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Seychelles—Fourth Review Under the Extended Arrangement, Request for Waiver of Applicability of Performance Criteria and Financing Assurance Review—Staff Report; Press Release on the Executive Board Discussion; Statement by the Executive Director for Seychelles

In the context of the fourth review under the Extended Arrangement for Seychelles, 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 fourth review under the Extended Arrangement, request for modification of performance criteria, financing assurances review, prepared by a staff team of the IMF, following discussions that ended on October 20, 2011, 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 December 23, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its discussion that completed the request and/or review.

- Statement by the Executive Director for Seychelles.

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

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INTERNATIONAL MONETARY FUND

SEYCHELLES

Fourth Review Under the Extended Arrangement, Request for Waiver of Applicability of Performance Criteria, and Financing Assurances Review

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

Approved by Roger Nord and Claire Waysand

December 23, 2011

- **Fund Relations:** A three-year Extended Arrangement (EA) under the Extended Fund Facility for SDR 19.8 million (182 percent of the new quota) was approved by the Executive Board on December 18, 2009. SDR 12.76 million has been disbursed and SDR 3.08 million will be available upon completion of the fourth review.

- **Mission discussions:** Policy discussions were held in Victoria October 6–20, 2011. Staff met with President James Michel, Vice President and Minister of Finance Danny Faure, Governor Pierre Laporte of the Central Bank of Seychelles, other government officials, and representatives of the private sector. The mission participated also in a government's meeting with development partners.

- **Program implementation:** All end-June 2011 performance criteria have been met. Staff supports the request for waiver of applicability for end-December 2011 performance criteria, recommends the completion of the fourth EA and financing assurances reviews, and proposes to establish performance criteria for end-June 2012.

- **Staff.** The mission comprised Jean Le Dem (head), Nikoloz Gigineishvili, Alexander Culiuc (all AFR), and Douglas Hostland (SPR).

Contents **Page**

EXECUTIVE SUMMARY

- **Seychelles continues its solid path to recovery from the 2008 crisis.** Real GDP increased by 6.7 percent in 2010 and is expected to gain another 5 percent in 2011. Twelve-month inflation picked up from near zero in 2010 to 5.1 percent in November, primarily because of higher world food and fuel prices. As the pass-through continues, inflation is projected to increase to 5.4 percent at year-end. At the same time, domestic demand pressures remain contained by a prudent fiscal stance, tight monetary policies, and the flexible exchange rate.

- **The program is on track.** All quantitative performance criteria at end-June 2011 were met. Most structural benchmarks for the program have been implemented, although with delays in some cases. Quantitative targets for end-2011 are unchanged.

- **The macroeconomic outlook remains favorable.** Real GDP growth in 2012 is projected to slow to 4 percent, reflecting the weakening global environment. The downside risk to tourism from the crisis in Europe, however, is partly mitigated by Seychelles's successful marketing efforts, and the increasing supply of more affordable accommodation. Annual inflation is expected to decline to about 3.5 percent.

- **The envisaged fiscal stance for 2012 will allow maintaining a steady course toward debt reduction**. The 2012 primary fiscal surplus is projected at 4.7 percent of GDP. The authorities' decisions to downsize the loss-making national airline and raise tariffs of public enterprises are crucial steps for easing fiscal pressures and ensuring sufficient capital expenditure, in particular in much-needed infrastructure projects. Price subsidies through the Stabilization Fund will be replaced with targeted transfers to low-income households.

- **Monetary policy will continue to focus on containing second-round inflationary effects of global commodities' prices and external pressures**. The issuance of T-bills for monetary purposes will help the central bank manage commercial banks' liquidity.

- **The structural reform agenda for 2012 builds on progress made to date, focusing on taxation, public finance management, public enterprises, and the financial sector.** Key measures include the launching of a value-added tax, enhanced budget procedures, the restructuring of Air Seychelles and two state-owned financial institutions, and the introduction of a credit information system.

- **Staff supports the request for waiver of applicability of performance criteria and recommends the completion of the fourth EA and the financing assurances reviews.**

I. Recent Developments and Outlook

1. **A robust recovery has continued in the face of mounting concerns of a slowdown in Western Europe.** Revised national accounts data indicate that real GDP rebounded by some 6.7 percent in 2010. Favorable tourism data and better-than-anticipated production indicators for the rest of the economy suggest momentum was maintained in 2011, with growth projected at 5 percent, 1 percentage point above that projected at the time of the third review. Tourist arrivals and hotel bookings have displayed impressive resilience to the uncertainty surrounding economic and financial conditions in Europe, the primary tourism market for Seychelles.

2. **Macroeconomic stability has been maintained despite external shocks.** Twelve-month consumer price inflation picked up from near zero in 2010 to 3.8 percent in October 2011, largely because of pass-through from the sharp increase in global food and fuel prices. As the pass-through continues, inflation is expected to peak at around 5.4 percent by year-end. Inflationary pressures are projected to moderate next year, with lower world commodity prices and a tighter monetary policy stance taken to avert second-round inflation effects. The external current account deficit is expected to remain unchanged at around 22 percent of GDP in 2011 with a pick-up in exports balanced by higher imports, the latter mainly owing to higher imported fuel and food prices. The real effective exchange rate has remained relatively stable (Figure 1) through September 2011, with inflation differentials against major trading partners offset by a modest depreciation of the nominal effective exchange rate. The central bank is building up official international reserves at the envisaged pace (import cover reached 2.4 months at end-September 2011).

3. **Strong government revenue performance and delays in capital budget execution led to a higher-than-projected primary balance in the first half of 2011.** Fiscal revenues at end-June exceeded the target by the equivalent of 1.4 percentage point of GDP, primarily on account of higher-than-projected revenues from excise and business taxes; the former reflecting stronger domestic fuel consumption, the latter a faster clearance of a backlog of tax arrears. Transfers, notably to the loss-making national airline Air Seychelles, increased, while the domestically financed capital budget saw execution delays.

4. **Measures taken to tighten monetary conditions have curtailed growth in monetary and credit aggregates.** Reserve requirements were raised from 10 to 13 percent earlier this year to absorb excess liquidity in the banking system (Figure 2), resulting in a marked increase in short-term interest rates. Ninety-day treasury bill rates increased from 0.5 percent in the first quarter to about 5 percent in the third, thereby becoming positive in real terms. Private credit growth is projected to moderate to 10 percent in 2011, from 21 percent last year.

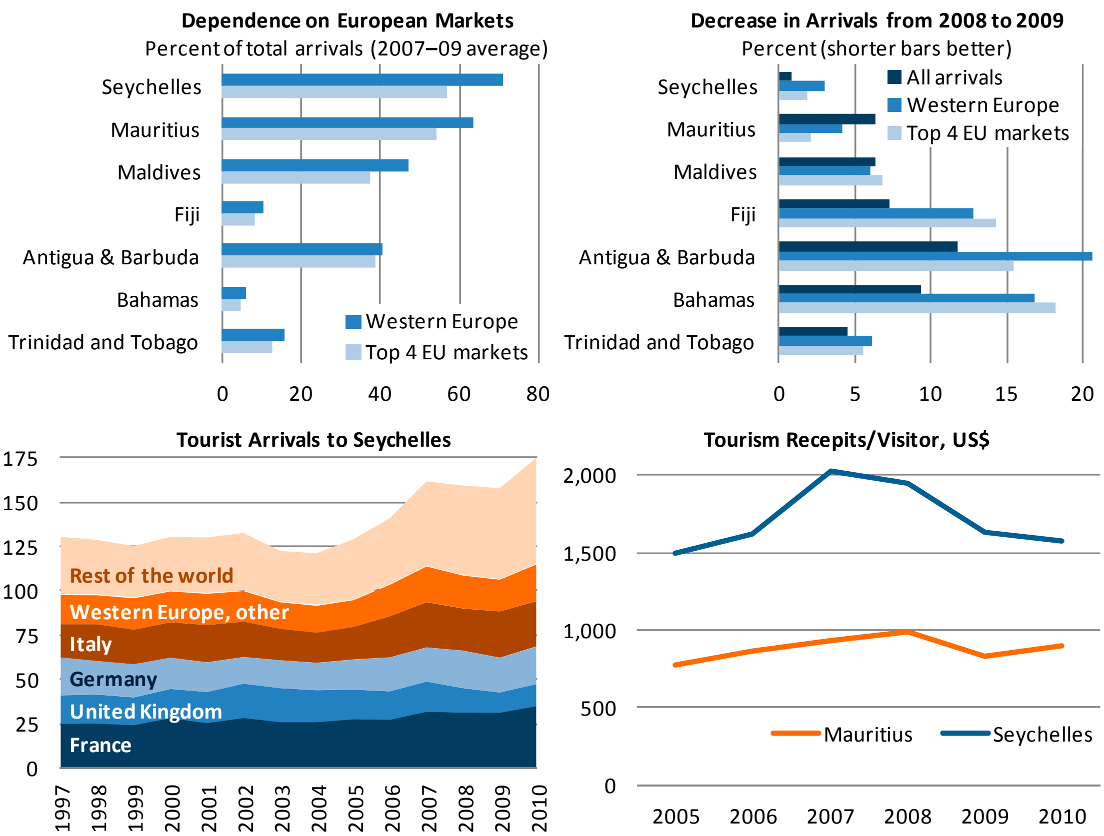
Box 1--Seychelles's Tourism Industry: Recent Developments, Policy and Prospects

Seychelles' tourism industry is heavily dependent on European markets (in decreasing order, France, Italy, Germany and the United Kingdom), and the ongoing turmoil in Europe poses significant risk. However, developments in 2008–09 provide encouraging signs for the country's prospects of weathering additional tourism-related shocks.

In 2009, tourist arrivals in Seychelles registered a much smaller drop than in other small tourism-dependent islands. This was due to the strong resilience of tourism originating from France, the impressive boom of Italians vacating in Seychelles (despite the overall collapse of tourism originating from Italy), and a large increase in non-European tourists. A timely move toward a more affordable supply of transportation and lodging and heavy discounting may have cushioned the impact of the global economic crisis on Seychelles. For example, as part of the Affordable Seychelles campaign, hotels offered much deeper discounts than in neighboring Mauritius, which is still struggling with low hotel occupancy rates. Tourist arrivals and revenue have picked up strongly in 2010 and 2011.

Seychelles has intensified promotion campaigns toward new markets, including China. The share of the top four European markets has already decreased from three-quarters in early 2000s to two-thirds in 2010.

Tourism Indicators: Seychelles and Comparators



Source: UN World Tourism Organization, Seychelles National Bureau of Statistics, and IMF staff estimates.
Note: Top four EU markets include France, United Kingdom, Germany, and Italy.

5. **The program is on track.** All quantitative performance criteria (PCs) at end-June 2011 and indicative targets for end-September were met; end-December targets appear to be within reach. Progress on some structural reforms has been slower than expected with several benchmarks postponed or implemented with delays, partly owing to capacity constraints associated with two major elections (MEFP, Table 3).

Quantitative Performance Criteria Under the Extended Arrangement, 2011
(Millions of Seychelles rupees; end-of-period)

	2011								
	March			June			September		
	Indicative Target	Adjusted	Actual	Performance Criteria	Adjusted	Actual	Indicative Target	Adjusted	Prel.
Performance criteria									
Net international reserves of the CBS, millions of U.S. dollars (floor) [1]	189	189	210	204	204	219	203	197	205
Reserve money (ceiling)	1,804	…	1,772	1,755	…	1,728	1,757	…	1,727
Primary balance of the consolidated government (cumulative floor) [2]	142	…	416	240	…	643	462	…	578
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]	4	…	0	33	…	0	46	…	14
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
Accumulation of external payments arrears by the public sector (ceiling) [3]	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
Memorandum items:									
Net external non-project financing (millions of U.S. dollars; cumulative) [2, 4]	-1.4	…	-1.4	-0.6	…	-1.1	6.8	…	1.0
Program accounting exchange rates									
SR/US$ (end-of-quarter)	11.75	…	…	12.15	…	…	12.15	…	…
US$/Euro (end-of-quarter)	1.27	…	…	1.34	…	…	1.34	…	…
US$/UK pound (end-of-quarter)	1.48	…	…	1.56	…	…	1.56	…	…
US$/SDR (end-of-quarter)	1.49	…	…	1.49	…	…	1.49	…	…

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.

6. **The financial situation of two key public enterprises has deteriorated significantly.** The national airline (Air Seychelles) has incurred mounting losses, cumulating at about 2.2 percent of GDP for the first nine months of 2011, despite efforts to restore financial viability. Its aging fleet appears unfit to compete on long-haul routes with several airlines determined to gain market share under the country's open sky policy. The Public Utility Corporation's (PUC's) cash flow turned negative in 2011 on account of rising fuel costs and drought-related expenditures.

7. **External debt restructuring is close to completion.** The authorities have continued good faith negotiations with its remaining creditors and complied with the IMF's criteria under the lending into arrears policy. An agreement was signed with Abu Dhabi in June. Agreements with the two remaining official bilateral creditors—India and South Africa — and one remaining commercial creditor have been reached and signature is expected shortly.

8. **The outlook for 2012 is broadly favorable.** Growth in the tourism sector is expected to moderate in reaction to the unfolding sovereign debt and banking crisis in Europe. Although the negative impact of the European crisis should be partly offset by the sector's improved competitiveness (Box 1) and the coming on stream of new accommodation, the real growth of tourism is expected to slow from 6 percent in 2011 to 5 percent in 2012 and

beyond. Respectively, 2012 GDP growth projections have been revised from 4.7 percent in the third review to 4 percent. Inflationary pressures are expected to subside during the coming year, because of declining world commodity prices. The latter, together with lower FDI-related imports, should narrow the external current account deficit in 2012.

II. Macroeconomic Policies for the Reminder of Extended Arrangement

9. **Discussions centered on the appropriate policy framework for the remainder of the Extended Arrangement**. They focused on (a) the optimal policy mix to cope with the new international environment, including the global slowdown, and (b) the fiscal and balance of payments risks posed by subsidies to public enterprises. The staff and the authorities agreed that (a) the authorities' objective of bringing public debt below 50 percent of GDP by 2018 left little scope to relax the fiscal consolidation path; (b) the phasing out of subsidies was essential to maintain public investment in key infrastructure projects and would be facilitated by the partial reversal of global commodity price increases; (c) the monetary policy stance should remain cautious to contain possible second-round inflationary pressures; and (d) the buildup of international reserves should continue, albeit at a slower pace.

A. Fiscal Policy: Toward Further Consolidation

10. **The primary balance target for 2011 of 4.5 percent of GDP is within reach**. Building on the strong performance in the first half of the year, domestic revenues are projected to exceed the target by 2.2 percent of GDP. However, unforeseen expenditures including those related to early parliamentary elections and increased losses of the ailing national airline limit the margin by which the primary balance is projected to exceed the quantitative performance criterion to SR 30 million (0.2 percentage point of the revised GDP).

