currency market and will allow for a more efficient allocation of foreign exchange around the financial system.

29. **The CBS continues to strengthen its reserve management practices.** The bulk of its reserves are placed with the Bank for International Settlements which provides reserve management services and training for CBS staff. The CBS is also planning to diversify its portfolio in other avenues. Discussions between the CBS and the World Bank to begin using its Reserve Advisory Management Program (RAMP) have progressed well. However, uncertainties and volatilities in the international financial markets have delayed CBS' use of the program.

## E. Financial Sector Reforms

30. **CBS remains committed to improving competition and transparency in the banking sector.** The Financial Institutions Act 2004 (FIA) was amended in December 2011 to, *inter alia* introduce a single licensing regime for banks. This is expected to promote competition in the banking sector by allowing offshore banks to operate in the domestic market therefore offering the public more choice. Moreover, the amendments allow the CBS to intervene where bank fees and charges are deemed detrimental to competition such as penalties for early loan repayments. In addition, the financial literacy program is ongoing.

31. **To enhance financial deepening the legislative framework for hire purchase and leasing will be introduced shortly.** The Hire Purchase and Credit Sales Bill was submitted to Cabinet in May 2012 whilst that for Leasing is scheduled for end-2012. This initiative is expected to provide households and small businesses with greater access to credit.

32. **The CBS will implement new initiatives to strengthen supervision of the financial sector.** We will require financial institutions that provide credit to submit periodically business plans to the CBS, which will enhance our forward looking approach to supervision. This initiative will allow CBS to develop a CAELS[2] rating system based on projected financials. The first submission is expected by June 2012 and henceforth will be done by end of first quarter of each year. As to onsite supervision, a full cycle of examination has been concluded. Further examinations will be conducted on an ongoing basis, based on institutions' ratings.

33. **Implementation of the Statistical and Supervisory Application (SSA) project will assist in improving supervision**. The SSA which is expected to go live by July 2012 will increase efficiency by further automating the process for offsite supervision through online submission of returns and embedded analytical tools. In this regard, the SSA will eliminate most of the manual processes of validating data.

34. **The CBS continues to develop the insurance regulatory framework.** The technical assistance by FIRST Initiative which began in 2011 is expected to lead to the implementation of a risk-based solvency regime which is in line with international best practice. The proposed regulatory framework is expected to be introduced by end-December 2012, following further discussions with the industry.

35. **Seychelles has taken major steps in its endeavor to fight money laundering, financing of terrorism and to improve international tax co-operation.** We recently made amendments to the Anti-Money Laundering (AML) Act, to enhance the independence of our Financial Intelligence Unit

[2] CAELS stands for Capital, Asset quality, Earnings, Liquidity, Sensitivity to market risk.

(FIU) and establish a time-frame for its freezing of suspected assets. FIU is in the process of recruiting more staff to increase efficiency and speed up the resolution of cases. We have also made important strides in strengthening our legislative framework that govern offshore activities. Following on recommendations of the last peer review report of the OECD forum for fiscal transparency and exchange of information for tax purposes, amendments were made to the legislation governing offshore financial sector activities such as trusts and funds, as well as their taxation. These amendments should also facilitate international coordination, including through Seychelles' entry into the Egmont group.

36. **The financial service sector will be boosted with the launching of the stock exchange in the second half of 2012**. A license for the exchange was granted earlier this year following a rigorous application and vetting by a national committee which consisted of representatives of key financial-related institutions both public and private. Initially the exchange will handle local listings including shares of both private and public companies. Thereafter it will operate a dual listing system.

## F. CBS Operations and Governance

37. **The central bank continues to improve its internal audit processes,** through the Quality Assurance and Improvement Program (QAIP). It continuously carries out internal assessment reviews to ensure that the function adds value to the organization. This is enhanced through the Teammate software that allows coaching notes to be conveyed through the system and records of such notes to be kept. The QAIP Policy and Procedures will be finalized and approved by the Board in Q2 2012. Furthermore, CBS developed an Internal Audit Quality Assessment Framework, a tool for evaluating the quality of internal audit and for conducting internal and external Quality Assurance Reviews (QAR) in compliance with IIA standards. The external QAR of the QAIP will be conducted in December 2013.

38. **Work on a modern payment system is progressing.** Following successful implementation of its CORE Banking System, the Electronic Clearing House project is now underway and is scheduled to go live in Q3 2012. The Electronic Funds Transfer project has also been initiated and is expected to go live in Q2 2013. This will be followed by the implementation of a local rupee switching system and the Real Time Gross Settlement system.

