INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/186

# SEYCHELLES

July 2014

## REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

In the context of the request for an arrangement under the Extended Fund Facility, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 4, 2014, following discussions that ended on March 11, 2014, with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 16, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Seychelles.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Seychelles*
Memorandum of Economic and Financial Policies by the authorities of Seychelles*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

# SEYCHELLES

## REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

May 16, 2014

## KEY ISSUES

**Context.** The 4-year EFF-supported program that expired in December 2013 attained its key goals of reducing public debt, building reserves and implementing structural reforms to raise growth potential, strengthen public finances, and enhance oversight of state-owned enterprises. Nevertheless, substantial policy challenges remain, including the need to further reduce the still-high debt level, ensure external sustainability in the face of balance of payments pressures, and entrench structural reforms to maintain growth and bolster economic resilience. To help address this remaining agenda, the authorities have requested a successor EFF arrangement.

**Main elements of the program.** The program aims to bolster the foundations for sustained, inclusive growth, while addressing vulnerabilities:

- **Fiscal policy** will be anchored by the authorities' target of reducing public debt below 50 percent of GDP by 2018.
- The **monetary and exchange rate policy** framework will be anchored by an average reserve money ceiling with a flexible exchange rate, permitting a gradual reserve accumulation to roughly maintain current coverage levels in the face of balance of payments pressures. The Central Bank of Seychelles will also move toward a more forward looking monetary policy regime.
- The authorities are committed to an **ambitious structural reform agenda** aimed at: fostering sustained and inclusive growth; enhancing the quality and management of public finances; and strengthening the performance and oversight of state-owned enterprises.
- Under the arrangement, Seychelles would be able to **access up to SDR 11.445 million** (about US$17.8 million, 105 percent of quota), subject to semi-annual reviews.

On this basis **staff supports the authorities' request for an extended arrangement** under the Extended Fund Facility.

**Risks.** Risks to the program are considered moderate; they include exogenous shocks to the small and vulnerable economy, as well as a possible reversal of the pro-reform sentiment.

Approved by
**David Robinson and Dhaneshwar Ghura**

Discussions were held in Victoria February 26 – March 11, 2014. The staff team comprised Mr. Mills (head), Mr. Moheeput, Mr. Roy, Mr. Thornton (all AFR), and Mr. Culiuc (SPR). Mr. Yoon and Ms. Luu (both OED) participated in the mission. The mission met the President, Vice President, Finance Minister, Governor of the Central Bank, other senior officials, banks, private sector representatives, civil society, and parliamentarians.

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**APPENDIX**

# INTRODUCTION

**1. In the five years following the 2008 balance of payments and debt crisis, the authorities have successfully enacted a comprehensive program of reforms**. The authorities floated the exchange rate, eliminated all exchange restrictions, turned fiscal deficits into surpluses, and cut public debt in half, with the help of a restructuring agreement with external creditors. Moreover, they initiated a comprehensive program of economic reforms to foster long-term growth, including through simplifying the tax system and promoting the private sector. These reforms have supported a strong and sustained recovery: real GDP growth averaged 5 percent during 2010 to 2013; unemployment returned to low levels (around 4 percent); the exchange rate stabilized after briefly overshooting; and reserves rebounded from half a month of imports to nearly four. The Fund supported these reforms through an SBA approved in December 2008, which was succeeded by an EFF arrangement from December 2009 to December 2013.

**2. Despite the success of the program, important risks and challenges remain**. At 65 percent of GDP, Seychelles public debt still constitutes a major source of risk, heightening vulnerabilities and limiting the country's ability to borrow in the face of external shocks. The current account deficit also remains elevated (18.5 percent of GDP); while it has been largely funded by FDI, any decline in tourism earnings could result in a destabilizing and costly adjustment process. Moreover, the balance of payments faces headwinds as debt service and investment income payments rise, at the same time as the growth in tourism earnings slows. Sustained GDP growth will require adequate infrastructure investment and an active reform agenda to enhance productivity, especially in the financial sector, state-owned enterprises, and port services. At the same time, fiscal policy faces negative pressures, as revenue and grants have been falling as a proportion of GDP, and current spending has been rising in the face of pent up spending demands. In the absence of a strong macroeconomic policy framework, structural reforms, and external assistance, these pressures would lead to a reversal in the gains made since the crisis, with slowing growth, falling reserve coverage, and rising vulnerabilities.

**3. To face these challenges, the authorities have requested a successor EFF arrangement with the Fund.** This program will help buttress their macroeconomic policies and protect reserve coverage over the extended period (including the presidential elections planned for 2016), while they carry out wide-ranging structural reforms necessary to support improvement in macroeconomic conditions, lock-in stabilization, and reduce the country's vulnerabilities. These reforms will focus on fostering sustained and inclusive growth, enhancing the quality and management of public finances, and strengthening the performance and oversight of state-owned enterprises. The program will play a catalytic role in supporting reform efforts internally and externally. The program's strong macroeconomic framework and IMF financing will help mobilize significant official financing (Table 6), without which reserve coverage would deteriorate seriously.

# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

**4. Growth performance improved in 2013.** Real GDP growth accelerated to around 3.5 percent in 2013 (up from 2.8 percent in 2012). Tourist arrivals rose by 11 percent in 2013 (yoy), with arrivals from Europe growing by over 6 percent despite the elimination of direct flights (a result of the restructuring of Air Seychelles). Production indicators for canned tuna, electricity, and telecommunications were also strong. Going forward, growth in tourism earnings is expected to slow slightly; so far this year, arrivals are up 5 percent (yoy) (Figures 1-3). Increases in Russian and Chinese arrivals have more than made up for weak arrivals from Western Europe so far this year, though this reliance also exposes the economy to downside risks stemming from developments in those economies.

**5. Inflation stabilized at a low level in 2013.** Inflation fell to 3.4 percent (yoy) in December 2013, as the strong rupee offset substantial growth in broad money and pressures from VAT implementation. For March 2014, it fell further to 2.2 percent. For the full year, inflation is projected to remain roughly stable at around 4 percent, taking into account the effects of increases in wages and commercial water tariffs, as well as pass-through of a slight weakening of the exchange rate recently.

**6. The external position in 2013 improved, allowing for substantial reserve accumulation with a strengthening exchange rate**. The current account deficit fell substantially in 2013 (estimated at 16.9 percent of GDP compared to 25.2 percent in 2012), thanks to a boom in tourism and tuna exports. FDI flows remained strong in 2013, along with FDI-related imports. Reserve coverage reached an estimated 3.8 months of imports at end-2013, up from 3.0 months at end-2012. However, going forward, pressures on the balance of payments and reserve coverage are expected to increase moderately, due to unfavorable trends in debt service, investment income, and growth in tourism revenues. Opportunities for further reserve accumulation are also likely to be more modest. The current account deficit is expected to remain elevated in 2014, financed in large part by FDI in the tourism and fish processing sectors.

**7. The 2013 fiscal outturn was largely in line with the authorities' ambitious targets, although pressures emerged.** Business and income tax revenues were somewhat weaker than expected,[1] offset to some degree by stronger-than-projected non-tax revenues. Nevertheless, the primary surplus target was attained, reflecting current expenditure restraint and under-execution of the capital budget (due to technical delays). The primary surplus target for 2014 (4 percent of GDP) remains feasible and appropriate. Nevertheless, a falling trend in revenue to GDP, current spending pressures, and growing public investment needs pose challenges going forward for improving tax compliance, maintaining spending discipline and protecting investment.