11. **Decisions to phase out universal subsidies and to downsize the airline will allow for a broadly unchanged fiscal stance and a primary surplus of 4.7 percent of GDP in 2012.** With increases in electricity tariffs and cooking gas to cost recovery levels, the government plans to close the Stabilization Fund, which provided subsidies for these products in 2011. To protect the most vulnerable layers of population, however, targeted transfers to low-income households will be increased. Air Seychelles, which already discontinued some of its loss-making flights in November 2011 and announced termination of the remaining unprofitable long-haul routes from mid-January 2012, will position itself as a domestic and regional carrier. The restructured company should break even in the course of 2012, which should limit next year's budget support to Air Seychelles to 1.2 percent of GDP mostly to cover one-off costs, including accumulated losses, staff severance payments and penalties for the early termination of airplane leasing contracts. Potential disruptions in tourist arrivals are being mitigated by increased flight capacity of foreign airlines.

12. **The 2012 budget will stay the course toward further fiscal consolidation and debt sustainability.** After the 2011 spike in collection of business tax arrears, return to

normal business tax collection will cause a small decline in government revenues (in percentage of GDP). Moderating this decline are (a) a boost in goods and services taxes (GST) caused by the rate increase in the tourism sector from November 2011 and (b) the one-off positive impact of the VAT introduction (because of delays in refunds). The wage bill increases reflect in part the government's efforts to eliminate administrative bottlenecks (including at the Attorney General's Office) and attract talent in the civil service (MEFP, ¶15). Domestically financed expenditure on critical public infrastructure projects will remain high while total capital spending will slightly decline as a share of GDP owing to a reduction in foreign-financed projects. A contingency fund of 0.6 percent of GDP was included in the budget primarily for emergencies related to natural disasters (such as prolonged droughts in 2011) and piracy, and international commodities' price shocks. (MEFP ¶17). However, any sharp increase in food and oil prices is unlikely in the present global context, and the probability of using contingency for this purpose is further limited by the authorities' commitment to let a full price pass-through (MEFP ¶51). The authorities agreed that the impact on the most vulnerable groups should be addressed through the targeted social assistance.

13. **Public debt is on a sustainable path.** It is projected to fall to 76 percent of GDP at end-2012. With medium-term primary surpluses projected at around 4 percent of GDP, public debt should decline to 58 percent of GDP at end-2016, on track for achieving the 50 percent target for 2018.

B. Monetary Policy: Guarding Against Second Round Inflationary Pressures

14. **With additional pass-through from international food and oil prices expected through end-2011, the main challenge is to contain possible second-round effects.** The authorities initially felt that in light of projected disinflation a moderate monetary easing could help lower interest rates. The mission noted, however, that private sector credit is growing at a healthy rate, and that a monetary stimulus could exacerbate recently observed foreign exchange pressures and undermine accumulation of reserves toward three months of import coverage—the minimum level considered adequate for cushioning external shocks to which Seychelles is susceptible.[1] The mission cautioned that the possible secondary effects of higher utility tariffs and the planned increases in minimum legal and public sector wages could add to inflationary risks. It was agreed, therefore, to accommodate the direct one-off impact of utility tariffs on CPI, but to maintain the existing monetary targets for end-2011 and to set a broad money growth target for 2012 roughly in line with nominal GDP. Given the sizeable overall fiscal surplus and projected net repayments of domestic debt, this framework leaves sufficient room for private sector credit expansion. At the same time, the Central Bank of Seychelles (CBS) reaffirmed its readiness to tighten the policy stance at the first signs of higher-than-targeted inflation.

[1] IMF, Country Report No. 11/134, Annex I.

15. **To achieve its inflation objective, the CBS will continue to rely on its market-based policy instruments, namely reverse repurchase agreements, deposit auctions, and foreign exchange swaps.** However, increased interest costs following the tightening earlier in the year have strained the central bank's balance sheet. To ease the sterilization burden and avoid further recapitalization, treasury bills will be issued for monetary policy purposes to help absorb part of liquidity, as needed.

16. **The floating exchange regime will remain a critical part of the macroeconomic policy framework**. It will help cushion external shocks, increase monetary policy efficiency and rebuild international reserves. The exchange rate of the rupee will continue to be market-determined. Official external reserves are projected to reach 2.5 months of imports at end-2012.

III. STRUCTURAL REFORMS

17. Discussions on structural reforms centered on ways to sustain private-sector led growth while improving economic and financial governance. They comprised reforms of the public sector, including the restructuring of state-owned financial institutions, and measures needed to advance tax and public finance management reforms.

18. **The government is taking further steps to reducing its role in the economy and improving the business climate.**[2] As part of a recently approved privatization plan, the authorities will offer to the market their minority shares in three companies (MEFP, ¶50). The planned reform of the public utilities' tariff is also opening the electricity sector to private operators. A special committee, chaired by the Minister of Finance, will oversee large investments by public enterprises to ensure consistency with government objectives (MEFP, ¶59).

19. **Several measures will enable the financial sector to play a more active role in the economy**. Strengthened guidelines on banks' disclosure requirements should improve competition in the sector. The authorities are laying out the legal and regulatory basis for the creation of a credit information system and putting in place the necessary IT infrastructure (MEFP, ¶46). The system, expected to become operational by end-March 2012, is called to reduce information asymmetry and improve risk management and pricing of banking products. Steps have been taken to establish a commercial court to facilitate speedy resolution of financial disputes, which have long been viewed as a major inefficiency by the business community (MEFP, ¶47). Progress is also being achieved on developing a national payments system, moving toward risk-based banking supervision, and addressing the deficiencies identified in the AML/CFT framework.

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[2] Seychelles continues to perform poorly in the World Bank Group's Doing Business Indicators (see www.doingbusiness. org).

20. **Reform of state-owned financial institutions is gaining momentum.** The authorities are redefining the roles and operations of the Development Bank of Seychelles (DBS) and the Housing Finance Company (HFC). Under its new mandate, the DBS will focus on small and medium-size enterprises that are viable businesses, yet too risky for commercial banks to finance (MEFP, ¶54). The authorities are planning to implement a new house financing policy that will promote commercial banks' mortgage instruments and limit the government's involvement to providing limited socially-targeted subsidies (MEFP, ¶55). As an interim step the HFC will also be modernized by introducing clear accounting and operational separation between mortgage lending, real estate development, and property management. Reforms of both DBS and HFC also will address shortcomings in governance, risk management, and operations. At the same time, according to the recent on-site examinations by the CBS, both institutions are well capitalized and fiscal risks from potential contingent liabilities are negligible.

21. **Tax policy and tax administration.** The planned introduction of VAT in mid-2012 is well on track (MEFP, ¶26); the new Customs Management Act will become effective in April 2012, following the revision of supporting regulations and procedures, and staff training. To improve tax compliance the Seychelles Revenue Commission is introducing a single tax identification number, linking the customs database with the domestic tax system and strengthening capacity in tax auditing (MEFP, ¶20–25).

22. **Wide-ranging public finance reforms are guided by the recent Public Expenditure and Financial Accountability report and the IMF's technical assistance.** Starting with the 2013 budget, the new legislative and regulatory framework will subject capital expenditure to parliamentary approval, introduce a new chart of accounts, strengthen compliance with International Public Sector Accounting Standards, and introduce program budgeting for education and health expenditure (to be extended to all expenditure by 2015).

23. **The mission welcomed the authorities' plan to reform the pension system (MEFP ¶33–34).** The Seychelles Pension Fund (SPF), which appears underfunded, is undergoing an independent actuarial audit to determine its funding needs and to formulate recommendations. Meanwhile, the contribution rate will increase to 3 percent of salary in 2012 (from 2 percent in 2011). Social Security Fund (SSF)'s financial assets, which were frozen in 2010 following the integration of its statutory benefits into the budget, will be partly transferred to the SPF. In addition, the SSF is being merged with the Social Welfare Agency to centralize the administration of all statutory and means-tested benefits.

IV. Program Monitoring, Financing and Risks

24. **The program will continue to be monitored on a semi-annual basis.** Staff supports the request for a waiver of applicability for the end-December PCs, as the relevant data are not available, program performance has been strong, and there is no evidence these PCs have not been met. The MEFP proposes the establishment of quantitative PCs for end-June 2012 (Table 2) and structural benchmarks (Table 3).

25. **The program for 2011–12 is financed.** The (minor) residual financing gaps will be closed when the two remaining external debt restructuring agreements are signed,[3] which is expected to take place over the next few months.

26. **The main risk to the program stems from major uncertainties surrounding growth prospects in Western Europe.** The deepening of the European sovereign debt crisis and further depreciation of the euro against the dollar could weaken tourism receipts significantly, leading to balance of payments and fiscal pressures. The ongoing downsizing of Air Seychelles could lead to short-term disruptions in the flow of tourists as well as additional budgetary support to the company in relation with one-off costs of terminating early airplane lease contracts. Renewed piracy threats in the Indian Ocean could also pose risks to the tourism and fishing sectors. These risks, however, appear manageable because of strong program ownership, Seychelles' track record of effective policy adjustments to external shocks since 2008, and ongoing international antipiracy efforts.

V. Staff Appraisal

27. **Seychelles' strong recovery under the EFF-supported program continues, despite headwinds from global markets.** Activity is set for another solid expansion in 2011 amid restored macroeconomic stability. The country is attracting growing inflows of tourists despite the slowdown in Europe, and benefiting from substantial foreign direct investments. Inflation remains low despite global commodity price hikes earlier this year.

28. **Economic policies are consistent with further fiscal consolidation and low and stable inflation**. Despite some fiscal easing after the exceptionally large adjustment in 2009–10, the projected primary surpluses are sufficient to keep public debt on a declining path and to ease external pressures. Staff welcomes the phasing out of the Stabilization Fund and the move from universal to targeted subsidies. The preventive monetary tightening earlier this year absorbed banks' excess liquidity and stemmed the risk of second-round inflationary pressures. With its flexible exchange rate regime, Seychelles absorbed the terms-of-trade deterioration through a modest depreciation in real effective terms in recent months. Staff encourages further buildup of foreign reserves and shares the authorities' view that the monetary anchor and the flexible exchange rate regime are well suited for Seychelles, which is exposed to large external shocks. Staff supports also the issuance of T-bills for monetary purposes to share sterilization costs and strengthen central bank independence.

29. **Further tax and public finance reforms will foster continuous private-sector led growth in the medium term.** The cabinet has recently approved VAT regulations, a strengthened public finance management draft law and other pending measures that were structural benchmarks for the program. Next steps will be to implement these reforms, several of which require sustained efforts to complete the legal review process and bring

[3] Two of the three outstanding claims are being restructured jointly in the same agreement.

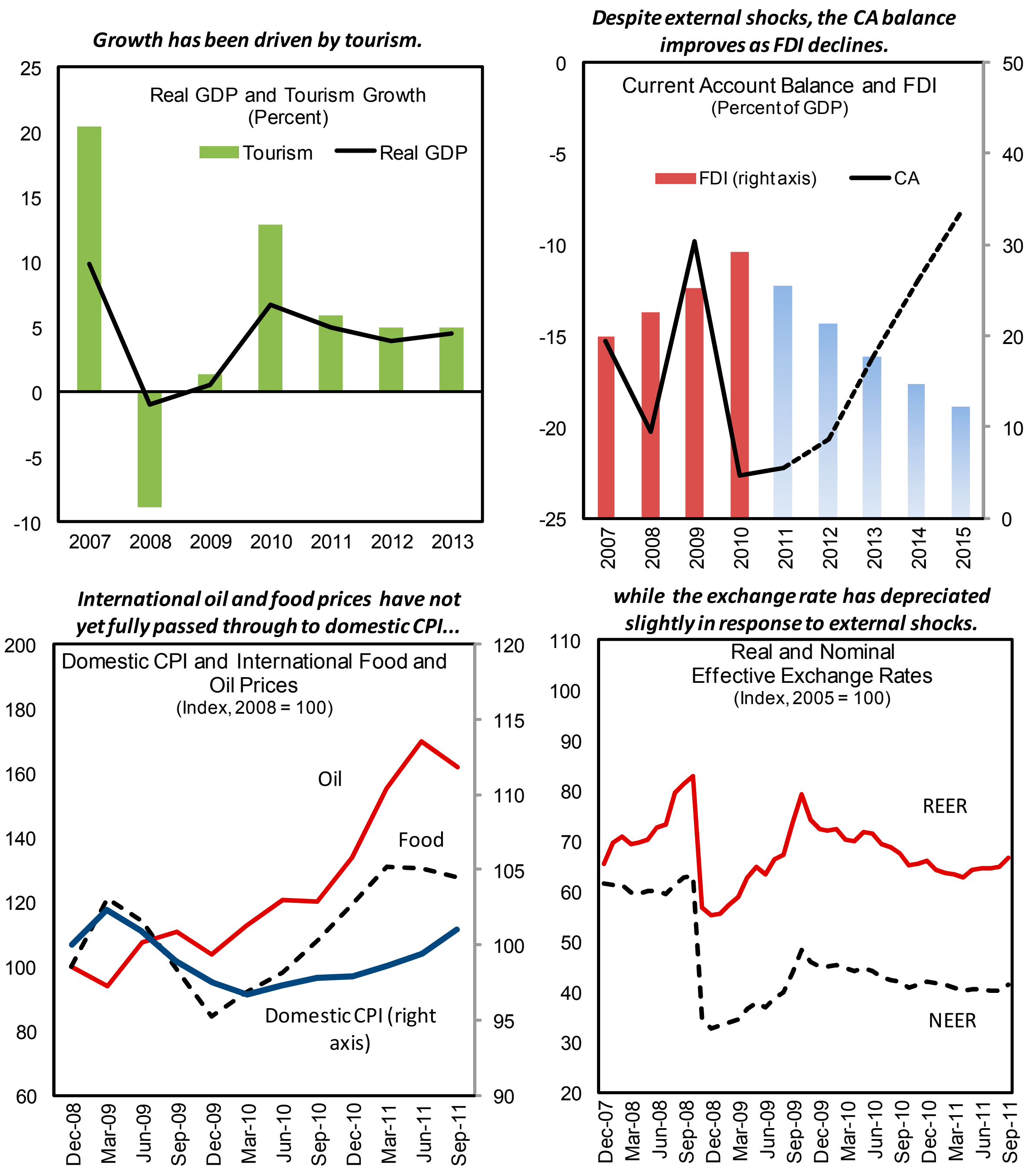
them to the new national assembly for adoption. Staff is encouraged by the government's recent decisions to improve capacity to accomplish these reforms, including through additional budget appropriations for the Attorney General's Office. Progress is also needed on the design of a more business friendly tariff policy for public utilities and other measures to enhance business attractiveness.

30. **The planned restructuring of the national airline alleviates the considerable macroeconomic risks of Air Seychelles' deteriorating finances.** The discontinuation of the loss-making long-haul routes and the related downsizing of the fleet and personnel should eliminate the need for budget support in 2013. At the same time, the advanced notice provides time for other airlines to step in on discontinued routes, thereby limiting the risk of disruptions to tourism flows.

31. **Financial sector reforms should be accelerated.** Staff is encouraged by the forthcoming adoption of legislative and regulatory measures needed for the development of financial intermediation, including the setting up of a credit information system. While recent developments in the global financial crisis may complicate the privatization of Nouvobanq, staff strongly supports other planned steps to reduce the role of public financial institutions such as limiting the mandate of DBS and HFC to cover the needs of small enterprises and low-income households respectively.