**Text Table: Matrix of Actions in the Financial Sector Area**

| Action | Deadline |
|---|---|
| Issuance of regulations for operation of Credit Information System | March 2012 |
| Implementation of the Credit Information System | March 2012 |
| Submit Hire Purchase and Credit Sales Bill to Cabinet | May 2012 |
| Implementation of Statistical and Supervisory Application | July 2012 |
| Implementation of the Quality Assurance and Improvement Program for CBS' Internal Audit Division | September 2012 |
| Implementation of Electronic Clearing House system | September 2012 |
| Submit Leasing Bill to Cabinet | December 2012 |
| Finalization of risk-based solvency regime | December 2012 |
| Implementation of Electronic Funds Transfer | June 2013 |
| Implementation of ATM/POS Switch | September 2013 |
| External review of the Quality Assurance and Improvement Program | December 2013 |

## G. Private Sector Development and Reform of Public Enterprises

39. **We will intensify our efforts to improve the business environment for private sector development.** A technical working group has been working with the World Bank on specific proposals in the areas set out in paragraph 49 of the MEFP of December 2011. The technical working group submitted a report to our High Level Committee on Doing Business in May 2012. We have already begun implementing the recommendations of the report including: (i) appointment of a new Registrar General and reorganization of the Registrar; (ii) introduction of a flat fee for company registration (iii) revised application forms and include standardized requirements; and (iv) development of an on-line application, linked to all relevant agencies, for construction permits. A series of additional actions are planned between now and end-2012.

40. **We will strengthen the framework for the monitoring of public enterprises to minimize the risks of** negative spillovers from these entities to the budget and real economy. This will include amendments to the Public Enterprise Monitoring Law, to strengthen monitoring and the analytical capability of the MoF. Amongst the new legal requirements, the entities will be required to submit a statement of operations and financial performance to the Finance and Public Accounts Committee of the National Assembly each quarter, and existing arrangements allowing the MoF to seek monthly reports on financial performance and debt will be more rigorously utilized. Whilst the monitoring will cover all public entities, particular focus will be placed on the seven largest public entities. Efforts to strengthen government oversight of public enterprises have been enhanced with the establishment in May 2012 of a public projects review committee. The committee will review all potential public projects of a magnitude greater than SR 25 million and assess their macroeconomic and fiscal risks.

41. **We will use the launch of the Seychelles Stock Exchange in the third quarter of 2012 to advance our privatization program.** To begin with, we will sell our minority shares in cargo handling and stevedoring (Land Marine), ship repair (Naval Services) and insurance (Sacos Insurance Company Limited). We will also complete the sale of 40 percent of the Seychelles Commercial Bank (previously Seychelles Savings Bank). Preparations for these privatizations are underway; we are in the process of selecting consultants to carry out the evaluations of the companies. As previously pledged, we will take additional measures such as regulatory changes to ensure that no private monopolies emerge as a result of these sales.

42. **Government will continue to take necessary steps to maintain the financial viability of the Public Utilities Corporation.** Tariff increases in November 2011 and May 2012 will ensure that the company ends the year with a positive cash balance. However, the company remains exposed to fluctuations in international prices of refined petroleum products and the SR/USD exchange rate. The Government has commissioned a study on the optimal tariff structure, which will be completed by end-June. Government will adopt a revised tariff structure based on the report's recommendations by end-September. The objectives of the new tariff regime will be to: (a) limit cross-subsidization across products and customer segments; (b) to reduce the public utility company's need for budget financing; and (c) enable tariffs to be adjusted regularly as needed in respond to changes in input costs. Additionally, work continues on a new Energy Act to modernize the legal framework for the production of energy, which will improve energy efficiency over the longer run by introducing energy standards and promoting renewable energy sources. In this regard, the commissioning of a wind farm in late 2012 (financed by a UAE grant) will reduce oil imports. In the area of water supply, following the adoption of the PUC's Water Master Plan last year, the authorities have signed a financing agreement with the European Investment Bank for Euro 26m worth of projects in the water sector.

43. **We have reformed the Development Bank of Seychelles** (DBS)**.** DBS was incorporated as a company under the Companies Act in April 2012 and given a new, clearly defined mandate. To fulfill this new mandate of focusing on small and medium enterprises, DBS will limit the size of individual loans to SR 2m. In addition, it will take measures to strengthen its governance and internal control system. Moreover, it will introduce a risk-based lending and pricing framework. To complement the role of the DBS a new financing agency is being set up to facilitate micro businesses' access to credit and help them build book-keeping and marketing skills.