**8. While vulnerabilities remain high, risks for near-term growth appear balanced.** Although FDI in the tourism sector remains strong, the industry remains reliant on demand from

[1] The appreciation of the exchange rate lowered profitability in certain import-competing sectors (such as beverages), while compliance issues (which the Seychelles Revenue Authority is investigating) may also have affected collections.

markets facing economic and geopolitical uncertainties (Europe, Russia, China and the Middle East). Certain domestic factors will also weigh on growth in the medium term, including infrastructure bottlenecks, a skills mismatch, and potential space constraints to new hotel construction. At the same time, there is considerable growth potential in the fisheries sector, while off-shore oil and gas also offer a possible, if yet unproven, source of growth over the medium term.

# POLICY DISCUSSIONS AND PROGRAM STRATEGY

*The program's macroeconomic framework is anchored on the authorities' goal of reducing the debt-to-GDP ratio below 50 percent by 2018, while protecting critical investments necessary to foster growth. A new monetary policy framework will be based on an average reserve money ceiling, as the Central Bank of Seychelles (CBS) develops a more forward looking regime. Ambitious structural reforms aim to support growth, enhance public financial management, and reduce risks from state-owned enterprises (SOEs).*

## A. Fiscal Policy to Sustain Growth and Reduce Vulnerabilities

**9. The authorities' medium-term debt reduction target remains central to reducing vulnerabilities, maintaining fiscal discipline, and supporting macroeconomic stability**. Achieving this goal requires continued fiscal primary surpluses, anchoring fiscal policy and economic confidence. The 2014 budget envisages a primary surplus of 4 percent of GDP, and staff projections suggest that primary surpluses of 3 to 4 percent of GDP will be needed to meet the target (Annex 1. DSA). Staff and the authorities agreed that the envisaged path strikes a reasonable balance between the pace of debt reduction and addressing vital social and investment needs. Complicating investment plans, a projected decline in grants will result in a fall in foreign-financed expenditures, especially for investment, during the program period and beyond. Staff noted that the 50 percent of GDP target remains higher than the average for peers (below 40 percent) so that continued gradual debt reduction would be advisable after 2018.[2]

**10. Revenue measures under the program will focus on improving tax compliance and administration in order to shore up tax collections as a share of GDP.** Over the last five years the authorities have introduced successful reforms to the tax system, introducing a VAT as well as overhauling income and business taxes. In this context, staff and the authorities agreed that further fundamental tax policy reforms are not currently advisable, while acknowledging that this limits the potential for large increases in revenues (at over 30 percent, Seychelles' revenue-to-GDP ratio remains above regional comparators). However, in light of recent declines in revenues relative to GDP, it was agreed that reforms to tax administration will be essential to bolster revenue efforts and ensure the availability of resources for investment and other priority spending. Measures will focus on streamlining exemptions, improving excise management, enhancing audit functions, and strengthening compliance.[3]

[2] The target is for gross public debt. The authorities and staff agreed that for the purposes of this policy target, public debt should include Treasury instruments issued for sterilization purposes, because they incur debt service and cannot be unwound for the foreseeable future.

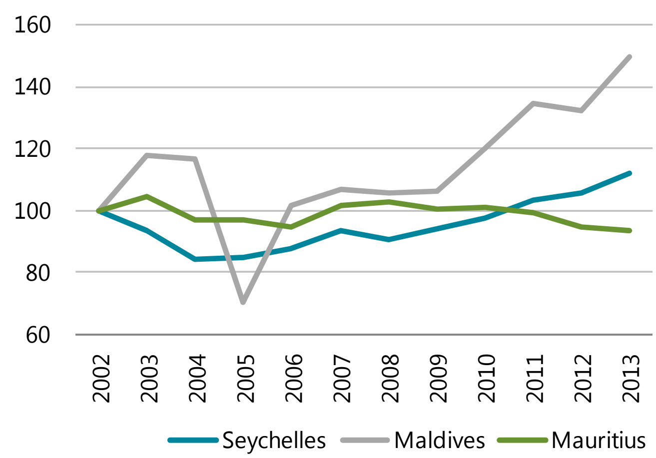
[3] Transfer pricing is one area where the authorities hope to make progress. The hotel industry, for example, tends to pay little in business taxes, although this in part reflects a legacy of generous past tax concessions.

11. **Enhancing the quality of fiscal spending will be a core priority of the program.** In the context of stable revenues and falling external grants, it will be important to protect public investment spending for much needed infrastructure. The establishment of a medium-term fiscal framework (MTFF) will be important for linking funding to the priorities set out in the Medium Term National Development Strategy and for ensuring sufficient financing for the most critical growth-enhancing public investments, including by SOEs. Including on-lending to the Public Utilities Corporation, the program therefore supports capital spending over the medium term, which should enable essential investment in the water and electricity systems. To protect this investment, the envelope for current spending, which was compressed severely during the crisis period, will necessarily continue to be tight over the medium term, and the program envisages slight declines in current spending and the wage bill in GDP terms (following the significant wage raises in 2014).

## B. Strengthening External Resilience

12. **Notwithstanding recent progress, continued efforts are needed to maintain external stability and rebuild buffers in the face of emerging pressures.** The disciplined macroeconomic policy framework under the program anchors external stability for the extraordinarily open Seychellois economy (imports are equivalent to 90 percent or more of GDP). At the same time, debt service is scheduled to more than double over the course of the program period, in line with the repayment schedule agreed in the 2009-10 debt restructuring. Official external support – which, in recognition of reform efforts, has been generous for a middle income country – is also expected to gradually wind down.

**Share in world tourism arrivals, normalized** (2002 = 100)




13. **In the face of emerging external pressures and Seychelles' vulnerabilities, ensuring adequate international reserve coverage is a priority for increasing resilience.** Staff and authorities agreed that given Seychelles' unusual conditions – extremely open, tourism-dependent, remote island micro-state, with a flexible exchange rate – the adequate reserve coverage range is higher than generally recommended by reserve metrics (Annex 2. Reserve Adequacy).[4] Reserve coverage has only recently reached the desirable range – around 4 months of imports or 180 percent of the IMF 2011 reserve adequacy (ARA) metric – and maintaining it will require continued effort and reserve accumulation in the face of balance-of-payments pressures. In light of tensions on the monetary framework and risks of distortions in the

[4] In light of Seychelles' characteristics, it is especially important that the CBS be able to use reserves to help cushion adjustment to large, short-term external shocks. In particular, for tourism-dependent micro-states like Seychelles, improving export earnings in the short run through the exchange rate is difficult (since tourism is an import intensive activity) and therefore short-term exchange rate adjustment primarily operates through a contraction of imports (which are equivalent to around 90 percent of GDP), entailing large social costs.

foreign exchange market, the program envisages that accumulation through foreign exchange purchases should be gradual and opportunistically timed, resulting in a modest increase in import coverage and essentially no change relative to the ARA metric.

**14. Exchange rate flexibility remains key to reducing vulnerability and ensuring external stability over the medium term.** An updated exchange rate assessment (Annex 3), based on CGER-like methodology, found the Seychellois Rupee to be broadly in line with fundamentals, and the authorities and staff agree that it should continue to adjust in line with changes in those fundamentals. Concerning competitiveness, Seychelles continued making steady gains in the global tourism market, despite having lost non-stop flights to Europe in 2012 (text figure). Goods exports (excluding oil re-exports) have also been increasing, although high commercial utility prices appear to represent a drag on energy-intensive industries (especially fish processing).

## C. Locking-in Monetary Stability

**15. The authorities plan to further improve their monetary policy framework, with a view to better anchoring market expectations and maintaining low and stable inflation.** Although monetary policy in 2012–13 successfully reduced inflation, core monetary aggregates behaved in a volatile manner as the structural excess liquidity (which was largely generated by the build-up of foreign exchange reserves) was not continuously sterilized. These conditions held back the Central Bank's efforts to move to a more forward-looking framework for monetary policy based on interest rate signals.