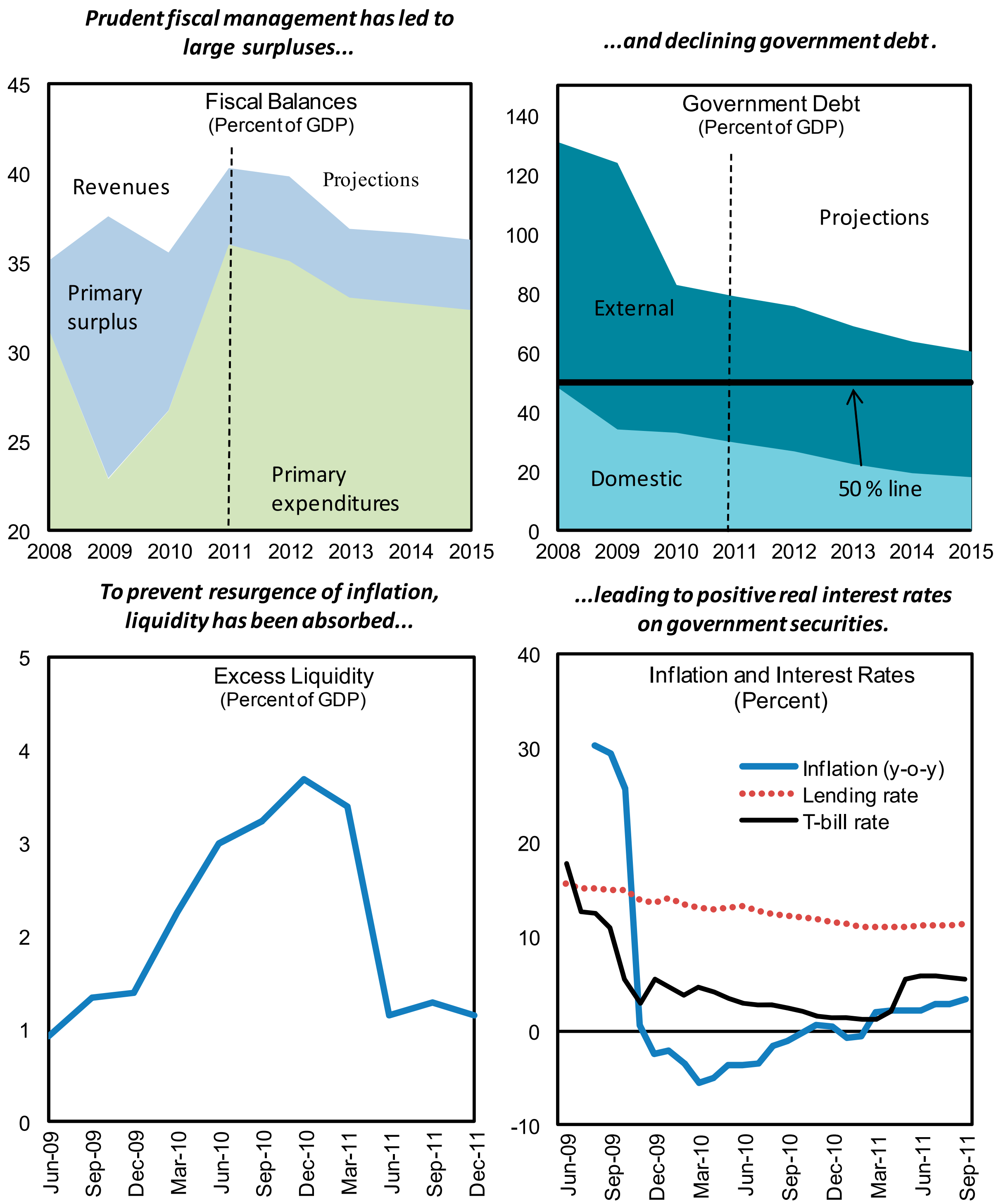
32. **Staff supports the request for waiver of applicability of performance criteria for the end-December PCs and recommends the completion of the fourth review under the Extended Arrangement and the financing assurances review**.

Figure 1. Seychelles: Indicators of Economic Performance



Sources: Seychelles authorities and IMF staff estimates.

Figure 2. Seychelles: Indicators of Fiscal and Monetary Performance



Sources: Seychelles authorities and IMF staff estimates.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2008–13

	2008	2009	2010	2011 [1]		2012	2013
	Revised	Revised	Est.	Prog.	Proj.	Proj.	Proj.
National income and prices	(Percentage change, unless otherwise indicated)						
Nominal GDP (millions of Seychelles rupees)	9,101	11,450	11,621	12,016	12,470	13,508	14,531
Real GDP	-1.0	0.5	6.7	4.0	5.0	4.0	4.5
CPI (annual average)	37.0	31.9	-2.4	3.1	2.5	4.8	3.3
CPI (end-of-period)	63.3	-2.5	0.4	5.5	5.4	3.5	2.6
GDP deflator average	32.0	25.2	-4.9	2.3	2.2	4.2	2.9
Money and credit	(Percentage change, unless otherwise indicated)						
Net claims on private sector	48.6	-11.4	21.4	11.9	10.1	10.4	7.6
Broad money	29.0	7.0	13.7	5.5	2.6	8.2	7.6
Reserve money	0.6	15.7	34.7	1.1	1.1	8.2	7.6
Velocity (GDP/broad money)	1.5	1.8	1.6	1.6	1.7	1.7	1.7
Money multiplier (broad money/reserve money)	5.3	4.9	4.2	4.4	4.2	4.2	4.2
Savings-Investment balance	(Percent of GDP)						
External savings	20.3	9.8	22.7	32.7	22.3	20.9	16.4
Gross national savings	6.6	17.5	14.0	4.5	14.5	14.6	14.8
Of which: government savings	7.5	8.2	7.9	12.7	11.4	10.9	10.3
Gross investment	26.9	27.3	36.7	37.2	36.8	35.5	31.2
Of which: government investment	2.0	5.3	8.7	10.2	9.8	9.0	8.2
Government budget							
Total revenue, excluding grants	31.5	33.1	34.5	36.7	37.5	36.6	35.2
Expenditure and net lending	38.3	32.0	32.8	38.8	39.6	37.8	35.5
Current expenditure	27.5	29.1	27.5	28.1	29.8	28.9	27.3
Capital expenditure and net lending	10.8	2.9	5.3	10.8	9.9	8.9	8.2
Overall balance, including grants	-3.2	5.2	2.5	1.8	1.5	2.0	2.1
Primary balance	3.7	14.3	8.7	4.5	4.5	4.8	4.7
Total public debt	131.1	124.1	83.0	76.2	78.5	76.9	71.1
Domestic	47.7	33.9	32.8	27.4	28.7	25.8	21.5
External [2]	83.3	90.2	50.2	48.8	49.8	51.1	49.6
External sector	(Percent of GDP, unless otherwise indicated)						
Current account balance including official transfers	-20.3	-9.8	-22.7	-32.7	-22.3	-20.9	-16.4
Total stock of arrears (millions of U.S. dollars) [3]	317	251	30.3	...	...	...	...
Total public external debt outstanding (millions of U.S. dollars)	798	761	483	489	503	528	539
(percent of GDP)	83.3	90.2	50.2	50.7	49.8	51.1	49.6
Terms of trade (= - deterioration)	2.1	-2.9	0.8	...	…	...	...
Real effective exchange rate (average, percent change)	-7.4	-6.8	4.4	...	…	...	...
Gross official reserves (end of year, millions of U.S. dollars)	73	197	252	261	263	283	309
Months of imports, c.i.f.	0.8	2.0	2.3	2.6	2.3	2.5	2.7
Exchange rate [4]							
Seychelles rupees per US$1 (end of period)	16.6	11.2	12.2	...	12.4	...	...
Seychelles rupees per US$1 (period average)	9.5	13.6	12.1	...	12.2	...	...

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

[1] External sector data for EBS/10/225 are not comparable with the current projections owing to substantial revisions in BOP.

[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.

[3] Total stock of arrears in 2011 is actual value for end-June.

[4] Exchange rates for 2011 are actual values at end-September.

Table 2. Seychelles: Balance of Payments, 2008–15
(Millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013	2014	2015
	Revised[1]	Revised[1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-194	-83	-218	-225	-217	-178	-139	-100
(percent of GDP)	-20.3	-9.8	-22.7	-22.3	-20.9	-16.4	-12.2	-8.3
Balance of goods and services	-159	-84	-177	-191	-181	-148	-113	-76
Exports of goods	438	432	400	505	516	531	544	561
Of which: oil re-exports	200	184	158	210	207	210	209	211
Of which: tuna exports	215	165	210	246	256	267	278	291
Imports of goods	-843	-733	-737	-877	-902	-907	-909	-914
Of which: oil imports	-278	-209	-218	-268	-315	-322	-324	-329
FDI-related imports	-134	-126	-171	-156	-133	-113	-96	-81
other	-430	-398	-349	-453	-454	-473	-490	-503
Exports of services	610	600	592	618	657	698	742	790
Of which: tourism earnings	309	256	274	298	318	340	364	389
Imports of services	-364	-383	-432	-437	-452	-470	-490	-513
Income, net	-68	-47	-67	-42	-42	-37	-33	-30
Of which: interest payments due [1]	-45	-33	-42	-17	-20	-17	-18	-19
transfers of profits and dividends	-8	-6	-6	-8	-9	-9	-10	-10
Current transfers, net	33	48	25	7	7	7	7	6
Of which: general government, net	36	45	26	8	8	8	8	7
Capital and financial account	-129	145	514	226	228	211	169	129
Capital account	5	52	275	49	26	18	15	11
Of which: debt forgiveness	0	41	267	0	0	0	0	0
Financial account	-134	92	239	177	202	193	154	117
Direct investment, net	166	163	221	201	168	141	119	99
Portfolio investment, net [2]	-310	-6	25	-54	11	28	20	18
Other investment, net	10	-65	-7	31	23	24	15	0
Government and government-guaranteed	12	-75	12	19	6	0	-7	-20
Disbursements	64	12	32	14	19	18	15	6
Project loans	13	3	4	14	12	11	8	6
Program loans	0	9	27	0	7	7	7	0
Amortization	-52	-77	-37	-11	-11	-18	-22	-26
Private sector [3]	-2	10	-18	12	17	24	22	20
Net errors and omissions	-2	40	-32	0	0	0	0	0
Overall balance	-325	102	264	1	11	33	29	28
Financing	325	-102	-264	-2	-12	-33	-30	-29
Change in net international reserves (increase: –)	-23	-116	-40	-5	-14	-35	-30	-29
Change in gross official reserves (increase: –)	-33	-125	-55	-11	-20	-26	-26	-26
Liabilities to IMF, net	10	9	13	6	6	-9	-4	-3
Other net foreign assets (increase: –)	0	-13	10	0	0	0	0	0
Exceptional financing	347	27	-234	4	2	1	0	0
Change in arrears (increase: +)	347	27	-234	0	0	0	0	0
Clearance of arrears	-11	0	0	0	0	0	0	0
Financing gap	0	0	0	4	2	1	0	0
Memorandum items:								
Exports G&S growth, percent	2.1	-1.5	-3.9	13.2	4.4	4.8	4.7	5.0
Tourism growth, percent	-5.3	-16.9	7.0	8.6	6.9	6.8	6.9	6.9
Imports G&S growth, percent	6.3	-7.5	4.7	12.4	3.1	1.7	1.6	2.0
Exports G&S, percent of GDP	109	122	103	111	113	113	113	112
Imports G&S, percent of GDP	126	132	121	130	131	127	122	118
FDI (incl. loans), US$ million	166	163	221	201	168	141	119	99
FDI (incl. loans), percent of GDP	17.4	19.3	23.0	19.9	16.3	13.0	10.4	8.2
Gross international reserves (stock, e.o.p.)	73	197	252	263	283	309	335	361
Of which: program definition[4]	51	169	238	237	256	282	308	334
Months of prospective imports of goods and services	0.8	2.0	2.3	2.3	2.5	2.7	2.8	3.0
Scheduled public external debt service	93	112	80	22	25	34	41	48
(Percent of exports of goods and services)	8.9	10.8	8.1	2.0	2.1	2.7	3.2	3.5
Public and publicly guaranteed external debt [5]	798	761	483	503	528	539	546	539
(Percent of GDP)	83.3	90.2	50.2	49.8	51.1	49.6	47.8	44.8
GDP	958	844	963	1,011	1,034	1,087	1,143	1,205

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

[1] Includes major revisions in statistical methodology introduced in August 2011.

[2] Including coupons on the eurobonds, amortizing notes and bonds issued after the commercial debt exchange.

[3] Includes parastatals for which data is available.

[4] Excludes foreign-currency denominated required reserves held by banks and project and blocked accounts at the CBS.

[5] Includes outstanding IMF credit.