44. **We have begun to implement our new policy on housing finance.** Following Cabinet's adoption of a strategic plan for housing finance in December 2011 a committee was set up in May to ensure the effective implementation of the plan. As a first step the HFC will be split before end June 2012 into two separate entities: one for lending, and the other for the management of government properties. We aim to have the necessary legal arrangements and human capacity in place to implement the new mandate of HFC by October 2012. Moreover, we have begun preparations for the adoption of the smart subsidy scheme with the assistance of the World Bank's FIRST Initiative. The program will target low-income households by subsidizing mortgage-loans, including those from commercial banks, while at the same time maintaining the envelope for social housing expenditure unchanged as a share of GDP.

45. **The financial position of SEYPEC has been weakened by losses on its tanker operations amidst a downturn in tanker activities worldwide.** The losses on our tanker operations since 2008 have been supported through cross-subsidies from other more profitable operations of the company,

notably bunkering. SEYPEC is taking measures to ease the pressure on its finances, including negotiating with its creditors a rescheduling of the loans for the tankers.

### H. Petroleum issues

46. **We started preparations for potential oil discoveries.** Drilling on two fields that have been already surveyed is planned for late 2013, and additional blocks are being considered for auctioning. A high-level oil coordination unit, representing key stakeholders including the civil society, was established in May 2012. The committee will guide the authorities and ensure transparency in the process. We have sought technical assistance and training from the IMF, World Bank, the Commonwealth, the US and Australian governments on the full range of aspects: institutional framework, oil taxation, oil revenue and wealth management, budgetary implications and environmental issues. The operations of SEYPEC have been split in two. SEYPEC will focus on oil trading and tanker management, whereas the newly established PetroSeychelles will be responsible for exploitation.

### I. Statistics

47. As part of our objective to achieve compliance with the IMF's Special Data Dissemination Standard (SDDS), we are improving external statistics, based on the recommendations of the IMF and other external advisors. The Central Bank has completed the compilation of a partial International Investment Position (IIP) statement, covering the public sector and commercial banks. We are also improving coverage of the private sector's external operations. To achieve this objective, the Central Bank Act has been amended to allow the Bank to collect information from all companies.

48. **We also plan to produce more frequent national account data.** We expect to publish quarterly GDP within one quarter (another SDDS requirement) by September 2013. We are exploring the use of the forthcoming VAT returns to this end. We plan to introduce a producer price index and the production index when we launch the quarterly GDP data. Preparation will begin shortly to collect relevant data for the compilation of these indices.

49. **The National Bureau of Statistics is currently preparing for the launching in 2012 of a household budget survey.** The results of the survey will be used to revise the CPI basket composition. The household budget survey questionnaire was finalized in February with the assistance of the World Bank. Additional field workers and supervisors have been recruited and trained in April, ahead of the pilot survey in May and survey launch in July. We are also engaged in the Harmonized Consumer Price Index project of the COMESA and in an International Comparison Program coordinated by the African Development Bank.

## V. PROGRAM MONITORING

50. The last semi-annual review will be based on a set of quantitative performance criteria as shown in Table 1 and structural benchmarks as shown in Table 2. The attached revised Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and adjusters under the program.

51. Seychelles will avoid introducing new exchange restrictions, multiple currency practices, or bilateral payment 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. Quantitative Performance Criteria Under the Extended Arrangement, 2011–12**

(Millions of Seychelles rupees; end-of-period)