**16. In advance of the new program, the excess liquidity problem has been largely addressed, with support from the Treasury.** The CBS and the Ministry of Finance have agreed on an ambitious program for the issuance of medium-term Treasury bonds (2 to 5 years), supplemented as necessary by Treasury bills, in the amount of SR800 million (about 4½ percent of GDP) by end-May 2014. This will allow the CBS to enhance the signaling function of short-term interest rates, consistent with the appropriate monetary policy stance, laying the foundations for a more forward-looking framework. Moreover, the first-ever successful issuance of medium-term domestic government bonds also contributes to financial deepening and marks a milestone in building confidence.

**17. The move toward average reserve money targeting will further strengthen the policy framework.** Following positive experiences in other countries (e.g., Tanzania; Rwanda), the program will rely on a quarterly reserve money objective that will target the average of daily reserve money levels over the quarter rather than only the last day. To allow for some limited operational flexibility, the target will be surrounded by a corridor of 3 percent in both directions, the upper band of which will serve as the ceiling for the performance criterion.[5] The quarterly reserve money targets for 2014 have been set to reduce targeted free bank reserves progressively, facilitating a gradual establishment of the new monetary approach.

[5] This mechanism will enhance the usefulness of reserve money as a nominal anchor, both by enhanced guidance for day-to-day operations and by providing the CBS with sufficient flexibility to manage liquidity day-to-day to maintain stable market conditions.

## D. Reforming the Financial Sector

**18. Reforms in the financial sector aim to support growth and stability by enhancing financial deepening and inclusion, improving financial infrastructure, and further improving bank supervision.** More broadly, the authorities have begun developing a Financial Sector Development Implementation Plan, with the support of the World Bank's FIRST initiative and in coordination with IMF staff, for approval by the Cabinet (*Structural Benchmark (SB, October 2014)*; this strategy will focus on improving private sector access to credit, a key constraint to growth. To support deepening the sector, the Seychelles Pension Fund will adopt a new investment strategy that shifts from real estate development toward longer-term financial instruments. Concerning the financial infrastructure, work is underway to develop a collateral registry and establish a modern payments system, with the submission of legislation to the National Assembly–which aims to foster greater efficiency and inclusiveness through services such as mobile payments. In addition, the supervision of non-bank financial institutions, including global business services, is being strengthened with the establishment of a new Financial Services Authority (FSA). The CBS continues to strengthen bank supervision, with AFRITAC technical assistance, including by establishing a work plan for implementing appropriate core elements of the Basel II and III standards (the banking system appears financially sound, Table 5). In parallel, a macroprudential surveillance framework is being formulated and will be implemented to ensure macro-financial stability.

## E. Structural Reforms to Strengthen Growth and Efficiency

**19. Sustaining growth and tackling risks to stability will require the implementation of a new generation of ambitious structural reforms.** Reforms under the previous programs successfully contributed to stabilization and a rapid recovery in output; nevertheless, further reforms are needed to ensure continued growth and stability in the face of remaining structural impediments and emergent challenges (Appendix 1. Attachment 1, especially Table 2). The priority areas for growth are adopting medium term strategies for economic growth, fiscal framework, and financial sector development that address key constraints to growth—most notably, private sector access to credit; cost and access to public utilities (including critical infrastructure investment); and the more efficient management of public resources (e.g., quality of spending, land use, performance of SOEs). The priority areas for addressing risks to stability include enhancing management and transparency of public finances and strengthening oversight of SOEs.

- **Buttress the foundations for sustained growth.** Structural reforms are needed to maintain growth performance over the medium term, especially to support productivity growth and the role of the private sector. The adoption of a Medium-Term National Development Strategy (MTNDS) *(SB, October 2014*) will identify the priorities and sources for medium-term growth, as well as outline the policy measures to support them. In parallel, the adoption of the financial sector development strategy (*SB, October 2014*) will enhance the contribution of that sector to inclusive growth, particularly by enhancing access to credit and financial services (see above). Moreover, to protect the integrity of the global business sector (accounting for an estimated 4 percent of GDP), it is vital to continue enacting reforms that bring Seychelles into compliance with OECD recommendations to combat tax evasion; the priorities are to make Seychelles' legislation fully consistent with international standards (*SB, June 2014*), as well as to strengthen international cooperation and enforcement (most notably through the new FSA).[6]

- **Improve the quality of fiscal policy to support growth**. The establishment of a medium-term fiscal framework (MTFF) will ensure sufficient financing for critical growth-enhancing public investments, including by SOEs (*SB, September 2014*), in parallel with the MTNDS. Work is also underway on establishing Performance Program-Based Budgeting, developing a Medium-Term Budget Framework to improve the allocation of budgetary resources, and enhancing the planning and management of public sector investment. Public investment plans focus on large electricity, water and sewage projects that address key constraints to growth, especially in the tourism. Developing a new framework for Public Private Partnerships will also support infrastructure investment and promote the role of the private sector, for instance, in port services. Reforms to tax administration will help protect fiscal space for investment; the strengthening of the one stop window for customs will improve the ease of doing business, as well as compliance. Establishing a registry of state assets, including land, which will begin with five large SOEs (*SB, December 2015*), will help protect public finances and support more efficient land use. The approval of a plan to ensure long-term financial health of the pension fund will also protect the long-term health of public finances.

- **Continue reform of state-owned enterprises to improve efficiency and strengthen oversight**. To contain fiscal risks, foster greater accountability and efficiency, and protect the role of private business, the oversight of SOEs will be progressively strengthened, building on past progress. The accounts of the government and SOEs will be fully consolidated, and a plan adopted to carry out governance audits of all major SOEs (*SB, December 2014*). Procurement policies in all SOEs incorporated under the Companies Act will be revamped (*SB, September 2014*). To ensure that SOEs focus on their core strategic roles and avoid risky expansion and diversification, the government intends to clarify their mandates, including defining annual performance objectives, with World Bank assistance. The government also intends to support private sector development, including by selling its stake in State Assurance Corporation of Seychelles (SACOS) in 2014, and will review other holdings for possible sale. In addition, commercial tariffs for utilities (electricity and water) have been cited as a key constraint to growth; to reduce major price distortions and promote competitiveness, the authorities will simplify the tariff structure and look for opportunities to accelerate their medium-term plans for rebalancing utility tariffs, which will reduce substantial cross-subsidies (equivalent to at least 1 percent of GDP). The authorities will also explore opportunities for greater private sector competition in key sectors, e.g., in port services.

[6] The number of company registrations has reportedly not fallen despite the authorities' commitments to implement recommended measures to combat tax evasion. Failure to implement these measures could potentially have negative effects, for example on banking transactions.

# PROGRAM MODALITIES AND RISKS

**20. The authorities have requested a three year arrangement under the EFF for SDR 11.445 million (about US$17.8 million, 105 percent of quota).** Seychelles continues to confront a balance of payments need arising from difficulties in maintaining reserve coverage in the face of increasing debt service and other external pressures.[7] An extended arrangement reflects the medium-term nature of these balance of payments problems and fits with the authorities' ambitious macroeconomic and structural reform agenda, which: (i) addresses embedded institutional and economic weaknesses; and (ii) ensures continued progress toward fiscal and debt sustainability. The level of access proposed (seven purchases of 15 percent of quota each, Table 8) is less than half of the previous EFF arrangement, reflecting a lessening of balance of payments needs while keeping total credit outstanding to the Fund below 300 percent of quota over the program period. Reviews would be semi-annual, with quantitative targets for the program primary fiscal balance, net international reserves, average reserve money, external debt financing, and non-accumulation of external arrears (Appendix 1, Attachment 1, Table 2) and structural benchmarks on macro-critical structural reforms focusing on enhancing the foundations for sustained growth and strengthening key institutions.