Table 3. Seychelles: Consolidated Government Operations, 2009–13 [1]

(Millions of Seychelles rupees; cumulative from the start of the year)

	2009	2010	2011							2012				2013
			Q1	Q2		Q3		Q4		Q1	Q2	Q3	Q4	
		Prel.	Prel.	Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**4,262**	**4,108**	**1,188**	**2,339**	**2,356**	**3,636**	**3,437**	**4,881**	**5,133**	**1,190**	**2,396**	**3,756**	**5,379**	**5,462**
Total revenue	3,793	4,007	1,117	2,076	2,251	3,251	3,305	4,405	4,674	1,072	2,222	3,502	4,941	5,117
Tax	**3,318**	**3,533**	**987**	**1,856**	**2,011**	**2,853**	**2,980**	**3,905**	**4,156**	**952**	**1,948**	**3,097**	**4,370**	**4,560**
Personal income tax	…	195	136	290	289	430	435	573	584	158	327	484	646	675
Social security tax	384	220	…	…	…	…	…	…	…	…	…	…	…	…
Trade tax	437	356	95	171	197	264	307	377	423	104	207	315	446	472
Excise tax	…	580	141	251	370	399	533	564	720	168	347	534	738	782
Goods and services tax (GST) / VAT [2]	1,349	1,047	278	567	545	851	854	1,216	1,215	304	635	968	1,377	1,392
Business tax	802	790	268	349	460	579	627	772	872	134	280	547	778	837
Other	346	346	55	202	116	290	174	350	279	61	104	175	287	301
Pension Fund contribution	…	…	15	27	34	40	50	54	64	24	49	73	97	100
Nontax	**474**	**474**	**130**	**219**	**240**	**398**	**325**	**501**	**517**	**120**	**274**	**405**	**571**	**557**
Fees and charges	182	191	43	99	101	150	160	199	272	44	103	159	220	226
Dividends from parastatals	148	206	76	81	107	193	122	235	194	60	140	198	290	268
Other	144	77	11	39	32	55	43	66	51	15	32	47	62	63
External grants	**470**	**101**	**71**	**264**	**105**	**386**	**132**	**476**	**459**	**118**	**174**	**254**	**438**	**345**
Expenditure and net lending	**3,666**	**3,815**	**874**	**2,244**	**1,872**	**3,432**	**3,180**	**4,667**	**4,941**	**1,136**	**2,264**	**3,555**	**5,112**	**5,161**
Current expenditure	3,328	3,194	709	1,618	1,467	2,505	2,527	3,455	3,712	906	1,823	2,801	3,904	3,965
Primary current expenditure	**2,284**	**2,482**	**607**	**1,425**	**1,308**	**2,192**	**2,206**	**3,050**	**3,338**	**781**	**1,641**	**2,486**	**3,529**	**3,581**
Wages and salaries	766	693	208	453	414	679	644	906	935	259	508	766	1,029	1,063
Goods and services	715	843	166	393	394	622	621	973	1,022	180	421	668	1,077	1,135
Transfers	783	935	233	600	490	937	928	1,241	1,362	342	701	1,039	1,405	1,367
Social program of central government	290	233	46	120	105	180	178	271	267	52	125	211	315	329
Transfers to public sector from central government [3]	180	349	88	274	194	449	444	559	676	188	378	519	672	604
Benefits and programs of Social Security Fund	313	353	83	168	155	252	250	337	344	81	155	240	326	341
Benefits Payment of Seychelles Pension Fund	…	0	17	37	36	56	56	75	75	21	44	69	92	92
Other	20	12	1	7	10	9	14	13	19	1	11	13	17	16
Interest payments due	**1,044**	**712**	**102**	**165**	**159**	**258**	**321**	**322**	**374**	**125**	**182**	**315**	**375**	**384**
Foreign interest	428	402	56	75	73	123	114	145	135	49	71	143	168	203
Domestic interest	616	310	46	89	86	135	207	177	239	76	111	172	207	181
Capital expenditure [4]	**608**	**1,009**	**158**	**625**	**391**	**926**	**628**	**1,211**	**1,216**	**232**	**446**	**761**	**1,216**	**1,199**
Net lending	-273	-389	7	1	14	2	24	2	13	-2	-4	-6	-8	-3
Primary balance	**1,640**	**1,006**	**416**	**260**	**643**	**462**	**578**	**536**	**566**	**179**	**314**	**516**	**642**	**686**
Overall balance, commitment basis [5]	**596**	**293**	**314**	**95**	**483**	**204**	**257**	**214**	**191**	**54**	**132**	**201**	**267**	**301**
Change in arrears	96	-3	18	-8	19	-8	15	-8	-6	0	0	0	0	0
External interest	321	90	18	0	21	0	21	0	0	0	0	0	0	0
Budget	-224	-92	0	-8	-2	-8	-6	-8	-6	0	0	0	0	0
Change in float [6]			-187	0	-175	0	-192	0	-192	0	0	0	0	0
Overall balance, cash basis (after grants)	**692**	**291**	**146**	**88**	**327**	**197**	**80**	**206**	**-7**	**54**	**132**	**201**	**267**	**301**
Financing	**-692**	**-291**	**-146**	**-88**	**-327**	**-197**	**-80**	**-206**	**7**	**-54**	**-132**	**-201**	**-267**	**-301**
Foreign financing	-52	236	-12	22	0	37	1	56	94	-12	-13	-17	98	-4
Disbursements	257	584	1	72	31	145	47	217	170	1	29	44	245	239
Project loans	137	247	1	72	31	145	47	217	170	1	29	44	155	143
Program/budget support	120	337	0	0	0	0	0	0	0	0	0	0	90	96
Scheduled amortization	-1,090	-554	-32	-69	-64	-126	-80	-179	-130	-13	-42	-61	-147	-243
Change in amortization arrears	-1,227	-2,811	18	18	34	18	34	18	0	0	0	0	0	0
Clearance of arrears	1,952	3,017	0	0	0	0	0	0	54	0	0	0	0	0
Debt service relief	56	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic financing, net [7]	-809	-665	-240	-130	-318	-344	-137	-458	-225	-57	-146	-242	-490	-367
Bank financing	-839	-279	-187	-96	-275	-288	-145	-391	-207	-52	-132	-218	-441	-331
CBS	-376	-131	-18	-68	-62	-68	10	-68	0	-400	-400	-400	-400	0
CBS recapitalization	0	188	…	…	…	…	…	…	…	…	…	…	…	…
Commercial banks	-463	-336	-169	-28	-213	-220	-156	-323	-207	348	268	182	-41	-331
Nonbank financing	30	-386	-53	-34	-43	-55	8	-67	-18	-6	-15	-24	-49	-37
Privatization and long-term lease of fixed assets	**232**	**156**	**28**	**65**	**54**	**101**	**64**	**146**	**100**	**9**	**14**	**37**	**97**	**53**
Statistical discrepancy	**-63**	**-18**	**78**	**-85**	**-63**	**-85**	**-8**	**-85**	**-8**	**0**	**0**	**0**	**0**	**0**
Fiscal financing gap	**0**	**0**	**0**	**41**	**0**	**94**	**0**	**134**	**45**	**7**	**14**	**21**	**28**	**17**
Memorandum item:														
External debt service due	1,519	957	87	144	137	249	194	324	265	63	113	204	315	446

Sources: Seychelles authorities and IMF staff estimates and projections.

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

[2] VAT replaces GST in July 2012.

[3] Includes subsidies to Air Seychelles.

[4] Includes contingency fund.

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

[6] Large negative amount in 2011 Q1 reflects the cash-in of checks issued at end-2010.

[7] Includes one-off operations in 2011 Q2: repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million).

Table 3. Seychelles: Consolidated Government Operations, 2009–13 [1] (continued)

(Percent of GDP; cumulative from the start of the year)

	2009	2010	2011							2012				2013
			Q1	Q2		Q3		Q4		Q1	Q2	Q3	Q4	
		Prel.	Prel.	Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**37.2**	**35.4**	**9.5**	**19.5**	**18.9**	**30.3**	**27.6**	**40.6**	**41.2**	**8.8**	**17.7**	**27.8**	**39.8**	**37.6**
Total revenue	33.1	34.5	9.0	17.3	18.1	27.1	26.5	36.7	37.5	7.9	16.5	25.9	36.6	35.2
Tax	**29.0**	**30.4**	**7.9**	**15.4**	**16.1**	**23.7**	**23.9**	**32.5**	**33.3**	**7.0**	**14.4**	**22.9**	**32.3**	**31.4**
Personal income tax	…	1.7	1.1	2.4	2.3	3.6	3.5	4.8	4.7	1.2	2.4	3.6	4.8	4.6
Social security tax	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Trade tax	3.8	3.1	0.8	1.4	1.6	2.2	2.5	3.1	3.4	0.8	1.5	2.3	3.3	3.2
Excise tax	…	5.0	1.1	2.1	3.0	3.3	4.3	4.7	5.8	1.2	2.6	4.0	5.5	5.4
Goods and services tax (GST) / VAT [2]	11.8	9.0	2.2	4.7	4.4	7.1	6.8	10.1	9.7	2.3	4.7	7.2	10.2	9.6
Business tax	7.0	6.8	2.1	2.9	3.7	4.8	5.0	6.4	7.0	1.0	2.1	4.1	5.8	5.8
Other	3.0	3.0	0.4	1.7	0.9	2.4	1.4	2.9	2.2	0.4	0.8	1.3	2.1	2.1
Pension Fund contribution	…	…	0.1	0.2	0.3	0.3	0.4	0.4	0.5	0.2	0.4	0.5	0.7	0.7
Nontax	**4.1**	**4.1**	**1.0**	**1.8**	**1.9**	**3.3**	**2.6**	**4.2**	**4.1**	**0.9**	**2.0**	**3.0**	**4.2**	**3.8**
Fees and charges	1.6	1.6	0.3	0.8	0.8	1.2	1.3	1.7	2.2	0.3	0.8	1.2	1.6	1.6
Dividends from parastatals	1.3	1.8	0.6	0.7	0.9	1.6	1.0	2.0	1.6	0.4	1.0	1.5	2.1	1.8
Other	1.3	0.7	0.1	0.3	0.3	0.5	0.3	0.6	0.4	0.1	0.2	0.4	0.5	0.4
External grants	**4.1**	**0.9**	**0.6**	**2.2**	**0.8**	**3.2**	**1.1**	**4.0**	**3.7**	**0.9**	**1.3**	**1.9**	**3.2**	**2.4**
Expenditure and net lending	**32.0**	**32.8**	**7.0**	**18.7**	**15.0**	**28.6**	**25.5**	**38.8**	**39.6**	**8.4**	**16.8**	**26.3**	**37.8**	**35.5**
Current expenditure	29.1	27.5	5.7	13.5	11.8	20.8	20.3	28.8	29.8	6.7	13.5	20.7	28.9	27.3
Primary current expenditure	**19.9**	**21.4**	**4.9**	**11.9**	**10.5**	**18.2**	**17.7**	**25.4**	**26.8**	**5.8**	**12.1**	**18.4**	**26.1**	**24.6**
Wages and salaries	6.7	6.0	1.7	3.8	3.3	5.7	5.2	7.5	7.5	1.9	3.8	5.7	7.6	7.3
Goods and services	6.2	7.2	1.3	3.3	3.2	5.2	5.0	8.1	8.2	1.3	3.1	4.9	8.0	7.8
Transfers	6.8	8.0	1.9	5.0	3.9	7.8	7.4	10.3	10.9	2.5	5.2	7.7	10.4	9.4
Social program of central government	2.5	2.0	0.4	1.0	0.8	1.5	1.4	2.3	2.1	0.4	0.9	1.6	2.3	2.3
Transfers to public sector from central government [3]	1.6	3.0	0.7	2.3	1.6	3.7	3.6	4.6	5.4	1.4	2.8	3.8	5.0	4.2
Benefits and programs of Social Security Fund	2.7	3.0	0.7	1.4	1.2	2.1	2.0	2.8	2.8	0.6	1.1	1.8	2.4	2.3
Benefits of the Pension Fund	…	0.0	0.1	0.3	0.3	0.5	0.5	0.6	0.6	0.2	0.3	0.5	0.7	0.6
Other	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.0	0.1	0.1	0.1	0.1
Interest payments due	**9.1**	**6.1**	**0.8**	**1.4**	**1.3**	**2.1**	**2.6**	**2.7**	**3.0**	**0.9**	**1.3**	**2.3**	**2.8**	**2.6**
Foreign interest	3.7	3.5	0.4	0.6	0.6	1.0	0.9	1.2	1.1	0.4	0.5	1.1	1.2	1.4
Domestic interest	5.4	2.7	0.4	0.7	0.7	1.1	1.7	1.5	1.9	0.6	0.8	1.3	1.5	1.2
Capital expenditure [4]	**5.3**	**8.7**	**1.3**	**5.2**	**3.1**	**7.7**	**5.0**	**10.1**	**9.8**	**1.7**	**3.3**	**5.6**	**9.0**	**8.2**
Net lending	-2.4	-3.3	0.1	0.0	0.1	0.0	0.2	0.0	0.1	0.0	0.0	0.0	-0.1	0.0
Primary balance	**14.3**	**8.7**	**3.3**	**2.2**	**5.2**	**3.8**	**4.6**	**4.5**	**4.5**	**1.3**	**2.3**	**3.8**	**4.8**	**4.7**
Overall balance, commitment basis [5]	**5.2**	**2.5**	**2.5**	**0.8**	**3.9**	**1.7**	**2.1**	**1.8**	**1.5**	**0.4**	**1.0**	**1.5**	**2.0**	**2.1**
Change in arrears	0.8	0.0	0.1	-0.1	0.2	-0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
External interest	2.8	0.8	0.1	0.0	0.2	0.0	0.2	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	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in float [6]	0.0	0.0	-1.5	0.0	-1.4	0.0	-1.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	**6.0**	**2.5**	**1.2**	**0.7**	**2.6**	**1.6**	**0.6**	**1.7**	**-0.1**	**0.4**	**1.0**	**1.5**	**2.0**	**2.1**
Financing	**-6.0**	**-2.5**	**-1.2**	**-0.7**	**-2.6**	**-1.6**	**-0.6**	**-1.7**	**0.1**	**-0.4**	**-1.0**	**-1.5**	**-2.0**	**-2.1**
Foreign financing	-0.5	2.0	-0.1	0.2	0.0	0.3	0.0	0.5	0.8	-0.1	-0.1	-0.1	0.7	0.0
Disbursements	2.2	5.0	0.0	0.6	0.2	1.2	0.4	1.8	1.4	0.0	0.2	0.3	1.8	1.6
Project loans	1.2	2.1	0.0	0.6	0.2	1.2	0.4	1.8	1.4	0.0	0.2	0.3	1.1	1.0
Program/budget support	1.1	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7
Scheduled amortization	-9.5	-4.8	-0.3	-0.6	-0.5	-1.0	-0.6	-1.5	-1.0	-0.1	-0.3	-0.4	-1.1	-1.7
Change in amortization arrears	-10.7	-24.2	0.1	0.2	0.3	0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Clearance of arrears	17.0	26.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	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 [7]	-7.1	-5.7	-1.9	-1.1	-2.6	-2.9	-1.1	-3.8	-1.8	-0.4	-1.1	-1.8	-3.6	-2.5
Bank financing	-7.3	-2.4	-1.5	-0.8	-2.2	-2.4	-1.2	-3.3	-1.7	-0.4	-1.0	-1.6	-3.3	-2.3
CBS	-3.3	-1.1	-0.1	-0.6	-0.5	-0.6	0.1	-0.6	0.0	-3.0	-3.0	-3.0	-3.0	0.0
CBS recapitalization	…	1.6	…	…	…	…	…	…	…	…	…	…	…	…
Commercial banks	-4.0	-2.9	-1.4	-0.2	-1.7	-1.8	-1.2	-2.7	-1.7	2.6	2.0	1.3	-0.3	-2.3
Nonbank	0.3	-3.3	-0.4	-0.3	-0.3	-0.5	0.1	-0.6	-0.1	0.0	-0.1	-0.2	-0.4	-0.3
Privatization and long-term lease of fixed assets	**2.0**	**1.3**	**0.2**	**0.5**	**0.4**	**0.8**	**0.5**	**1.2**	**0.8**	**0.1**	**0.1**	**0.3**	**0.7**	**0.4**
Statistical discrepancy	**-0.6**	**-0.2**	**0.6**	**-0.7**	**-0.5**	**-0.7**	**-0.1**	**-0.7**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Fiscal financing gap	**0.0**	**0.0**	**0.0**	**0.3**	**0.0**	**0.8**	**0.0**	**1.1**	**0.4**	**0.1**	**0.1**	**0.2**	**0.2**	**0.1**
Memorandum items:														
Nominal GDP	11,450	11,621	12,470	12,016	12,470	12,016	12,470	12,016	12,470	13,508	13,508	13,508	13,508	14,531
Public domestic debt (% GDP) [8]	33.9	32.8	27.8	30.2	28.0	28.4	29.4	27.4	28.7	26.1	25.4	24.7	25.8	21.5
Publicly guaranteed domestic debt (% GDP)	1.5	2.1	…	…	…	…	…	2.6	2.6	1.7	1.7	1.7	1.7	1.3

Sources: Seychelles authorities and IMF staff estimates and projections.