| | 2011 | | | 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | December | | | March | | | June | | September | | December | |
| | Performance Criteria | Adjusted | Actual | Indicative Target | Adjusted | Prel. | Prog. | Revised Performance Criteria | Prog. | Revised Indicative Target | Prog. | Revised Indicative Target |
| **Performance criteria** | | | | | | | | | | | | |
| Net international reserves of the CBS, millions of U.S. dollars (floor) [1] | 199 | 204 | 218 | 202 | 206 | 216 | 204 | 220 | 204 | 217 | 213 | 226 |
| Reserve money (ceiling) | 1,765 | ... | 1,699 | 1,810 | ... | 1,750 | 1,840 | 1,800 | 1,869 | 1,800 | 1,910 | 1,850 |
| Primary balance of the consolidated government (cumulative floor) [2] | 536 | ... | 709 | 179 | ... | 227 | 309 | 309 | 512 | 431 | 637 | 610 |
| Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2] | 47 | ... | 46 | 30 | ... | 0 | 30 | 30 | 40 | 40 | 40 | 40 |
| 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 | 0.0 |
| Accumulation of external payments arrears by the public sector (ceiling) [3] | 0.0 | ... | 0.0 | 0.0 | ... | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accumulation of domestic payment arrears by the government (ceiling) | 0.0 | ... | 0.0 | 0.0 | ... | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ***Memorandum items:*** | | | | | | | | | | | | |
| Net external non-project financing (millions of U.S. dollars; cumulative) [2, 4] | 1.6 | ... | 6.8 | -4.1 | ... | -0.7 | -5.5 | -3.7 | -9.9 | -7.5 | -0.6 | 1.0 |
| Program financing support | 0.0 | ... | 3.2 | 0.0 | ... | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.8 | 11.7 |
| Cash payments on foreign debt service | 4.8 | ... | 14.3 | 4.9 | ... | 1.5 | 8.7 | 6.8 | 15.7 | 13.5 | 24.3 | 23.2 |
| External budget grants | 6.4 | ... | 17.8 | 0.8 | ... | 0.8 | 3.2 | 3.2 | 5.9 | 6.0 | 11.9 | 12.5 |
| **Program accounting exchange rates** | | | | | | | | | | | | |
| SR/US$ (end-of-quarter) | 12.15 | ... | 12.15 | 12.41 | ... | 12.41 | 12.41 | 14.04 | 12.41 | 14.04 | 12.41 | 14.04 |
| US$/Euro (end-of-quarter) | 1.34 | ... | 1.34 | 1.35 | ... | 1.35 | 1.35 | 1.33 | 1.35 | 1.33 | 1.35 | 1.33 |
| US$/UK pound (end-of-quarter) | 1.56 | ... | 1.56 | 1.56 | ... | 1.56 | 1.56 | 1.60 | 1.56 | 1.60 | 1.56 | 1.60 |
| US$/AUD (end-of-quarter) | 0.97 | ... | 0.97 | 0.97 | ... | 0.97 | 0.97 | 1.04 | 0.97 | 1.04 | 0.97 | 1.04 |
| US$/SDR (end-of-quarter) | 1.49 | ... | 1.49 | 1.56 | ... | 1.56 | 1.56 | 1.55 | 1.56 | 1.55 | 1.56 | 1.55 |

Sources: Seychelles authorities and IMF staff estimates and projections.

[1] The NIR floor is adjusted as defined in the TMU.

[2] Cumulative net flows from the beginning of the calendar year; includes external non-project loans and cash grants net of external debt service payments.

[3] The nonaccumulation of new external payment arrears constitutes a continuous performance criterion. Excludes arrears for which a rescheduling agreement is sought.

[4] Includes external non-project loans and cash grants net of external debt service payments.

**Table 2. Structural Benchmarks, 2011–12**

| Measure | Target Date | Macroeconomic Rationale | Status |
|---|---|---|---|
| Cabinet approval of the amendments to Financial Institutions Act as described in 3rd Review MEFP, ¶41 | End-April 2011 | To strengthen competition in the banking sector and improve risk management. | Not met. Implemented in June due to a backlog of reviews in the Attorney General's office. |
| Adopt an action plan for house financing policy that limits the role of the public sector (3rd Review MEFP, ¶61) | End-June 2011 | To reduce fiscal risks, strengthen competition, and promote development of the banking system. | Not met. Implemented in December 2011 |
| Launch a strategic plan for the reform of the social security system (3rd Review MEFP, ¶27) | End-June 2011 | To establish well-targeted and sustainable social security system. | Not met. Implemented in December 2011 |
| Cabinet approval of VAT regulations, including rates, exemptions, and thresholds (3rd Review MEFP, ¶23) | End-June 2011 | To modernize the tax system and remove tax distortions. | Met. |
| Develop a privatization plan for nonstrategic public enterprises, which do not serve public policy goals (3rd Review MEFP, ¶50) | End-September 2011 | To reduce the role of the state in the economy, improve corporate governance and minimize fiscal risks. | Met. |
| Cabinet approval of a new Public Finance Bill extending the National Assembly's oversight on capital expenditure budget (3rd Review MEFP, ¶22) | End-September 2011 | To strengthen public finance management. | Met. |
| Reinstate the electricity tariff adjustment for fuel price variation (3rd Review MEFP, ¶56) | End-September 2011 | To reduce losses of the public utility company. | Electricity tariffs increased in multiple steps August through May 2012. |
| Introduction of the credit information system (4th Review MEFP, ¶46) | End-March 2012 | | Met. |
| Creation of the commercial court (4th Review MEFP, ¶47) | End-March 2012 | | Met. |
| Cabinet approval of new DBS mandates (4th Review MEFP, ¶54) | End-March 2012 | To redefine its mandate to finance small and medium enterprises | Met. |
| Commission and complete a study on optimal tariffs for utilities (4th Review MEFP, ¶51) | End-June 2012 | To ensure cost recovery and long-term sustainability of utilities. | Rescheduled from end-July 2011 due to administrative hurdles in securing donor financing, and difficulties in finding a qualified expert. |
| Introduce VAT (4th Review MEFP, ¶26) | July 2012 | To modernize the tax system and remove tax distortions | |
| Cabinet approval of the Public Sector Investment Program to be used for the 2013 budget planning. (4th Review MEFP, ¶28) | End-September 2012 | To improve efficiency of public finance management and planning in capital investments by costing capital projects over the entirety of their implementation phase | |
| Based on the results of optimal tariff study, implement reform of utilities tariffs (4th Review MEFP, ¶51) | End-September 2012 | To ensure long-term financial sustainability of utilities | |
| Implementation of Electronic Clearing House system (MEFP, ¶38) | End-September 2012 | To improve transmission of monetary policy and reduce cost of financial transactions. | |