**21. Downside risks to a successor program appear to be moderate and capacity to repay the Fund is strong** (Table 7), having improved under the previous program. The proposed program effectively addresses areas of concern raised in the DSA heat map, particularly gross financing needs (Annex 1). Some significant short-term downside risks stem from potential external shocks identified in the March 2014 Global Risk Assessment Matrix (e.g., global financial market volatility affecting the exchange rate, or negative surprises on growth in Europe or emerging markets affecting tourism). Other risks relate to more specific shocks, such as to travel and tourism (e.g., from geopolitical instability or infectious diseases). The authorities have over several years demonstrated a strong commitment to fiscal consolidation and the achievement of their debt objective, but SOEs continue to pose risks to debt reduction, particularly in the event of major new expansion or diversification. The CBS will be subject to an update of the Safeguards Assessment by the First Review, and preparations are already underway.

# STAFF APPRAISAL

**22. Despite its strong performance under the previous EFF-supported program, Seychelles continues to face important challenges.** External debt remains high by emerging market standards; external reserves, having only recently reached adequate levels, are facing increasing pressures; and the monetary policy framework is evolving. Moreover, further reforms will be necessary over the medium term to foster inclusive and sustained growth, contain risks from the SOEs, and ensure that the private sector can contribute fully to growth.

[7] Given currently high public sector debt levels, the authorities do not intend to access private capital markets.

**23. The authorities' reform agenda addresses these challenges:**

- **Fiscal policy.** The target of reducing the public debt below 50 percent of GDP remains appropriate. Restraint on current expenditure and improvements to revenue administration, including on compliance and enforcement, will be key to ensuring adequate room for capital spending to address infrastructure needs. Streamlining exemptions and adjusting specific excise taxes may be required over the medium term to preserve fiscal space.

- **Exchange rate policy.** Seychelles' flexible exchange rate is an appropriate arrangement which can play a role in buffering the economy against domestic and external shocks and should continue to adjust in line with fundamentals. While the CBS has now reached a broadly adequate level of reserve coverage, further efforts will be needed to preserve and build external buffers in the context of emerging balance of payments pressures, not least the increase in external debt service following the post-crisis restructuring.

- **Monetary policy.** The issuance of medium-term debt instruments to mop up the structural excess liquidity has laid a solid base for a stronger and more flexible monetary policy framework, which will continue to support low inflation. With the proposed move to average reserve money targets, monetary aggregates and short-term interest rates should become more stable, further supporting the evolving monetary policy framework.

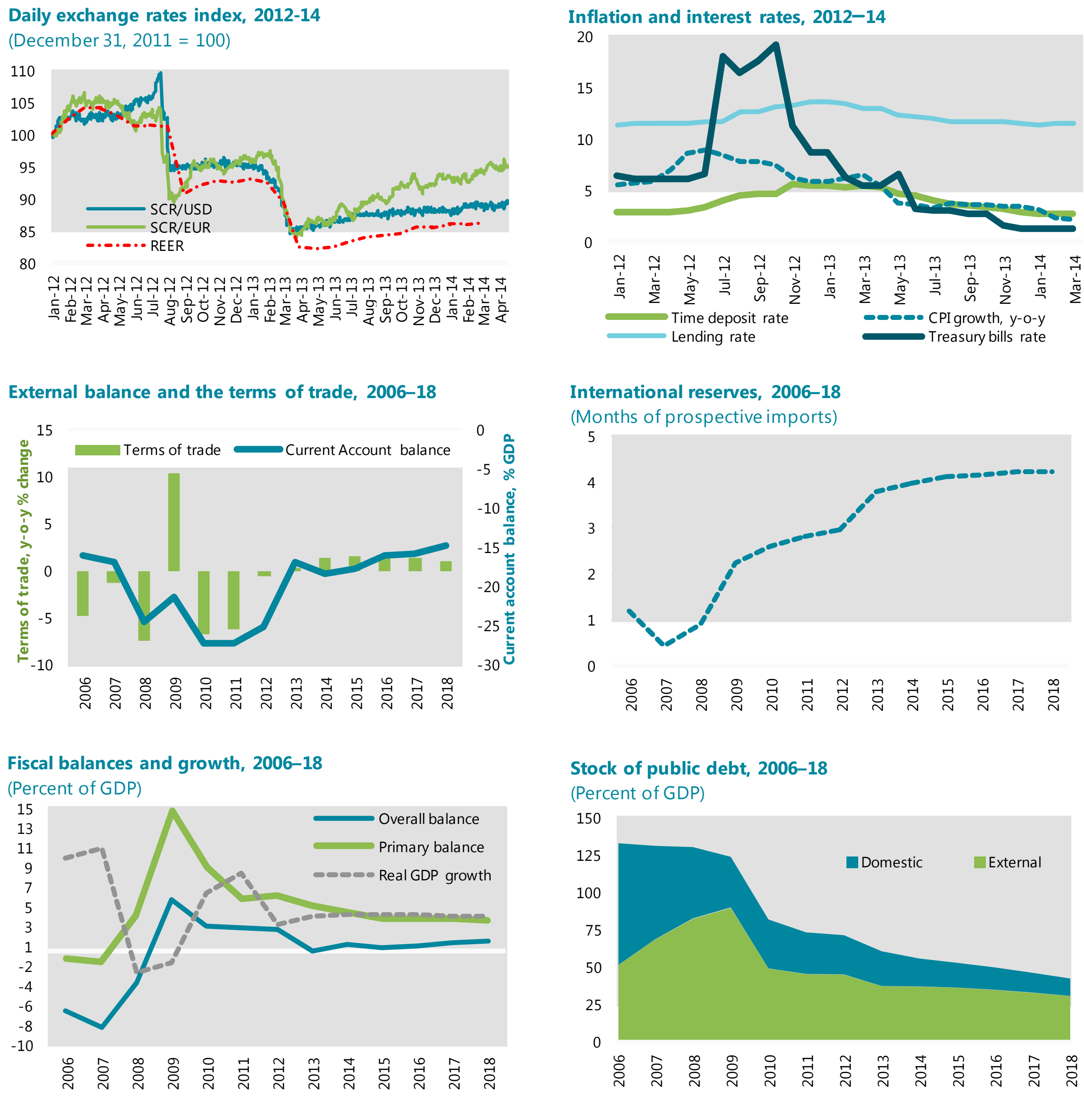
- **Financial sector policy.** With the financial sector expected to be a key source of growth, it is important that the planned Financial Sector Development Implementation Plan be adopted in a timely manner, with broad consultations. Staff welcomes this initiative to guide work toward a more inclusive and efficient financial system, while the CBS' plans to strengthen the supervision of the payment system are also opportune. Seychelles' determination to comply rapidly with OECD recommendations to combat tax evasion is most welcome, both in furthering international cooperation and safeguarding an important sector of the economy.

- **Building resilience and sustaining growth.** The authorities' structural reform agenda is appropriately ambitious and targeted on reducing fiscal risks, building resilience, and laying the groundwork for sustained growth. The adoption of a Medium-Term National Development Strategy and the associated medium-term fiscal framework will identify the priorities and sources for medium-term growth and ensure that the necessary resources are in place to support them. New frameworks for monitoring investment implementation and for Public Private Partnerships will also support much needed infrastructure investment. Establishing a registry of state assets will help protect public resources, boost transparency, and support public trust. Finally, building on the substantial progress already achieved, oversight of SOEs should be further strengthened to contain fiscal risks and avoid excessive expansion crowding out the private sector. The authorities are well-advised to pursue measures under consideration to advance privatization, increase competition (e.g., in port services) and reduce cross-subsidies in utilities more rapidly.