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

[2] VAT replaces GST in July 2012.

[3] Includes subsidies to Air Seychelles.

[4] Includes contingency fund.

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

[6] Large negative amount in 2011 Q1 reflects the cash-in of checks issued at end-2010.

[7] Includes one-off operations in 2011 Q2: repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million).

[8] 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, 2008–12

	2008	2009	2010	2011							2012			
				Mar.	June		Sep.		Dec.		Mar.	June	Sep.	Dec.
				Act.	Prog.	Act.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey														
Net foreign assets	2,105	2,897	3,644	3,984	3,941	4,340	4,075	4,051	4,098	4,131	4,311	4,463	4,598	4,876
Central bank	1,050	1,998	2,709	2,788	2,781	2,952	2,821	2,860	2,786	2,891	2,936	2,978	3,002	3,147
Deposit money banks	1,055	899	935	1,195	1,160	1,388	1,254	1,191	1,313	1,240	1,375	1,485	1,597	1,729
Net domestic assets	3,879	3,504	3,631	3,436	3,641	3,194	3,550	3,334	3,580	3,335	3,345	3,320	3,308	3,204
Domestic credit	5,949	4,783	5,658	5,697	5,912	5,551	5,754	5,711	5,700	5,772	5,798	5,790	5,792	5,684
Net claims on the government	3,082	2,243	2,573	2,386	2,542	2,308	2,350	2,438	2,247	2,376	2,325	2,245	2,159	1,936
Credit to the economy	2,867	2,540	3,085	3,311	3,369	3,242	3,404	3,273	3,453	3,396	3,473	3,546	3,633	3,748
Other items, net	-2,070	-1,280	-2,026	-2,261	-2,271	-2,356	-2,204	-2,377	-2,121	-2,437	-2,453	-2,470	-2,484	-2,480
Broad money	5,983	6,401	7,275	7,420	7,581	7,534	7,625	7,385	7,678	7,466	7,655	7,783	7,906	8,079
Currency in circulation	478	500	580	588	590	578	602	581	604	581	595	605	615	628
Foreign currency deposits	1,913	1,610	1,708	2,011	2,027	2,163	2,037	2,226	2,051	2,272	2,330	2,369	2,406	2,459
Local currency deposits	3,593	4,291	4,987	4,821	4,964	4,794	4,987	4,579	5,023	4,613	4,730	4,809	4,885	4,992
Central bank														
Net foreign assets	1,050	1,998	2,709	2,788	2,781	2,952	2,821	2,860	2,786	2,891	2,936	2,978	3,002	3,147
Foreign assets	1,207	2,207	3,087	3,177	3,243	3,410	3,290	3,320	3,318	3,365	3,460	3,540	3,551	3,708
Foreign liabilities	157	210	379	389	462	458	469	460	533	474	523	562	549	561
Net domestic assets	70	-702	-962	-1,016	-1,026	-1,223	-1,064	-1,133	-1,021	-1,126	-1,126	-1,138	-1,132	-1,237
Domestic credit	851	-657	-506	-486	-492	-716	-484	-672	-413	-570	-547	-534	-507	-600
Government (net)	1,099	724	780	762	712	728	712	801	712	791	391	391	391	391
Commercial banks	-22	-1,266	-1,135	-1,079	-1,035	-1,256	-1,027	-1,298	-955	-1,185	-762	-749	-722	-815
Other (parastatals)	-226	-114	-151	-170	-170	-188	-170	-175	-170	-175	-175	-175	-175	-175
Other items, net	-780	-45	-456	-530	-534	-507	-580	-461	-608	-556	-580	-604	-626	-637
Reserve money	1,120	1,296	1,746	1,772	1,755	1,728	1,757	1,727	1,765	1,765	1,810	1,840	1,869	1,910
Currency in circulation	478	500	580	588	590	578	602	581	604	581	595	605	615	628
Commercial bank reserves (includes cash in vault)	642	796	1,166	1,184	1,165	1,150	1,155	1,146	1,161	1,184	1,215	1,235	1,254	1,282
Of which: required reserves in foreign currency [1, 2]	…	170	193	215	264	299	265	302	267	313	319	325	330	337
required reserves in domestic currency [2]	745	467	545	547	657	708	660	684	665	727	743	753	763	777
Memorandum items:														
Gross international reserves (US$ millions) [3]	73	196	254	262	261	282	261	267	261	263	269	274	274	283
Foreign currency deposits (US$ millions)	115	144	140	165	163	179	161	180	162	176	180	182	184	186
Broad money growth (12–month percent change) [4]	29.0	7.0	13.7	13.0	16.0	15.3	11.1	7.6	5.5	2.6	3.2	3.3	7.1	8.2
Credit to the economy (12–month percent change)	48.6	-11.4	21.4	22.9	22.6	18.0	19.6	15.8	11.9	10.1	4.9	9.4	11.0	10.4
Reserve money (12–month percent change)	0.6	15.7	34.7	24.5	13.7	11.9	10.4	8.5	1.1	1.1	2.1	6.5	8.2	8.2
Money multiplier (broad money/reserve money)	5.3	4.9	4.2	4.2	4.3	4.4	4.3	4.3	4.4	4.2	4.2	4.2	4.2	4.2
Velocity (GDP/broad money; end of period)	1.5	1.8	1.6	1.7	1.6	1.7	1.6	1.7	1.6	1.7	1.8	1.7	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 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, 2007–11 [1]
(Percent, end of period)

	2007				2008				2009				2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Capital adequacy																		
Regulatory capital to risk weighted assets	20.4	21.0	18.2	18.2	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
Regulatory tier 1 capital to risk weighted assets	14.8	16.1	14.8	12.9	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
Capital to assets (net worth)	6.2	6.5	6.4	6.4	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	10.7
Net tangible capitalization [2]	6.2	6.6	6.5	6.5	7.0	6.6	7.1	8.4	9.6	8.7	9.8	9.9	9.4	8.8	9.1	9.3	12.5	9.8
Asset quality																		
Foreign exchange loans to total loans	24.1	25.1	28.7	30.8	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
Nonperforming loans to gross loans	3.7	2.9	2.5	2.3	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
Provisions as percentage of nonperforming loans	38.2	44.1	45.6	45.9	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
Earnings and profitability																		
Return on assets (annualized)	3.9	3.4	5.0	6.6	4.3	3.4	2.8	16.1	5.3	3.0	-0.2	3.2	3.4	5.0	3.0	3.7	4.1	3.5
Return on equity (annualized)	59.1	50.4	68.3	93.0	59.5	47.9	39.3	199.4	55.1	35.4	-2.8	32.4	33.6	54.3	33.7	40.0	43.1	35.9
Interest margin to gross income	60.0	66.1	57.9	46.0	58.7	62.8	58.3	24.2	62.1	83.7	105.5	68.6	56.5	60.2	59.9	50.6	43.8	48.5
Noninterest expense to gross income	35.5	39.7	33.3	32.3	33.2	43.5	49.4	17.8	36.4	48.7	116.5	49.1	44.0	52.0	47.6	39.9	39.7	44.0
Net interest margin (annualized) [3]	3.6	3.7	4.3	4.5	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
Net noninterest margin (annualized) [4]	0.3	-0.3	0.6	2.1	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
Expense to income	48.5	53.5	44.8	42.2	46.6	55.9	62.5	25.5	52.3	62.2	111.2	58.0	53.0	58.0	53.6	46.6	50.9	53.6
Interest expense to gross income	25.2	29.5	20.8	17.2	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
Liquidity																		
Core liquid assets to total assets [5]	19.2	18.6	11.4	10.0	30.8	34.6	36.4	37.8	36.0	35.0	37.7	43.2	43.5	44.7	44.7	46.9	47.0	46.9
Broad liquid assets to total assets [6]	54.8	55.8	44.3	39.4	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
Liquid assets (broad) to short term liabilities	57.3	57.5	46.7	40.8	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
Liquid assets (broad) to total liabilities	58.7	60.1	47.8	42.3	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	61.7
Liquid assets to deposit liabilities	64.0	64.5	52.5	46.0	68.3	72.4	71.7	66.4	63.1	63.8	71.4	69.4	72.4	72.0	69.1	69.1	55.6	47.4
Foreign exchange exposure																		
Net open foreign exchange position to capital	2.6	14.1	28.3	28.5	24.9	31.3	21.3	58.9	44.4	32.4	21.9	33.1	22.2	24.7	29.2	5.6	3.9	2.2

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, 2008-15

(in millions of SDR)

	2008	2009	2010	2011	2012	2013	2014	2015
Existing Fund credit								
Stock [1]	6.2	11.9	20.2	23.8	20.4	14.9	12.4	10.6
Obligation	0.0	0.1	0.2	0.4	3.7	5.7	2.6	2.0
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	3.4	5.5	2.4	1.8
Charges and interest	0.0	0.1	0.2	0.4	0.3	0.2	0.2	0.1
Disbursements	6.2	5.7	8.4	3.5				
Projected EFF								
Disbursements	0.0	0.0	0.0	0.0	7.0			
Stock [1]			0.0	0.0	7.0	7.0	7.0	7.0
Obligations [2]	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Stock of existing and prospective Fund credit [1]	6.2	11.9	20.2	23.8	27.4	21.9	19.5	17.6
In percent of quota	70.0	135.0	230.0	218.0	251.3	200.8	178.6	161.8
In percent of GDP	1.0	2.2	3.2	3.7	4.2	3.2	2.7	2.3
In percent of exports of goods and services	0.9	1.8	3.1	3.4	3.7	2.8	2.4	2.1
In percent of gross reserves	12.9	9.5	12.3	14.4	15.4	11.2	9.2	7.7
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	3.8	5.8	2.7	2.1
Principal (repayments/repurchases)		0.0	0.0	0.0	3.4	5.5	2.4	1.8
Charges and interest		0.1	0.2	0.4	0.4	0.3	0.3	0.2
In percent of quota	0.3	1.3	2.2	3.9	34.5	53.2	24.5	18.8
In percent of GDP	0.0	0.0	0.0	0.1	0.6	0.8	0.4	0.3
In percent of exports of goods and services	0.0	0.0	0.0	0.1	0.5	0.7	0.3	0.2
In percent of gross reserves	0.1	0.1	0.1	0.3	2.1	3.0	1.3	0.9

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.

APPENDIX
LETTER OF INTENT

December 23, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund

Dear Ms. Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) describes Seychelles' performance through September 2011, and sets out our policy and reform priorities for the reminder of the Extended Arrangement with the Fund.

2. **We request completion of the fourth review under our Extended Arrangement and the release of the seventh tranche of SDR 3.08 million (28 percent of quota)**. We have made significant progress in our reforms and the program remains on track. All quantitative performance criteria (PCs) at end-June 2011 and indicative targets for end-September were met with margins, and monetary and fiscal developments remain favorable. Two structural benchmarks for this review have not been implemented owing to capacity constraints. The end-June 2011 benchmark related to the optimal tariff study has been postponed because of administrative hurdles in securing donor financing and finding a qualified expert. These difficulties have been resolved now and we plan to complete the tariff study by July 2012 with the view to implementing a new tariff structure by end-September 2012. Pending this measure, instead of reinstating the electricity tariff adjustment to fuel prices (end-September structural benchmark), we raised electricity tariffs significantly to fully cover the cost and ensure financial viability of public utilities.

3. **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 reminder of 2011 and in 2012.

4. **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.

5. **We request a waiver of applicability for all end-December 2011 and relevant performance criteria.** The relevant information is not yet available, but we believe that these criteria will be observed.

6. **We also request the establishment of the performance criteria for end-June 2012**. It is expected that the fifth review under the arrangement will be completed by end-March

2012 and that the sixth and the final review be completed by end-September 2012. Financing assurance reviews will continue as long as public debt arrears to external private creditors remain outstanding.

7. **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/
Danny Faure
Vice President and Minister of Finance
Republic of Seychelles

/s/
Pierre Laporte
Governor
Central Bank of Seychelles

Attachments: MEFP and TMU

ATTACHMENT 1

SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011 AND 2012

A. Introduction

1. This document tracks progress after almost 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 May the 18th, 2011 and details our policies for the remainder of 2011 and 2012 to support completion of the fourth 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 forcing through some measures in areas where progress has been less rapid (e.g. public enterprises posing threat to budget).

B. Macroeconomic Performance and Outlook for the Remainder of 2011

3. **Macroeconomic outcomes to date in 2011 have turned out to be more favorable than expected despite a marked slowdown in growth in Western Europe (our primary tourism market).** Real GDP growth in 2011 is now projected at 5 percent, up from 4 percent projected at the time of the third review (June 2011), bolstered by buoyant tourism and canned tuna sectors.

4. **The increase in world commodity prices and costs associated with protecting imports from piracy threats continue to pass-through to higher consumer prices, but there is little evidence of impending inflationary pressures coming from second-round effects.** CPI inflation has increased from close to zero at end-December 2010 (year-on-year) to 3.3 percent as of end-September, largely due to higher fuel and electricity prices and is expected to peak at 5.4 percent at the end of the year. The nominal effective exchange rate has been roughly stable, with the depreciation of the rupee against the dollar largely offset by its appreciation against the euro. However, exchange rate movements between the euro and the dollar have negatively impacted our terms of trade. We have nonetheless continued to rebuild our gross international reserves, which now reached 2.4 months of prospective imports of goods and services.

5. **The current account deficit continues to be financed by sizeable net FDI inflows and capital grants.** Major revisions to balance of payments data were recently released, based on our first comprehensive survey implemented for 2010 with technical assistance provided by the IMF Statistics Department. The revised figures indicate that the current account deficit is smaller than previously reported, largely due to upward revisions to our exports of services. Despite these revisions, the current account deficit remains large, projected at around 22 percent of GDP in 2011, but is largely financed by non-debt incurring capital inflows, with net FDI inflows projected at 20 percent of GDP in 2011, enabling us to maintain the external debt burden on a clear downward profile over the medium term.

C. Program Implementation in 2011

6. **We achieved the quantitative targets of the program.** All quantitative performance criteria as of end-June and all indicative targets as of end- September 2011 were met (Table 2), and end-December targets appear achievable.

7. **Our fiscal policy stance in 2011 is expected to be slightly above our objective set at the last review, with revenue and expenditure larger than projected.** The surplus in the primary balance should be around 4.7 percent of the GDP projected at the beginning of the year.[4] Based on tax revenue collection through end-September, we project to exceed our government revenue objective in 2011 by about 2 percent of GDP (somewhat less than last year). As of end-September, revenue over performance is mostly attributable to the strong economy and imports, as well as successful efforts to collect business tax arrears. We have maintained an extensive capital budget for 2011 to ensure significant improvement in national public infrastructure. This has been spent primarily on the utility company, which amongst its many projects included the purchase and installation of water desalination plants to cope with the longer dry periods. Additionally, the completion of over 300 housing units on Perseverance Island will help ease the shortage of housing on the market. Through two supplementary budget laws in June and in October, we made parallel appropriations, mainly for unexpected expenditures to cover the temporary stabilization of a few sensible prices (0.4 percent of GDP), emergency support for our national airline (1 percent of GDP), an early parliamentary election (0.2 percent of GDP), as well as unforeseen costs for the organization of the Indian Ocean Island Games. In line with recent years' practice, we are projecting to save about 0.2 percent of GDP of the extra revenue to accelerate our debt reduction.