# ATTACHMENT 2

# 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 benchmarks for 2011-2012 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 assets, free of any pledges or encumberments and excluding project balances and blocked or escrow accounts, and bank reserves in foreign currency maintained for the purpose of meeting the reserve requirements), 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' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date.

**Adjusters**

5. The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and cash grants 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), including those denominated in foreign currencies. Evaluation of performance of reserve money with respect to the program ceiling will be done at the program accounting exchange rate.

**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' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition. Reports will be submitted to the IMF no later than two months after each test date.

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

8. 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.

## D. Public External Debt (Ceiling)

9. 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 sub-ceiling on short-term external debt applies 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.

For the purposes of this performance criterion, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)). 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:

a. loans, that is, 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);

b. suppliers credits, that is, 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,

c. leases, that is., 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.

d. 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

10. 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. Domestic Arrears of Government

The nonaccumulation of budget expenditure arrears will be a performance criterion under the program and will be measured on net basis from the beginning of a calendar year. 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; and (3) debt service payment on domestic debt of the government or guaranteed by the government that has not been made within the contractually agreed period.

## II. DATA AND INFORMATION

11. 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.

- Foreign exchange reserves position.
- 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 four weeks from the end of the month)

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

**The Ministry of Finance will report**

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

- Consolidated government operations on a commitment basis and cash basis in the IMF-supported program format.
- The detailed revenues and expenditures of the central government and social security fund.
- Accounts of the public nonbank financial institutions.
- Import and export data from the customs department.
- Public debt report.
- Statements of Stabilization Fund operations
- Consolidated creditors schedule on domestic expenditure arrears of the government.

**Quarterly** (within a month from the end of the quarter):

- Financial statements of Air Seychelles

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

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
June 7, 2012

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Completes the Fifth Review Under the Extended Arrangement for Seychelles**

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review under the three-year Extended Arrangement (EFF) for the Seychelles. The completion of the review enables a disbursement of SDR 2.64 million (about US$5.6 million). The Board's decision was taken on a lapse of time basis.[1] The arrangement became effective on December 23, 2009, in the amount of SDR 19.8 million (see Press Release No. 09/472).

In 2011, the solid recovery that was set in motion by decisive policy changes after the 2008 crisis continued, supported by a vibrant tourism sector and continued high foreign direct investment. Consumer price inflation increased from near-zero levels at the beginning of 2011 to 5½ percent by year end, reflecting higher international food and fuel prices and, late in the year, a depreciating exchange rate. Fiscal performance was stronger than projected, despite higher losses from the national airline's operations. Public debt remained on a downward trend, and the country continued to rebuild international reserves. The economic program supported by the EFF remains on track, and all quantitative performance criteria at end-December 2011 were met.

In 2012, economic growth is expected to moderate owing to less favorable external conditions. Inflation is projected to peak in mid-year, once recent adjustments of fuel prices and utility tariffs are fully reflected in the consumer price index. Monetary policy is appropriately being tightened, which should alleviate pressures on the exchange rate and bring down inflation during the second half of 2012. Public finances will need to absorb the one-off costs of restructuring Air Seychelles, but an improved fiscal revenues outlook will ensure that the primary balance target is met. The upcoming implementation of the value-added tax will improve the efficiency of the tax system. Public finances should be strengthened by enhanced oversight of public enterprises, the launch of the public sector investment program, and the implementation of further public utility tariff reforms. The financial infrastructure will be improved by the introduction of a new electronic clearing system.

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.