**24. Risks to the program appear contained, and Seychelles' repayment capacity is strong.** The authorities' commitment to reform has been demonstrated over the last five years, although public support for further reforms is not guaranteed. As a very small open economy Seychelles remains highly vulnerable to external shocks, including to commodity prices and the tourism sector (from travel disruption or weakness in the economies of the tourist source markets). The CBS will be subject to an update of the Safeguards Assessment by the First Review, and preparations are already underway.

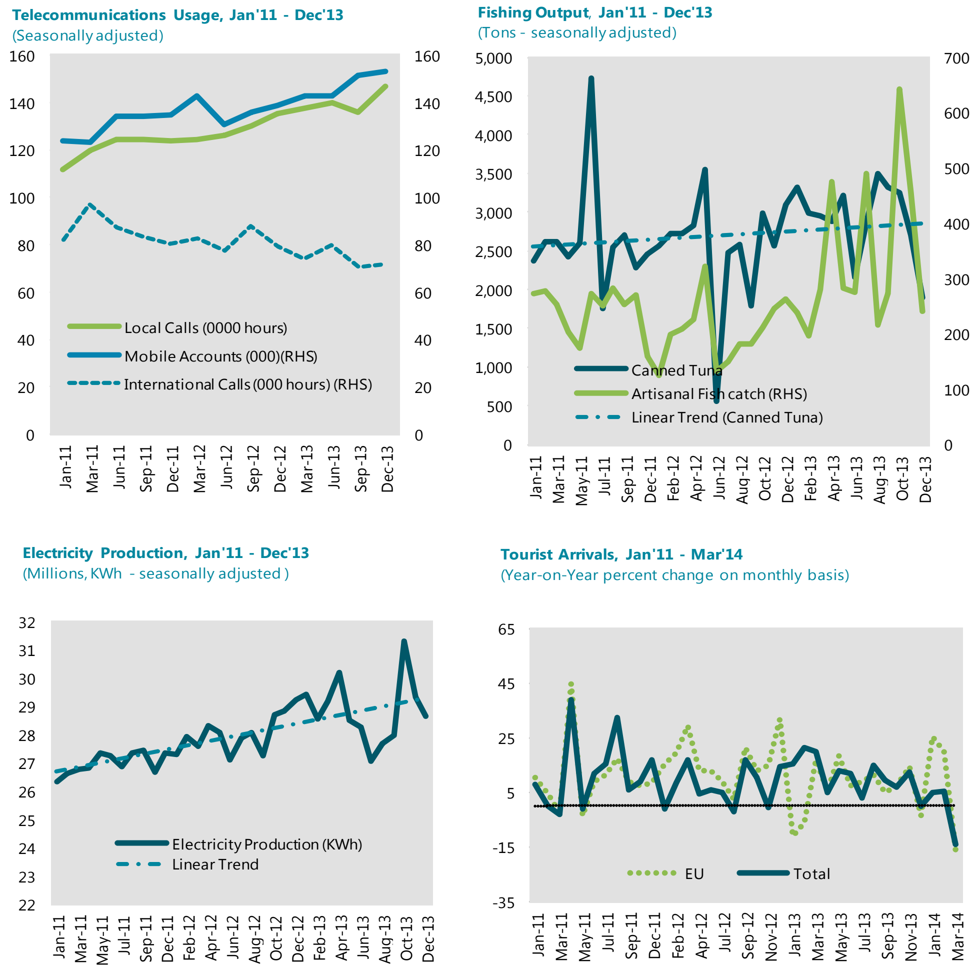
**25. In this context, staff supports the authorities' request for a 3-year arrangement under the EFF arrangement with access of SDR 11.445 million (105 percent of quota).** The LOI/MEFP provides a strong set of policies to pursue the objectives of the program.

## Figure 1. Seychelles: Macroeconomic Development and Projections




Source: Seychelles authorities and IMF staff estimates

## Figure 2. Seychelles: Monthly Indicators of Economic Activity




Source: Seychelles authorities and IMF staff estimates

## Table 1. Seychelles: Selected Economic and Financial Indicators, 2011–19

Nominal GDP (2013): US$ 1,386 million
Per Capita GDP (2013): US$15,644
Population, end-year (2010): 90,000
Literacy rate (2010): 94 percent
Main products and exports: Tourism, Canned Tuna

Quota: SDR 10.9 millions (0.03 percent of total)
Outstanding use of IMF resources: SDR 26.4 millions (242 percent of quota)
Membership status: June 30, 1977

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | | Prel. | Est. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| National income and prices | (Percentage change, unless otherwise indicated) | | | | | | | | |
| Nominal GDP (millions of Seychelles rupees) | 13,304 | 15,468 | 16,723 | 18,103 | 19,381 | 20,750 | 22,196 | 23,716 | 25,303 |
| Real GDP | 7.9 | 2.8 | 3.5 | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| CPI (annual average) | 2.6 | 7.1 | 4.3 | 3.6 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 |
| CPI (end-of-period) | 5.5 | 5.8 | 3.4 | 4.0 | 3.2 | 3.1 | 3.0 | 3.0 | 3.0 |
| GDP deflator average | 5.3 | 13.1 | 4.5 | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Money and credit | (Percentage change, unless otherwise indicated) | | | | | | | | |
| Credit to the private sector | 5.2 | 8.5 | 4.5 | 6.8 | ... | ... | ... | ... | ... |
| Broad money | 4.5 | -0.6 | 23.7 | 8.3 | ... | ... | ... | ... | ... |
| Reserve money | -2.7 | 6.9 | 15.4 | 25.8 | ... | ... | ... | ... | ... |
| Velocity (GDP/broad money) | 1.8 | 2.0 | 1.8 | 1.8 | ... | ... | ... | ... | ... |
| Money multiplier (broad money/reserve money) | 4.5 | 4.2 | 4.5 | 3.8 | ... | ... | ... | ... | ... |
| Savings-Investment balance | (Percent of GDP) | | | | | | | | |
| External savings | 27.4 | 25.2 | 16.9 | 18.5 | 17.7 | 16.0 | 15.9 | 14.8 | 14.8 |
| Gross national savings | 7.0 | 12.4 | 21.4 | 17.5 | 15.3 | 14.8 | 15.3 | 15.0 | 15.2 |
| *Of which*: government savings | 10.6 | 13.3 | 9.6 | 8.0 | 7.7 | 7.8 | 8.2 | 8.2 | 7.9 |
| Gross investment | 34.3 | 37.6 | 38.3 | 36.0 | 32.9 | 30.9 | 31.2 | 29.8 | 29.9 |
| *Of which*: public investment | 7.3 | 10.6 | 9.7 | 7.1 | 7.2 | 7.3 | 7.2 | 7.2 | 7.7 |
| Government budget | | | | | | | | | |
| Total revenue, excluding grants | 35.3 | 34.4 | 32.4 | 31.0 | 30.9 | 30.9 | 30.9 | 30.9 | 30.9 |
| Expenditure and net lending | 35.2 | 36.2 | 36.6 | 33.1 | 32.2 | 31.8 | 31.2 | 31.0 | 31.6 |
| Current expenditure | 27.2 | 25.8 | 27.1 | 26.0 | 25.2 | 24.7 | 24.2 | 24.0 | 24.2 |
| Capital expenditure (including onlending)[1] | 8.0 | 10.4 | 9.5 | 7.1 | 7.0 | 7.1 | 7.0 | 6.9 | 7.4 |
| Overall balance, including grants | 0.9 | 2.2 | 0.3 | 0.7 | 0.3 | 0.5 | 0.9 | 1.0 | 0.3 |
| Program primary balance | 5.3 | 5.7 | 4.7 | 4.0 | 3.2 | 3.2 | 3.2 | 3.1 | 2.4 |
| Total public debt | 73.2 | 77.5 | 65.3 | 64.5 | 61.0 | 57.4 | 53.3 | 49.1 | 45.9 |
| Domestic [2] | 27.7 | 32.2 | 27.7 | 27.3 | 24.6 | 22.5 | 20.2 | 18.2 | 16.9 |
| External | 45.6 | 45.3 | 37.6 | 37.2 | 36.5 | 34.9 | 33.1 | 30.9 | 29.0 |
| External sector | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Current account balance including official transfers | -27.4 | -25.2 | -16.9 | -18.5 | -17.7 | -16.0 | -15.9 | -14.8 | -14.8 |
| Total public external debt outstanding (millions of U.S. dollars) | 490 | 512 | 521 | 549 | 566 | 575 | 577 | 572 | 566 |
| (percent of GDP) | 45.6 | 45.3 | 37.6 | 37.2 | 36.5 | 34.9 | 33.1 | 30.9 | 29.0 |
| Terms of trade (-=deterioration) | -6.3 | -0.6 | 0.2 | 1.3 | 1.5 | 1.5 | 1.3 | 1.0 | 0.8 |
| Real effective exchange rate (average, percent change) | -7.5 | -2.4 | ... | ... | ... | ... | ... | ... | ... |
| Gross official reserves (end of year, millions of U.S. dollars) | 277 | 307 | 423 | 455 | 481 | 506 | 531 | 555 | 577 |
| Months of imports, c.i.f. | 2.8 | 3.0 | 3.8 | 4.0 | 4.1 | 4.2 | 4.2 | 4.2 | 4.3 |
| Exchange rate | | | | | | | | | |
| Seychelles rupees per US$1 (end of period) | 13.7 | 13.0 | 12.1 | ... | ... | ... | ... | ... | ... |
| Seychelles rupees per US$1 (period average) | 12.4 | 13.7 | 12.1 | ... | ... | ... | ... | ... | ... |