8. **We have tightened monetary policy since the beginning of 2011 to absorb the excess liquidity in the banking system and to prevent a second-round of domestic inflation.** Monetary aggregates have been kept under control through hikes in reserve requirements and sterilization operations that had led to a marked rise in market rates (three month T-bill rates have risen from 0.5 percent in the first quarter of the year to 5 percent since June). Private sector credit growth over the twelve months ending in September has nonetheless reached 16 percent. In view of the remaining domestic price increase needed to complete the pass-through of international prices, we plan to maintain the monetary policy stance through the end of the year.

9. **We are implementing our structural reform program, although with some delays.** Two elections and unexpected events such as a severe draught slowed down actions that had been scheduled as structural benchmarks for end-June and end-September 2011 (Table 3). However, we have been catching up in the recent weeks. The completion of a tariff study for the public utility company is pending due to unexpected difficulties to recruit a consultant. The consultant is being recruited with the assistance of the World Bank and the study should be available by end-June 2012, in time to prepare for a comprehensive electricity and water tariff reform by end-September 2012. Although we have not formally reinstated the electricity tariff adjustment for fuel price variation at end-September 2011 as envisaged, we have adjusted twice this tariff in August and November 2011, and stand ready to adjust it further as needed, pending this comprehensive tariff reform.

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[1] Significant revisions in nominal GDP for the 2008–10 period have led to a 4 percent increase in nominal GDP projection. As a result, the primary balance expressed in percentage points of the revised GDP is 4.5 percent.

10. **Despite the adoption of several measures, the restructuring of Air Seychelles is experiencing further difficulties.** We have appointed a new CEO, a professional aviation manager, with a mandate to promptly bring the company back to profitability, stopped flights to four loss-making destinations, retired four planes, including two old planes that had excessive operational and maintenance costs and renegotiated slightly more favourable terms for a code-sharing agreement. Despite these measures, the company's losses have not been reduced in part due to the loss of a contract for profitable charter activity. This and adverse short-term prospects with the beginning of two international carriers' activity in Seychelles from November 2011 forces the company to further downsize its activity (see ¶16).

D. Macroeconomic Outlook for 2012 and Beyond

11. **With tourism earnings continuing to exhibit resilience in the wake of growing uncertainty surrounding growth prospects in Europe, growth is expected to decline modestly to 4 percent in 2012, with the balance of risks tilted to the downside**. Our aggressive global pricing and marketing strategy (selling a more affordable Seychelles to diversified tourist populations, including in rapidly growing emerging market economies), combined with our open sky policy that continues attracting more carriers should offset the fragility of the world recovery, and in particular the slowing down in the Eurozone.

12. **Despite large downside risks, there are grounds for optimism over the medium term.** The vast improvement in communications which will follow the installation of Seychelles' first submarine cable is expected to lead to growth and diversification of the economy. Traders and fishing operators (both domestic and foreign) have incorporated practices to address piracy risks, and activity in these sectors is picking up to pre-2008 levels. We have also received assistance from a number of partner countries who are helping us combat the threat of piracy in the Indian Ocean. The large increase in flights and construction of new hotels will be a source of continued growth in tourism activity in the country. The external current account deficit is projected to contract in the medium term. At the same time, good progress in the planned reduction of the public debt is expected to boost investor confidence and maintain substantial inflows of foreign capital, mainly in the tourism industry.

E. Policies for 2012 and Beyond

Fiscal Policy

13. **We are committed to maintain a sustainable fiscal policy, in line with our strategy to bring public debt below 50 percent of GDP by 2018.** Assuming the continuation of a strong revenue performance and a smaller volume of one-off expenditures in 2012, we plan to increase the primary surplus target for 2012 to 4.7 percent of the revised GDP against 4.5 percent in 2011 with a view to accelerate our debt retirement obligations.

14. **Revenue collection in 2012 is projected to slightly decrease in percentage of GDP in 2012 with the expected reduction in business tax arrears.** Positive factors include the impact of the increase in the GST rate for the tourism sector from 12 to 15 percent in November 2011and the strengthening of tax and customs administrations. The introduction of a single-rate value added tax (VAT) in July 2012 will crown the major tax reforms that started under the first Fund-supported program in 2008. It is expected to be revenue-neutral in the medium term; the two-month delay in processing VAT refunds will improve slightly our tax collections in 2012. Over the medium term, we plan to stabilize the revenue-to-GDP ratio at around 35 percent.

15. **Most current expenditures will be tightly contained in 2012 to maintain a high level of capital expenditures.** The wage bill is projected to decline slightly in percentage of GDP. The nominal increase will reflect the hiring of qualified staff in areas where the administration suffers from bottlenecks (attorney general office, revenue commission, social welfare administration, statistics), mid-year changes in our pay scale (scheme of services) to retain our most skilled civil servants, as well as modest wage increases, targeting mainly the lower end of the pay scale. Given the recent and forthcoming price adjustments in the basket of goods defining minimum living standards, targeted social transfers through the Social Welfare Agency will also increase in 2012. However, the additional cost of this targeted support (0.2 percent of GDP) will be far lower than the cost of the Stabilization Fund in 2011, now discontinued. Purchases of goods and services incorporate allocations for the proper functioning of new facilities that were granted to Seychelles in 2011, in particular two health centres. Capital expenditures will focus on infrastructure to cope with the expansion of our tourism capacity and on priority social needs.

16. **Air Seychelles is implementing further drastic steps to streamline its loss-making activities, limit the need for budget assistance in 2012, and break-even by 2013.** The company will cut losses by eliminating its loss-making long-haul flights and focus its operations on local and regional destinations, starting April 2012. We are budgeting the equivalent of 1.2 percent of GDP to help the company cover its debt servicing costs for loans taken in 2010 and 2011, as well as operational losses and one-off downsizing costs (penalties for early lease cessation) during the first part of the year.

17. **In line with the new PFM legislation adopted by the Cabinet, we have included a contingency appropriation in the 2012 budget which we will only activate in the case of unforeseen expenses.** This appropriation replaces the contingency fund and the stabilization fund. This will in particular cover the budget risks associated with piracy, natural disasters, and further sharp increases in international food and fuel prices. It has been set at SR 75 million, about 1.5 percent of the total budget appropriations for 2012 and 0.6 percent of GDP. In the event that there are no unforeseen expenses in the first half of the year, and revenue remains on track through end-June we plan to release progressively this reserve for capital investment projects, starting in July 2012**.**

Tax and Customs Reform

18. **We will pursue efforts to modernize the Seychelles Revenue Commission, notably in the customs administration area.** With the technical assistance of the IMF and the EU, we are also preparing for the effective launching of the VAT.

19. **The enacting of the new Customs Management Act provides a strong opportunity to improve the efficiency and governance of the SRC's Customs Department.** The Bill was initially submitted to the National Assembly in December 2010, and the latter requested that the Bill be completely reviewed. This was carried out by a special Committee, and the revised Bill was approved by the newly elected Assembly in December 2011. The Act will become operational in June 2012, giving sufficient time for the development of supporting regulations, staff training, outreach for importers, agents and the general public.

20. **Customs collection and fight against fraud will be improved by the introduction of a single tax identification number (TIN) by October 2011.** The SRC will be repealing

the Seychelles Business Number Act, which refers to the Business Number by October 2011 and amending the Revenue Administration Act and Seychelles Revenue Commission Act accordingly.

21. **The Customs' automated data system will be linked with the domestic tax system by December 2011 to facilitate information exchange.** Combined with the introduction of the TIN, this should facilitate analysis, auditing and tracking of entities to facilitate revenue administration. Customs will upgrade to ASYCUDA World in 2012 with support provided by COMESA. The work is being carried out by the Customs reform team appointed in April 2011 in conjunction with the Government's Department of ICT.

22. **Risk Management and Post Clearance Audit (PCA) in Customs have been earmarked as two key priorities under the Customs modernization program.** In July 2011, the PCA unit was formerly established in Customs. Building capacity of the unit is ongoing with assistance from regional customs administrations Technical assistance on developing a risk management strategy for Customs was also provided by the IMF Africa Regional Technical Assistance Centre (AFRITAC) South, in October, 2011.

23. **Current Standard Operating Procedures (SOPs) for Customs will be updated in line with the Customs Management Act and regulations which reflect current international best practices as prescribed by the WCO Revised Kyoto Convention**. Priorities have been identified for the development and review of SOP's in Warehouse Management, Export Procedure and Temporary Importation. The development of these SOP's will facilitate the transition to VAT.

24. **Effort continues to promote integrity within SRC.** We will receive technical assistance from WCO in January 2012 to assist with the development and implementation of an integrity/ethics framework for SRC by 2013.

25. **SRC continues to focus on improving revenues through audits of top taxpayers, including those in the tourism sector.** SRC has recently completed a review of potential sources of transfer pricing and is in the process of enhancing its capacity to ensure full compliance under its competitive tax regime. Government will in parallel be undertaking a review of guidance on revenue booking practices and expense deduction within the hotel industry.

26. **A smooth launching of the VAT on July 1, 2012 to replace the existing Goods and Services Tax is our main objective for this year.** In this regard, our preparation is on schedule. We have published the applicable rate (15 percent) and the threshold for mandatory registration for the Value Added Tax. These rates, based on projections done by the Ministry of Finance, are consistent with the advice of the IMF VAT mission in February 2011 and revenue neutrality. A resident IMF expert, whose funding for 18 months is covered by an EU grant, is assisting the SRC in developing skills, procedures, and manuals necessary to secure a successful transition. The work includes:

a. On-going meetings with the public and private entities to increase awareness of the VAT Act and its repercussions.
b. Employing new staff to facilitate the implementation of VAT (8 so far), and recruitment will continue in 2012.

c. Amending the Revenue Administration Act to ensure consistency of definitions of business size with the VAT Act.

Public Financial Management (PFM)

27. **We are committed to further improvements in the management of public finances in 2012, notably in the area of budget preparation, accounting procedures, and budget executions.** The revised action plan addresses inherent weaknesses and focuses on the sustainability of reforms made to date, drawing from a recent Public Expenditure and Financial Accountability (PEFA) assessment and the report of the recent IMF Fiscal Affairs Department mission.

28. **Our Cabinet has approved a new Public Finance Bill which incorporates recently improved practices into legal requirements and introduces additional strengthening of budget processes.** When the law is approved by the National Assembly and becomes effective (at the time of the 2013 budget presentation), improved information requirements and procedures such as a mid-year execution report and technical justifications underlying budget preparations will become legal requirements. In addition, capital expenditures will be integrated in the budget law and subject to parliamentary approval. In particular, the new Bill requires the integration of the development fund— used to fund capital projects of some public entities involved with public infrastructure—into the Budget document.

29. **We will revise our Financial Instructions and Accounting Manual by September 2012.** The manual will be revised for coherence with the newly approved Public Finance Bill as well as the International Public Sector Accounting Standards (IPSAS). Staff in all the ministries and departments will undergo training in 2012 to facilitate the successful transition to the requirements of the new manual. Capacity building for the implementation of IPSAS shall commence in the first quarter of 2012. The centralized procurement management system will be upgraded to facilitate the eventual transition to accrual-based IPSAS.

30. **We will introduce a Public Sector Investment Program (PSIP) with the 2013 budget.** The framework for the PSIP – which maps capital expenditure projects over five years—will be submitted to Cabinet by September 2012. The PSIP will help plan the borrowing requirements for financing investment whilst keeping the public debt at sustainable levels. The introduction of these standards will enhance the credibility and comparability of our published accounts. The PSIP will be the basis for the National Development Plan.

31. **The new Chart of Accounts–called to facilitate the analysis of expenditure and budget preparation–is now scheduled to be introduced next year, for the preparation of the 2013 budget.** The time required to migrate all ministries and departments between Charts was underestimated, (MoF will be providing extensive training to accounting staff of other ministries and departments) thereby preventing implementation before Budget 2012.

32. **Program-based budgeting remains a target for the medium term**, and the new Chart of Accounts is designed to incorporate it. The two biggest ministries (Health and Education) shall start migrating towards this type of budgeting in the second half of 2012. The rest of Government will be phased in gradually, with Budget 2015 being the target for the first fully program-based Budget.

33. **As part of a strategic plan adopted by the Cabinet, we have passed necessary legislation establishing a new entity, named Agency for Social Protection, which is the first step** to ensure that synergies are obtained, and will make it easier to monitor and control statutory and means-tested benefits since all will be administered by this new Agency. SSF assets were frozen when the SSF contributions were replaced in July 2011 by a personal income tax and the budget took over the payment of the fund's benefits. The remaining assets will be transferred to a new Fund to be managed by a Board of Trustees as per approved investment policies and guidelines. The income generated by these assets will be used to improve the social protection of all Seychellois. Legislative amendments will be made to the Social Security Act 2010 and Social Security (Board of Trustees) Regulations 2011 in order to eliminate conflicting and discretionary provisions, ensure transparency in the management of the Fund and refine the mandate of the new SSF. The Board of Trustees (BoT) has been appointed to oversee the management of these assets. Amendments to the regulations governing the BoT will also provide it with the mandate to submit proposals to the government on the investment strategy and on the use of the income (in conformity will the objectives established by the law), and to manage the use of the income generated by the Fund.

34. **We will increase mandatory contributions to the Seychelles Pension Fund (SPF) to ensure progress toward the Fund's long-term sustainability.** The SPF is largely underfunded according to the 2008 actuarial audit. A new audit released in November 2011 provides updated guidance on the further measures that may be necessary over the medium term elements to ensure that the SPF is fully funded. As a first step, both employer and employee contribution rates will be raised from 1 percent to 1.5 percent.

Monetary and Exchange Rate Policies

35. **The Central Bank will continue to maintain reserve money targeting as its monetary policy framework**. By relying primarily on a wide range of market-based instruments at its disposal, the CBS will ensure that it maintains a monetary policy stance that is consistent with its price stability objective. Broad money is projected to grow slightly less than nominal GDP to contain inflation. With net claims on the government expected to decline on account of large fiscal surpluses, the crowding-in effect should allow for a healthy private credit growth.

36. **The issuance of Treasury bills for monetary policy purposes will facilitate the CBS's liquidity management efforts.** A draft memorandum of understanding between the central bank and the Treasury is being prepared to spell out the modalities. It provides for Government to park the proceeds of the T-bill issuance in a blocked account at the central bank, and to bear the interest cost on the issued T-bills.

37. **We will maintain the floating exchange rate regime to allow the rupee to adjust to global developments as well as domestic market conditions**. The CBS remains firmly committed to only intervene in the foreign exchange market to smooth out excessive volatility and to ensure orderly market conditions. In line with program objectives, the CBS will continue to aim at building up international reserves to reach the equivalent of three months of prospective import coverage. This should provide Seychelles with adequate buffer against external shocks given the country's openness and dependency on the world economy.

38. **The CBS will continue to strengthen its reserve management practices**. It continues to place the bulk of its reserves with the Bank for International Settlements (BIS). Besides its reserve management services the BIS program also provides training for CBS staff. The CBS had initiated discussions with the World Bank to begin using its Reserve Asset Management Program (RAMP).

39. **Progress has been made in promoting competition and enhancing transparency in the banking sector.** The financial literacy campaign is on the right track. CBS has issued guidelines in October 2011 on disclosure requirements of banks' terms and conditions, which inter alia, deal with the minimum information that banks need to disclose to their clients on loans, dormant accounts and bank statements. In relation to the financial literacy program, articles have been published in the local newspapers to educate the public on issues pertinent to central as well as commercial banking, various presentations have been delivered to target audience and a CBS' open day was organized.

40. **The CBS remains committed to ensuring effectiveness in the supervision of the financial sector.** The amendments to the Financial Institutions Act, 2004 that were approved by Cabinet in June 2011 and are scheduled to be put before the National Assembly by end-2011, further strengthen the supervisory framework. Data collected offsite from supervised institutions will be more systematically validated, analyzed and maintained through the use of a statistical and supervisory application. Onsite inspections remain a strong supervisory approach that CBS continues to adopt; from the second half of 2009 to the first quarter of 2012 a full cycle of onsite examinations of all banks and quasi-bank institutions is expected to have been completed.

41. **The CBS continues to work toward strengthening the insurance regulatory framework.** The technical assistance financed by the FIRST Initiative has started this year and is expected to address limitations in the legal framework and supervisory approaches. The report from the first TA mission is being reviewed by CBS staff.

42. **Seychelles remains committed to fight money laundering and financing of terrorism.** We recently made some amendments to the Anti-Money Laundering Act, to enhance the independence of our Financial Intelligence Unit (FIU) and establish a time-frame for its freezing of suspected assets. These amendments should facilitate international coordination, including through Seychelles' entry into the Egmont group.

CBS Operations and Governance and Financial Sector Reforms

43. **The central bank's Internal Audit Division (IAD) adopted the Institute of Internal Auditors' (IIA) framework in January 2011**. The standards require that IAD has in place a Quality Assurance and Improvement Program (QAIP) to ensure that the function adds value to the organization. Whilst internal assessment reviews are carried out on a periodic basis, an external Quality Assessment Review (QAR) of the QAIP has to be performed at least once every three years to ensure its effectiveness. In line with the standards, an external assessment of the QAIP will be conducted in December 2013.

44. **The National Payment System project is being implemented in accordance to our reform and modernization strategy**. The CORE Banking System provides the platform for future payment system integration such as the introduction of the Electronic Clearing House and Electronic Funds Transfer which is scheduled to go live during the fourth quarter of 2012 and second quarter of 2013, respectively. This will be followed with the implementation of a

local rupee switching system and the Real Time Gross Settlement system. With the implementation of the above projects, the customers will greatly benefit from a more secure and efficient payment system infrastructure. Since the implementation of the CORE Banking System in December 2010, the new system has changed the way CBS provides banking services to Government and commercial banks. This has brought additional benefits to the market by providing commercial banks and the Government more efficient payment, clearing and settlement facilities. In addition, the system has greatly improved the internal control processes of the central bank's operations.

45. **The CBS has adopted the International Financial Reporting Standard (IFRS) from the financial year 2009. This has allowed for a better reflection of the operations of the Central Bank in its Audited Financial Statements**. The internal control system of Banking Services operations has further improved with more segregation of duties by separating the front, middle and back office functions, for which only the back office functions remain with the Banking Services Division. The front and middle office functions are now under the domain of the Financial Markets Division.

46. **The CBS will launch a Credit Information System (CIS) in early 2012**. The CIS will promote a competitive financial system and a more efficient risk-pricing mechanism for products offered by financial institutions, and will serve as an incentive for clients to maintain good financial relationships with such institutions. It will initially be housed within the central bank, with the view of extending it to a full fledge privately run credit information bureau in the future. A first draft of the regulations governing the activities of the different participants of the CIS has been prepared, and the setting up of the IT platform is under way.

47. **The CBS has begun discussions with the Judiciary to put in place a commercial court that will be tasked with handling financial disputes.** The establishment of the court is expected to reduce the significant backlog of commercial cases due to capacity constraints. Long delays in the resolution of financial disputes is one major weakness in Seychelles' business environment and the proposed commercial court, along with the CIS, would thus complement the Government's efforts in improving the overall business climate.

48. **We have made major strides toward the establishment of a Seychelles stock exchange.** In July 2011 we launched an international tender for the exchange. A national committee has since been established to consider the applications. A decision on the award of the license for the exchange will be made before end 2011 such that the exchange could be operational in 2012.

Table 1: Matrix of Actions in the Financial Sector Area

Action	**Deadline**
Issuance of regulations for operation of Credit Information System	December 2011
Implementation of the Credit Information System	February 2012
Implementation of Statistical and Supervisory Application	September 2012
Implementation of the Quality Assurance and Improvement Program for CBS' Internal Audit Division	September 2012
Implementation of Electronic Clearing House system	October 2012
Review of the Insurance Regulatory framework	December 2012
External review of the Quality Assurance and Improvement Program	December 2013
Implementation of Electronic Funds Transfer	June 2013

Reform of Public Enterprises and Private Sector Development

49. **We will continue to make progress on laying the foundations for a sustainable private sector-led growth.** To this end, we will continue to reduce and redefine the role of the state in the economy, and reform and downsize the public sector. In coordination with the World Bank, we have begun a comprehensive review of the obstacles to starting and operating a business in the country. In early 2012 we will begin to implement several measures aimed to:

- speed up procedures to start up and closing businesses by reducing the number of procedures, time and cost to register a company;
- make the process of obtaining a construction permit faster and cheaper;
- speed up procedures for registering a business by allowing for more efficient and less costly transfer and registration of property titles;
- improve access to credit by allowing more flexibility in the use of collateral to secure loans
- enhance efficiency in paying taxes by reducing administrative burdens on companies to comply with tax requirements;
- enhance trading across borders by reducing the number of documents and time to trade; and
- strengthen procedures for the enforcement of contracts by streamlining the time, costs and procedures involved in enforcing a contract:

50. **Cabinet has approved a strategic plan for privatizations, starting with companies in which the state retains minority shares.** In 2012, we plan to sell our shares in cargo handling and stevedoring (Land Marine), ship repair (Naval Services), and insurance (Sacos Insurance Company Limited). When necessary, prior to the privatization of some of these

enterprises, we will take additional measures, including regulatory changes to prevent the emergence of private monopolies.

51. **Public Utilities Corporation (PUC).** Efforts to restore financial viability to PUC will continue. The electricity tariff was increased by 5 percent in August, and a further 24 percent is being implemented in two steps in November 2011 and January 2012. This increase will allow PUC to overcome losses incurred due to current fuel price increases. PUC stands ready to revise tariffs further if fuel prices rise above those prevailing to PUC in Oct 2011. PUC will prepare for the introduction of a new tariff structure by end-September 2012, based on the tariff study due to start early in 2012 by externally funded experts. The energy commission is preparing a new Energy Act to modernise the legal framework surrounding the production of energy. New features expected under the framework will allow for competition in the production of energy whilst providing for consumer protection. The new act will support energy efficiency as well as standards and will promote the application of renewable energy systems. These measures could lead in the long run to lower capital grants to finance infrastructure. PUC has adopted, with the help of multilateral and bilateral partners a Water Master Plan which will guide the investment decisions over the next four years and will benefit from external, concessional financing.

52. **Government has successfully sold over 23 percent of its shares in the Seychelles Savings Bank.** We offered SSB account holders the opportunity to buy 40 percent of shares. Following the first round, approximately 60 percent of the shares on offer were bought. We are now working on the modalities to sell the remaining shares (i.e. just under 17 percent of SSB) in Phase II.

53. **Efforts to sell government's stake in Nouvobanq have been put on hold due to the weak appetite for banking assets globally.** Strong progress continues to be made in ensuring that Nouvobanq is a sound, profitable, and independently run bank providing finance to the private sector. However, market conditions for privatization are presently unfavorable.

54. **Development Bank of Seychelles (DBS).** DBS continues to play an important role in the financing of the private sector, disbursing more than SR 120 million through the third quarter of 2011. Since the last review, DBS has achieved a positive lending margin after expenses by raising its lending rate and issuing medium–term, government-guaranteed, rupee bonds that match the average life of its loans. Over the same period, the government and DBS have begun preparations on a new mandate for DBS, which will be submitted to Cabinet by December 2011. DBS will be re-structured with a clearly defined mandate described within its memorandum and articles of association. The objectives will be to ensure that DBS is financially viable whilst targeting the financing of higher-risk small enterprises that commercial banks would normally be reluctant to finance, such as those in a start up phase. Other key features of the DBS reform will involve strengthening its governance and independence, introducing risk-based pricing framework, and imposing appropriate limits on the size of the loans. Pending the introduction of this new mandate and the risk-based lending and pricing framework, the bank will review the backlog of applications approved already with a view of identifying those that fit DBS's new mandate. In addition, the bank will promptly address the CBS's recent on-site examination report.

55. **We have reviewed the housing policy of government to increase the role of the private sector in the housing market**, in line with our Cabinet-endorsed strategic plan for

house financing that has been just finalized. The Government plans to reduce the budgetary cost of addressing the significant pent-up demand for housing and limited commercial bank financing for lower income applicants. In the short term, given the high construction and financing costs relative to the average household income, government institutions, in particular the House Financing Cooperation (HFC), will have to continue to play a direct role in the provision of low–cost housing and mortgages. However, over the longer term our objective is to limit state interventions to the construction of social housing for the most vulnerable households. For others, we will introduce the system of "smart subsidies" the goal of which is to combine budget subsidies with the provision of housing finance loans at market rates from commercial banks and other lenders. This approach will reduce the budget cost of loan programs presently administered by the HFC, and promote affordable real estate financing for lower income groups on commercial basis. We will work with commercial banks on possible ways to increase their provision of housing finance, exploring in particular the creation of a special housing loan scheme through which government subsidies for lower income groups could be channeled. Meanwhile, we will tighten the eligibility criteria for HFC loans. We have started modernizing HFC, and will modify its mandate to ensure a clean institutional and accounting separation between its property management functions (leasing and sale of government-built houses) and its mortgage lending activities. The recent on-site supervisory examination by the CBS has revealed a number of deficiencies in governance, operations and accounting of HFC, which we plan to address promptly. We will also strengthen HFC's governance and operations to make it a financially viable institution.

Trade Policies

56. **Seychelles will continue to work towards WTO accession with a view to achieving membership by 2014.** Our import tariff regime is already highly liberal, with more than 94 percent of all tariff lines set at zero. Seychelles maintains also its commitment towards regional integration, with particular emphasis on joining the SADC Free Trade Area by the end of 2012. Our active trade policy has an overall objective of increasing potential import and export markets and encouraging investment (regionally and globally).

External Public Debt and Financing

57. **Our external debt restructuring is close to completion. We signed final agreements with two bilateral creditors** and one commercial creditor since the beginning this year. Agreements on the restructuring of the remaining debts in arrears (one export credit extended by India, and another involving South Africa and a private partner) await signatures. These three claims account for less than US$9 million.

58. **To ensure progress toward our objective to reduce external debt, we intend to limit our contracting or guaranteeing of new external loans to the equivalent of US$40 million in 2012.** These loans will be mainly used to finance infrastructure projects**.** Our annual debt strategy update will be presented to the National Assembly together with the 2012 budget.

59. **We will strengthen the government control of public entities' investment projects**. Starting in 2012, a committee, chaired by the Minister for Finance, will review all public projects of a magnitude greater than SR 25 million and assess their macro-economic impact and their risks to the budget, including for those that do not necessarily need a

government loan or a sovereign guarantee. This assessment will inform Cabinet decision on these projects.

Petroleum Exploration

60. **We have begun institutional preparations in case oil exploration planned for next year discovers commercially viable oil deposits.** Initial seismic tests indicate the potential presence of oil in Seychelles' economic zone. Test drilling is expected to begin in late-2012 and, if successful, oil could flow as early as 2014. To coordinate all aspects of oil exploration and oil wealth management, we have established a high-level oil coordination unit, which will bring together all parties involved (the Ministry for Energy, the Finance Ministry, the Central Bank, and SEYPEC, our public enterprise that imports and distributes petroleum products in the country). The unit would be responsible for formulating legislation, oil wealth management principles, and for interacting with international oil companies. The government and SEYPEC are receiving technical assistance on oil-related issues from a number of bilateral and multilateral donors, and IMF is scheduling a mission to assist with the management of any potential oil revenues.

Statistics

61. **As part of our strategy 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 plans to complete by end-2011 the compilation of a partial International Investment Position (IIP) statement, covering the public sector and commercial banks. Efforts are also being made to improve 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.

62. **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.

63. **We are currently undertaking a labour force survey and preparing for the launching in 2012 of a household budget survey.** We are also engaged in the Harmonised Consumer Price Index project of the COMESA and in an International Comparison Program coordinated by the African Development Bank.

64. **Additional budget resources have been granted to the National Statistics Bureau in 2012 for human capital and institutional capacity building.** A training program will also be put in place for the new recruits such that the statistical knowledge can be imparted.

F. Program Monitoring

65. **The program will continue to be monitored through semi-annual reviews, with semi-annual quantitative performance criteria and disbursements, in line with the MEFP of May 16, 2010.** The quantitative performance criteria for 2011 are shown in Table 2. The structural benchmarks are shown in Table 3. The attached revised Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and adjusters under the program.

66. 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 2. Quantitative Performance Criteria Under the Extended Arrangement, 2011-12
(Millions of Seychelles rupees; end-of-period)

	2011							2012			
	June			September			December	March	June	September	December
	Performance Criteria	Adjusted	Actual	Indicative Target	Adjusted	Prel.	Performance Criteria	Indicative Target	Performance Criteria	Indicative Target	Indicative Target
Performance criteria											
Net international reserves of the CBS, millions of U.S. dollars (floor) [1]	204	204	219	203	197	205	199	202	204	204	213
Reserve money (ceiling)	1,755	…	1,728	1,757	…	1,727	1,765	1,810	1,840	1,869	1,910
Primary balance of the consolidated government (cumulative floor) [2]	240	…	643	462	…	578	536	179	314	516	642
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]	33	…	0	46	…	14	47	30	30	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
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
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
Memorandum items:											
Net external non-project financing (millions of U.S. dollars; cumulative) [2, 4]	-0.6	…	-1.1	6.8	…	1.0	1.6	-4.1	-5.5	-9.9	-0.6
Program accounting exchange rates											
SR/US$ (end-of-quarter)	12.15	…	…	12.15	…	…	12.15	12.41	12.41	12.41	12.41
US$/Euro (end-of-quarter)	1.34	…	…	1.34	…	…	1.34	1.35	1.35	1.35	1.35
US$/UK pound (end-of-quarter)	1.56	…	…	1.56	…	…	1.56	1.56	1.56	1.56	1.56
US$/SDR (end-of-quarter)	1.49	…	…	1.49	…	…	1.49	1.56	1.56	1.56	1.56
US$/AUD (end-of-quarter)	…	…	…	…	…	…	0.97	0.97	0.97	0.97	0.97

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 3. 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.	Not met. Electricity tariffs were increased by 5% in August, and 24% effective January 2012
Introduction of the credit information system (MEFP, ¶46)	End-March 2012		
Creation of the commercial court (MEFP, ¶47)	End-March 2012		
Cabinet approval of new DBS mandates (MEFP, ¶54)	End-March 2012	To redefine its mandate to finance small and medium enterprises	
Commission and complete a study on optimal tariffs for utilities (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 (MEFP, ¶26)	July 2012	To modernize the tax system and remove tax distortions	
Cabinet approval of the Public Sector Investment Programme to be used for the 2013 budget planning. (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 (MEFP, ¶51)	End-September 2012	To ensure long-term financial sustainability of utilities	

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 2 and 3 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.