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

[1] Includes onlending to the parastatals for investment purposes.

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

## Table 2. Seychelles: Balance of Payments, 2011–19

| | 2011 | 2012 | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. | 2019 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| | (Millions of US Dollars) | | | | | | | | |
| Current account | -294 | -285 | -234 | -273 | -274 | -264 | -277 | -274 | -288 |
| (percent of GDP) | -27.4 | -25.2 | -16.9 | -18.5 | -17.7 | -16.0 | -15.9 | -14.8 | -14.8 |
| Balance of goods and services | -225 | -242 | -147 | -218 | -195 | -177 | -183 | -185 | -193 |
| Exports of goods | 477 | 497 | 598 | 587 | 601 | 615 | 624 | 632 | 638 |
| *Of which:* oil re-exports | 194 | 201 | 202 | 197 | 198 | 197 | 193 | 192 | 195 |
| *Of which:* tuna exports | 242 | 249 | 352 | 343 | 353 | 366 | 375 | 381 | 381 |
| Imports of goods | -915 | -967 | -1,023 | -1,097 | -1,113 | -1,137 | -1,178 | -1,217 | -1,262 |
| *Of which:* oil imports | -255 | -301 | -269 | -284 | -295 | -292 | -289 | -289 | -293 |
| FDI-related | -153 | -117 | -102 | -145 | -128 | -124 | -125 | -123 | -121 |
| grants- and loans-related | -87 | -141 | -89 | -92 | -90 | -92 | -102 | -104 | -107 |
| other | -420 | -408 | -564 | -575 | -600 | -628 | -663 | -701 | -740 |
| Exports of services | 470 | 435 | 504 | 538 | 576 | 613 | 653 | 695 | 739 |
| *Of which:* tourism earnings | 291 | 310 | 344 | 366 | 390 | 415 | 442 | 471 | 500 |
| Imports of services | -257 | -207 | -226 | -245 | -258 | -269 | -282 | -295 | -308 |
| Income, net | -73 | -63 | -76 | -67 | -74 | -88 | -90 | -93 | -96 |
| *Of which:* interest due [1] | -22 | -25 | -30 | -22 | -27 | -29 | -30 | -30 | -31 |
| transfers of profits and dividends | -21 | -18 | -17 | -18 | -19 | -20 | -20 | -20 | -21 |
| Current transfers, net | 4 | 21 | -11 | 12 | -6 | 2 | -4 | 4 | 1 |
| *Of which:* general government, net | 43 | 67 | 36 | 49 | 41 | 44 | 48 | 51 | 55 |
| Capital and financial account | 199 | 308 | 281 | 304 | 298 | 288 | 305 | 305 | 319 |
| Capital account | 61 | 64 | 55 | 40 | 37 | 34 | 33 | 33 | 33 |
| *Of which:* debt forgiveness | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial account | 139 | 244 | 226 | 263 | 261 | 254 | 272 | 272 | 286 |
| Direct investment, net | 231 | 208 | 184 | 244 | 231 | 241 | 252 | 265 | 278 |
| Abroad | -8 | -9 | -9 | -9 | -9 | -10 | -10 | -11 | -11 |
| In Seychelles | 239 | 217 | 192 | 253 | 241 | 251 | 263 | 275 | 289 |
| *Of which:* offshore sector | 34 | 41 | 49 | 59 | 70 | 83 | 96 | 110 | 126 |
| Portfolio investment, net [1] | -48 | -7 | 1 | 2 | 5 | 0 | 0 | 0 | 0 |
| Other investment, net | -45 | 43 | 42 | 18 | 25 | 13 | 19 | 7 | 8 |
| Government and government-guaranteed | 5 | 11 | 7 | 27 | 11 | 4 | 2 | -1 | -1 |
| Disbursements | 7 | 19 | 23 | 45 | 31 | 33 | 42 | 42 | 42 |
| Project loans | 7 | 13 | 13 | 21 | 31 | 33 | 42 | 42 | 42 |
| Program loans | 0 | 6 | 10 | 24 | 0 | 0 | 0 | 0 | 0 |
| Amortization | -10 | -9 | -16 | -20 | -21 | -30 | -41 | -44 | -44 |
| Private sector [2] | -49 | 32 | 35 | -10 | 14 | 9 | 17 | 8 | 9 |
| Net errors and omissions | 104 | 0 | 66 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 9 | 24 | 113 | 31 | 23 | 24 | 28 | 31 | 31 |
| Financing | -9 | -24 | -113 | -31 | -23 | -24 | -28 | -31 | -31 |
| Change in net international reserves (increase: –) | -17 | -25 | -113 | -31 | -23 | -24 | -28 | -31 | -31 |
| Change in gross official reserves (increase: –) | -23 | -31 | -115 | -33 | -25 | -26 | -25 | -24 | -23 |
| Liabilities to IMF, net | 6 | 5 | 2 | 2 | 2 | 1 | -3 | -7 | -8 |
| Other net foreign assets (increase: –) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exceptional financing | 8 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum items:* | | | | | | | | | |
| Exports G&S growth, percent | 12.7 | -1.6 | 18.2 | 2.0 | 4.6 | 4.4 | 4.0 | 3.9 | 3.8 |
| Tourism growth, percent | 6.1 | 6.6 | 10.7 | 6.6 | 6.5 | 6.5 | 6.4 | 6.4 | 6.3 |
| Imports G&S growth, percent | 11.6 | 0.2 | 6.4 | 7.5 | 2.2 | 2.5 | 3.9 | 3.6 | 3.9 |
| Exports G&S, percent of GDP | 88 | 83 | 80 | 76 | 76 | 75 | 73 | 72 | 71 |
| Imports G&S, percent of GDP | 109 | 104 | 90 | 91 | 88 | 85 | 84 | 82 | 80 |
| FDI, percent of GDP | 21.5 | 18.4 | 13.2 | 16.5 | 14.9 | 14.7 | 14.5 | 14.3 | 14.3 |
| Gross international reserves (stock, e.o.p.) | 277 | 307 | 425 | 456 | 481 | 506 | 531 | 555 | 577 |
| *Of which:* program definition[3] | 254 | 277 | 395 | 426 | 450 | 476 | 500 | 524 | 547 |
| (Months of imports of goods & services) | 2.8 | 3.0 | 3.8 | 4.0 | 4.1 | 4.2 | 4.2 | 4.2 | 4.3 |
| Scheduled public external debt service | 22 | 22 | 42 | 45 | 47 | 55 | 69 | 71 | 71 |
| (Percent of exports of goods & services) | 2.3 | 2.4 | 3.8 | 4.0 | 4.0 | 4.5 | 5.4 | 5.3 | 5.2 |
| Public and publicly guaranteed external debt [4] | 490 | 512 | 521 | 549 | 567 | 576 | 578 | 573 | 567 |
| (Percent of GDP) | 45.6 | 45.3 | 37.6 | 37.2 | 36.5 | 35.0 | 33.1 | 31.0 | 29.0 |
| GDP | 1,075 | 1,129 | 1,386 | 1,476 | 1,552 | 1,645 | 1,744 | 1,849 | 1,951 |