II. MONITORING AND REPORTING

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

Adjusters

5. The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and cash grants exceeds (falls short of) the amounts assumed in the program (MEFP Table 2). 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.

A. 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' external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition. Reports will be submitted to the CBS, with a copy to the IMF, no later than two months after each test date.

B. 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.

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

10. 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.

D. External Arrears of the Public Sector

11. 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.

E. Domestic Arrears of Government

12. 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.

III. Data and Information

13. 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

SEYCHELLES

Fourth Review Under the Extended Arrangement, Request for Waiver of Applicability of Performance Criteria, and Financing Assurances Review—Informational Annex

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

December 27, 2011

Contents Page

SEYCHELLES: RELATIONS WITH THE FUND
(As of November 30, 2011)

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	34.13	313.1
Reserve Position in Fund	0.53	4.85

C. SDR Department	SDR Million	% Allocations
Net cumulative allocation	8.28	100.0
Holdings	6.86	82.84

D. Outstanding Purchases and Loans:

Stand-by Arrangement	11.00	100.92
Extended Arrangement	12.76	117.06

E. Financial Arrangements:

Type	Arrangement	Expiration	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Dec 23, 2009	Dec. 22, 2012	19.80	12.76
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				
	2011	**2012**	**2013**	**2014**	**2015**
Principal		3.41	5.50	2.42	1.83
Charges/interest		0.27	0.22	0.17	0.14
Total		3.68	5.72	2.59	1.98

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, has found that the authorities have 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 and resulted in elimination of all the 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 September 30, 2011 US$ 1 = SR 12.40 (mid rate).

J. Article IV Consultations:

Seychelles is currently under a 24 month consultation cycle.

K. Technical Assistance (2008–October 2011):

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
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

Department	Head of Mission	Subject	Date
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	BoP 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 Production Indices	April 2011
FAD	Mr. Ljungman	PFM Legal Framework	August 2011

L. Resident Representative None

SEYCHELLES: JOINT WORLD BANK-IMF WORK PROGRAM, 2012
(As of December 12, 2011)

Title	Products	Provisional timing of mission	Expected delivery date
	A. Mutual Information on Relevant Work Programs		
Bank	**A. Strategy and analytical work**		
	Country Partnership Strategy	January 2012	April 2012
	B. Ongoing projects		
	Statistical Capacity Building Project (STATCAP)	March 2012	December 2012
	Public Administration Reform Project (PAR IDF)	March 2012	June 2013
	Technical assistance on social security net and enhancing targeting of social assistance	December 2011	June 2013
	Technical assistance on health reforms	January 2012	June 2012
	C. New projects		
	Public Expenditure Review focusing on capital expenditures and subsidies	September 2012	June 2013
	Advisory services on improving the country's investment climate (Bank & IFC)	January 2012	June 2012
	Economic and Sector Work on economic diversification, and a risk management strategy	July 2013	June 2014
	MTDS/DeMPA	July 2012	June 2013
	Technical assistance on electricity tariff reform	February 2012	June 2012
	Technical assistance on housing financing strategy: re-defining the role of the Housing Finance Company and designing a new housing savings scheme.	April 2012	December 2012
Fund	**Program and surveillance work**		
	Fourth Review under the EFF	October 2011	January 2012
	Fifth Review under EFF	March 2012	May 2012
	Sixth Review under EFF and Article IV Consultations	October 2012	December 2012
	Technical assistance and capacity building		
	MCM technical assistance on reforming the monetary policy framework, strengthening bank supervision, payments systems, and CBS governance.	Ongoing	Ongoing
	FAD technical assistance on tax and customs reform	Ongoing	Ongoing
	FAD mission on the creation of the legal and	February 2012	March 2012

Title	Products	Provisional timing of mission	Expected delivery date
	regulatory framework for the implementation of the new PFM Act		
	STA technical assistance on external sector statistics.	January 2012	February 2012
	STA technical assistance on GDP and price statistics	Ongoing	Ongoing
	B. Requests for Work Program inputs		
Bank request to Fund	Medium-term macro-economic and fiscal framework to inform Public Expenditure Reviews and Development Policy Lending	n.a.	Ongoing
Fund request to Bank	Financial sector work	January 2012	June 2013
	C. Agreement on Joint Products and Missions		
Joint products	Joint mission in the context of the fifth review under the EFF to discuss a medium-term structural reform agenda focusing on: social safety net targeting; parastatal reform; and promoting private sector investment	March 2012	June 2012
	Debt Sustainability Analysis	March 2012	June 2012
	Joint technical assistance on natural resources wealth management	To be determined	

Press Release No. 12/7
FOR IMMEDIATE RELEASE
January 12, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes the Fourth Review and Financing Assurances Review under the Extended Arrangement for Seychelles

The Executive Board of the International Monetary Fund (IMF) has completed the fourth program review and financing assurances review under Seychelles' program supported by a three-year extended arrangement under the Extended Fund Facility (EFF) on January 11, 2012 The completion of the review allows the immediate disbursement of an amount equivalent to SDR 3.08 million (about US$4.7 million). The Board also approved the authorities' request for waiver of applicability for end-December 2011 performance criteria for which data are not yet available.

The extended arrangement for Seychelles became effective on December 23, 2009 in the amount of SDR 19.8 million (about US$30.2 million; see Press Release No. 09/472).

Following the Executive Board's discussion of Seychelles, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"Aided by sound macroeconomic policies and timely structural reforms, the Seychelles economy rebounded strongly from the crisis of 2008-09. Medium-term prospects are good, but downside risks exist due to the crisis in Europe. Inflation has picked up recently, reflecting the delayed pass-through of global food and fuel price increases, but remains broadly in check.

"Safeguarding debt sustainability is critical for sustaining the gains from macroeconomic stabilization. The restructuring of the loss-making national airline and increases in utility tariffs to cost-recovery levels will help achieve a sounder fiscal position while creating space for needed infrastructure investments. Development of a well-targeted social safety net will be important to protect vulnerable groups.

"The central bank needs to remain vigilant against inflationary pressures. A further build-up of foreign reserves and continued exchange rate flexibility will provide buffers against external shocks.

"Structural reforms continue to focus on improving public financial management and fostering private sector-led growth. In the financial sector, efforts should focus on limiting the role of state-owned institutions, strengthening competition, enhancing governance and transparency, and improving banking intermediation" Mr. Zhu added.

Statement by Mr. Legg and Ms. Bultitude on Seychelles
Executive Board Meeting
January 11, 2012

Our Seychellois authorities have consolidated the recovery from the 2008 crisis and made solid progress in their structural reform agenda over the past year. The three-year EFF that commenced in December 2009 has supported impressive GDP growth, fiscal consolidation and debt repayment, while assisting the authorities to manage domestic and external shocks such as higher food and fuel prices, a slowdown in major trading partners and the national airline's financial difficulties. The program is on track, despite recent adverse shocks, and the macroeconomic outlook remains favorable.

A key factor in the success of the program is the high level of 'ownership' by the authorities. The program and the associated reform agenda were core elements of the incumbent government's policy platform in the 2011 Presidential and National Assembly elections. With the program due to expire in December 2012, our authorities are keen to maintain their strong working relationship with the Fund, and look forward to discussions on possible successor arrangements over the course of 2012.

Economic developments and outlook

The Seychellois economy exceeded expectations over the first three quarters of 2011, despite the marked slowdown in Western Europe (the most important tourism market). Real GDP growth for 2011 was revised upwards to 5 percent from 4 percent, reflecting the buoyant tourism and canned tuna sectors. While inflation has risen sharply to 5.4 percent on the back of higher fuel and electricity prices, there is little evidence of second-round effects. The outlook is for steady medium-term growth, albeit at a slower rate than 2011 and with large downside risks stemming from the slowdown in the Eurozone.

Our authorities' risk mitigation efforts are starting to bear fruit. In particular, extensive efforts to diversify the tourism sector – by targeting new geographic markets, improving the affordability of transportation and lodging, and attracting additional airline carriers – have reduced Seychelles' reliance on high-end tourists from Western Europe (Box 3). Similarly, following domestic and international efforts to address piracy risks, trade volumes and activity in the fishing sector are recovering to pre-2008 levels. The authorities' strong track record in program implementation and steady reduction in public debt is supporting investor confidence and maintaining substantial inflows of foreign capital, particularly in the tourism sector.

Program implementation

Program performance has remained exemplary, with all quantitative targets for end-June 2011 being met and all but two structural benchmarks being delivered. Of the remaining benchmarks, the tariff study for the public utility company has been delayed until end-June 2012, reflecting difficulties recruiting an appropriately qualified consultant. The reinstatement of the electricity tariff adjustment for fuel price variations – which would have reintroduced some automaticity in the adjustment of electricity tariffs in line with fuel prices - will be considered following the outcome of this review. In the meantime, the authorities increased electricity tariffs by almost 30 per cent over August, November and January, bringing tariffs to cost recovery levels, and stand ready to adjust them further as needed.

Fiscal policy

A primary surplus of 4.7 percent of GDP is expected for 2011, slightly above the target of 4.5 percent. This is a remarkable achievement given the unexpected costs of providing support to the national airline, Air Seychelles. The carrier began experiencing financial difficulties at the end of 2010 as a result of its increasingly uncompetitive fleet structure and code sharing arrangements with other airlines. The authorities decided to support the airline temporarily, while orchestrating a restructuring to restore the airline to profitability and limit the Government's exposure. Following further set-backs in 2011, with the cancellation of a lucrative charter contract and growing competition from international carriers, the authorities acted decisively, notwithstanding domestic political sensitivities, to eliminate all long-haul flights from January 2012 and transform the airline into a regional carrier. This will eliminate the need for budget support by the end of 2012.

The authorities have increased their primary surplus target for 2012 to 4.7 percent of GDP, based on slightly lower revenue projections being more than offset by the unwinding of one off expenditure. To manage the risks of further unforeseen expenses, a contingency of 0.6 percent of GDP has been included in the budget to cover any costs associated with piracy, natural disasters, and further sharp increases in international food and fuel prices. Current expenditures will be tightly contained to accommodate priority capital investment, with a focus on infrastructure bottlenecks and priority social needs.

The delivery of a number of reforms (some of which are structural benchmarks under the EFF) will enhance the fiscal policy framework over 2012 and beyond:

- The introduction of the VAT in July 2012 – the last major step of the overhaul of taxation that began in 2008 – will improve the efficiency of the tax system (while being revenue-neutral).

- Modernizing the Seychelles Revenue Commission, especially in the area of customs administration, will enhance compliance, efficiency and competitiveness in this important area and complement the extensive taxation reforms to date. A new single tax identification number was introduced in October 2011, and the new Customs Management Act becomes operational in June 2012.

- Wide-ranging reforms to public financial management will improve budget preparation, accounting procedures and budget execution. In particular, beginning with the 2013 budget presentation, capital expenditures will be subject to parliamentary approval and project costs will be projected over five years. Program based budgeting will be phased in by 2015, beginning with the two largest ministries - Health and Education - in 2013.

- Higher mandatory contributions to the Seychelles Pension Fund will contribute to its long-term sustainability, while an upcoming independent audit will help to identify further areas for improvement.

Monetary and exchange rate policies

The Central Bank of Seychelles (CBS) tightened monetary policy over 2011 to absorb excess liquidity in the banking system and guard against second-round inflationary effects from external fuel price shocks. Three month T-bill rates rose from 0.5 percent to 5 percent over the year. In a welcomed sign of development of the financial sector, annual credit growth reached 16 percent in September (off a relatively low base). Broad money is projected to grow slightly slower than nominal GDP in 2012 to contain inflation. However, with the government's call on private capital markets decreasing, there is sufficient room for private credit growth.

Consistent with Fund advice, the authorities are preparing a memorandum of understanding between the CBS and the Treasury to facilitate the issuance of Treasury bills for monetary policy purposes, which will assist the CBS in managing liquidity and reduce the costs of sterilization. Progress on this issue needs to be viewed against the background of the lingering aversion of many policymakers (and Seychellois) to government debt, following the balance of payments crisis in 2008.

Our Seychellois authorities remain committed to a floating exchange rate, which has served their economy well through its reforms and helped to cushion the impact of recent external shocks. The CBS is continuing to accumulate international reserves, with the medium-term target of three moths of prospective import coverage. It is also strengthening reserve management practices, and has initiated discussions with the World Bank to begin using its Reserve Asset Management Program.

Financial sector policies

Seychelles' banks remain well-capitalised and profitable, and the CBS has continued to strengthen its supervisory arrangements. By the end of the first quarter of 2012 the CBS will have completed a full cycle of onsite examination of all banks and quasi-bank institutions under its modernised supervisory framework, and it is introducing improved mechanisms for offsite data assessment. New guidelines were issued in October 2011 on disclosure requirements for banks' terms and conditions, which will complement the CBS' public financial literacy program.

Other upcoming reforms that will enhance the development and operation of the financial system include:

- The launching of a credit information system in early 2012, as a first step towards a (privately run) credit information bureau, to improve transparency and risk-pricing in the financial system.

- The establishment of a commercial court to tackle the backlog of commercial disputes, which is seen as a major weakness in Seychelles' business environment.

- The introduction of a new mandate for the Development Bank of Seychelles, to target commercially viable but higher-risk small enterprises that commercial banks would normally be reluctant to finance. This will support private lending by eliminating any perceived competition from the DBS.

- The introduction of a new mandate for the House Financing Corporation, consistent with the longer-term objective of focusing state interventions on the most vulnerable households, and supporting a larger role for commercial banks in mortgage financing. Related governance and operational reforms will improve the corporation's financial viability and risk management.

Debt restructuring and sustainability

The external debt restructuring is close to completion, with less than US$9 million (out of eligible debt of around US$700 million) in agreements yet to be signed. Agreements have been reached with the three remaining creditors, and are expected to be signed shortly.

Total public debt (domestic and external) is projected to fall to 76 percent of GDP at end 2012, and remains on track against the target of 50 percent of GDP by 2018. To ensure progress towards this goal, new external loans or loan guarantees will be limited to the equivalent of US$40 million in 2012, and will mainly be used for infrastructure projects. Additionally, starting in 2012 a committee chaired by the Minister for Finance will review all public projects of a magnitude greater than SR 25 million, with a particular focus on their macroeconomic impact and risks, to inform the Government's public investment decisions. The new, more robust, arrangements for budgeting for capital expenditure will complement these initiatives.