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

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

[2] Includes parastatals for which data are available.

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

[4] Includes outstanding IMF credit.

## Table 3. Seychelles: Consolidated Government Operations, 2011–16[1]

| | 2011 | 2012 | 2013 | 2014 | | | | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Q1 | Q2 | Q3 | Q4 | | |
| | | | Prel. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Millions of Seychelles rupees; cumulative from the start of the year) | | | | | | | | |
| Total revenue and grants | 5014 | 6024 | 6111 | 1278 | 3012 | 4523 | 6123 | 6347 | 6744 |
| Total revenue | 4695 | 5322 | 5420 | 1184 | 2693 | 4111 | 5604 | 5983 | 6414 |
| Tax | 4165 | 4600 | 4676 | 1060 | 2405 | 3676 | 4995 | 5358 | 5747 |
| Personal income tax | 612 | 702 | 754 | 193 | 406 | 614 | 849 | 916 | 982 |
| Trade tax | 421 | 401 | 411 | 98 | 152 | 208 | 271 | 294 | 319 |
| Excise tax | 727 | 726 | 652 | 180 | 391 | 583 | 794 | 851 | 910 |
| Goods and services tax (GST) / VAT [2] | 1208 | 1465 | 1623 | 354 | 777 | 1205 | 1667 | 1790 | 1923 |
| Business tax | 893 | 816 | 882 | 139 | 491 | 721 | 944 | 1004 | 1075 |
| Other | 304 | 491 | 354 | 95 | 188 | 344 | 469 | 502 | 538 |
| Nontax | 530 | 722 | 744 | 125 | 287 | 435 | 609 | 625 | 667 |
| Fees and charges | 306 | 398 | 297 | 107 | 167 | 250 | 316 | 299 | 320 |
| Dividends from parastatals | 161 | 266 | 402 | 7 | 67 | 116 | 213 | 239 | 255 |
| Other | 63 | 58 | 46 | 11 | 54 | 69 | 80 | 86 | 92 |
| External grants | 319 | 702 | 691 | 94 | 320 | 412 | 520 | 364 | 330 |
| Expenditure and net lending | 4689 | 5682 | 6111 | 1392 | 2888 | 4346 | 6003 | 6282 | 6640 |
| Current expenditure | 3620 | 3992 | 4536 | 1189 | 2324 | 3557 | 4709 | 4876 | 5131 |
| Primary current expenditure | 3236 | 3452 | 3746 | 1074 | 2138 | 3141 | 4109 | 4313 | 4563 |
| Wages and salaries | 891 | 998 | 1129 | 326 | 646 | 961 | 1261 | 1334 | 1414 |
| Goods and services | 999 | 1134 | 1218 | 339 | 668 | 966 | 1258 | 1320 | 1385 |
| Transfers | 1330 | 1298 | 1366 | 402 | 805 | 1187 | 1563 | 1640 | 1750 |
| Social program of central government | 266 | 290 | 307 | 79 | 169 | 257 | 358 | 383 | 410 |
| Transfers to public sector from central government | 727 | 660 | 663 | 210 | 411 | 592 | 755 | 766 | 804 |
| Benefits and programs of Social Security Fund | 338 | 348 | 396 | 112 | 225 | 337 | 449 | 491 | 536 |
| Other | 15 | 23 | 31 | 7 | 20 | 27 | 28 | 20 | 14 |
| Interest due | 384 | 540 | 790 | 115 | 186 | 416 | 600 | 562 | 569 |
| Foreign interest | 137 | 174 | 189 | 6 | 32 | 96 | 177 | 222 | 255 |
| Domestic interest | 247 | 366 | 601 | 110 | 153 | 320 | 423 | 340 | 314 |
| Capital expenditure | 1060 | 1613 | 1508 | 169 | 498 | 690 | 1162 | 1125 | 1162 |
| Domestically financed | 743 | 872 | 426 | 121 | 242 | 353 | 666 | 722 | 798 |
| Foreign financed | 318 | 741 | 738 | 49 | 257 | 338 | 496 | 403 | 363 |
| Net lending | 9 | -6 | 6 | 22 | 43 | 65 | 87 | 236 | 302 |
| Contingency | 0 | 83 | 62 | 11 | 23 | 34 | 45 | 45 | 45 |
| Primary balance | 709 | 882 | 790 | 2 | 310 | 593 | 721 | 627 | 673 |
| Overall balance, commitment basis [3] | 325 | 342 | 0 | -113 | 124 | 177 | 121 | 65 | 104 |
| Change in arrears | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in float | -217 | 0 | 51 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance, cash basis (after grants) | 124 | 343 | 51 | -113 | 124 | 177 | 121 | 65 | 104 |
| Financing | -124 | -343 | 22 | 113 | -124 | -177 | -121 | -65 | -104 |
| Foreign financing | 2 | 53 | 112 | -6 | -86 | -101 | 303 | 75 | 0 |
| Disbursements | 83 | 168 | 277 | 11 | 24 | 32 | 551 | 338 | 385 |
| Project loans | 83 | 79 | 152 | 11 | 24 | 32 | 257 | 338 | 385 |
| Program/budget support | 0 | 89 | 125 | 0 | 0 | 0 | 294 | 0 | 0 |
| Scheduled amortization | -126 | -121 | -165 | -16 | -111 | -134 | -248 | -263 | -385 |
| Change in amortization arrears | 44 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic financing, net [4] | -177 | -493 | -126 | 110 | -59 | -104 | -489 | -179 | -105 |
| Bank financing | -181 | -642 | 334 | 66 | -35 | -62 | -293 | -161 | -94 |
| CBS | 45 | -1194 | -56 | -20 | -946 | -870 | -800 | -45 | -26 |
| Commercial banks | -226 | 552 | 390 | 86 | 911 | 808 | 507 | -116 | -68 |
| Nonbank financing | 4 | 148 | -460 | 44 | -23 | -41 | -195 | -18 | -10 |
| Privatization and long-term lease of fixed assets | 99 | 84 | 53 | 9 | 21 | 28 | 65 | 38 | 0 |
| Statistical discrepancy | -47 | 14 | -89 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fiscal financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum item:* | | | | 0 | 0 | 0 | 0 | | |
| Pension Fund contribution | 67 | 105 | 108 | 47 | 94 | 141 | 188 | 199 | 210 |
| Pension Fund benefits payment | 78 | 100 | 133 | 35 | 70 | 105 | 140 | 146 | 153 |
| Pension Fund operating expenses | … | … | 0 | 0 | 0 | 0 | 28 | 29 | 30 |
| External debt service due | 263 | 294 | 354 | 22 | 143 | 230 | 425 | 485 | 640 |

Sources: Seychelles authorities and IMF staff estimates and projections.

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

[2] VAT replaced GST in January 2013.

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

[4] Includes one-off operations in 2011 of repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million), and the bond issuance for sterilization purposes in Q2 2014.

## Table 3. Seychelles: Consolidated Government Operations, 2011–16 [1] (continued)

| | 2011 | 2012 | 2013 | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Prel. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Percent of GDP; cumulative from the start of the year) | | | | | | | | |
| Total revenue and grants | 37.7 | 38.9 | 36.5 | 7.1 | 16.6 | 25.0 | 33.8 | 32.7 | 32.5 |
| Total revenue | 35.3 | 34.4 | 32.4 | 6.5 | 14.9 | 22.7 | 31.0 | 30.9 | 30.9 |
| Tax | 31.3 | 29.7 | 28.0 | 5.9 | 13.3 | 20.3 | 27.6 | 27.6 | 27.7 |
| Personal income tax | 4.6 | 4.5 | 4.5 | 1.1 | 2.2 | 3.4 | 4.7 | 4.7 | 4.7 |
| Trade tax | 3.2 | 2.6 | 2.5 | 0.5 | 0.8 | 1.2 | 1.5 | 1.5 | 1.5 |
| Excise tax | 5.5 | 4.7 | 3.9 | 1.0 | 2.2 | 3.2 | 4.4 | 4.4 | 4.4 |
| Goods and services tax (GST) / VAT [2] | 9.1 | 9.5 | 9.7 | 2.0 | 4.3 | 6.7 | 9.2 | 9.2 | 9.3 |
| Business tax | 6.7 | 5.3 | 5.3 | 0.8 | 2.7 | 4.0 | 5.2 | 5.2 | 5.2 |
| Other | 2.3 | 3.2 | 2.1 | 0.5 | 1.0 | 1.9 | 2.6 | 2.6 | 2.6 |
| Nontax | 4.0 | 4.7 | 4.5 | 0.7 | 1.6 | 2.4 | 3.4 | 3.2 | 3.2 |
| Fees and charges | 2.3 | 2.6 | 1.8 | 0.6 | 0.9 | 1.4 | 1.7 | 1.5 | 1.5 |
| Dividends from parastatals | 1.2 | 1.7 | 2.4 | 0.0 | 0.4 | 0.6 | 1.2 | 1.2 | 1.2 |
| Other | 0.5 | 0.4 | 0.3 | 0.1 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| External grants | 2.4 | 4.5 | 4.1 | 0.5 | 1.8 | 2.3 | 2.9 | 1.9 | 1.6 |
| Expenditure and net lending | 35.2 | 36.7 | 36.5 | 7.7 | 16.0 | 24.0 | 33.2 | 32.4 | 32.0 |
| Current expenditure | 27.2 | 25.8 | 27.1 | 6.6 | 12.8 | 19.6 | 26.0 | 25.2 | 24.7 |
| Primary current expenditure | 24.3 | 22.3 | 22.4 | 5.9 | 11.8 | 17.3 | 22.7 | 22.3 | 22.0 |
| Wages and salaries | 6.7 | 6.5 | 6.8 | 1.8 | 3.6 | 5.3 | 7.0 | 6.9 | 6.8 |
| Goods and services | 7.5 | 7.3 | 7.3 | 1.9 | 3.7 | 5.3 | 6.9 | 6.8 | 6.7 |
| Transfers | 10.0 | 8.4 | 8.2 | 2.2 | 4.4 | 6.6 | 8.6 | 8.5 | 8.4 |
| Social program of central government | 2.0 | 1.9 | 1.8 | 0.4 | 0.9 | 1.4 | 2.0 | 2.0 | 2.0 |
| Transfers to public sector from central government | 5.5 | 4.3 | 4.0 | 1.2 | 2.3 | 3.3 | 4.2 | 4.0 | 3.9 |
| Benefits and programs of Social Security Fund | 2.5 | 2.3 | 2.4 | 0.6 | 1.2 | 1.9 | 2.5 | 2.5 | 2.6 |
| Other | 0.1 | 0.2 | 0.2 | 0.0 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 |
| Interest due | 2.9 | 3.5 | 4.7 | 0.6 | 1.0 | 2.3 | 3.3 | 2.9 | 2.7 |
| Foreign interest | 1.0 | 1.1 | 1.1 | 0.0 | 0.2 | 0.5 | 1.0 | 1.1 | 1.2 |
| Domestic interest | 1.9 | 2.4 | 3.6 | 0.6 | 0.8 | 1.8 | 2.3 | 1.8 | 1.5 |
| Capital expenditure | 8.0 | 10.4 | 9.0 | 0.9 | 2.8 | 3.8 | 6.4 | 5.8 | 5.6 |
| Domestically financed | 5.6 | 5.6 | 2.5 | 0.7 | 1.3 | 1.9 | 3.7 | 3.7 | 3.8 |
| Foreign financed | 2.4 | 4.8 | 4.4 | 0.3 | 1.4 | 1.9 | 2.7 | 2.1 | 1.8 |
| Net lending | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 | 0.4 | 0.5 | 1.2 | 1.5 |
| Contingency | 0.0 | 0.5 | 0.4 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Primary balance | 5.3 | 5.7 | 4.7 | 0.0 | 1.7 | 3.3 | 4.0 | 3.2 | 3.2 |
| Overall balance, commitment basis [3] | 2.4 | 2.2 | 0.0 | -0.6 | 0.7 | 1.0 | 0.7 | 0.3 | 0.5 |
| Change in arrears | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in float | -1.6 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis (after grants) | 0.9 | 2.2 | 0.3 | -0.6 | 0.7 | 1.0 | 0.7 | 0.3 | 0.5 |
| Financing | -0.9 | -2.2 | 0.1 | 0.6 | -0.7 | -1.0 | -0.7 | -0.3 | -0.5 |
| Foreign financing | 0.0 | 0.3 | 0.7 | 0.0 | -0.5 | -0.6 | 1.7 | 0.4 | 0.0 |
| Disbursements | 0.6 | 1.1 | 1.7 | 0.1 | 0.1 | 0.2 | 3.0 | 1.7 | 1.9 |
| Project loans | 0.6 | 0.5 | 0.9 | 0.1 | 0.1 | 0.2 | 1.4 | 1.7 | 1.9 |
| Program/budget support | 0.0 | 0.6 | 0.7 | 0.0 | 0.0 | 0.0 | 1.6 | 0.0 | 0.0 |
| Scheduled amortization | -0.9 | -0.8 | -1.0 | -0.1 | -0.6 | -0.7 | -1.4 | -1.4 | -1.9 |
| Change in amortization arrears | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic financing, net [4] | -1.3 | -3.2 | -0.8 | 0.6 | -0.3 | -0.6 | -2.7 | -0.9 | -0.5 |
| Bank financing | -1.4 | -4.1 | 2.0 | 0.4 | -0.2 | -0.3 | -1.6 | -0.8 | -0.5 |
| CBS | 0.3 | -7.7 | -0.3 | -0.1 | -5.2 | -4.8 | -4.4 | -0.2 | -0.1 |
| Commercial banks | -1.7 | 3.6 | 2.3 | 0.5 | 5.0 | 4.5 | 2.8 | -0.6 | -0.3 |
| Nonbank | 0.0 | 1.0 | -2.7 | 0.2 | -0.1 | -0.2 | -1.1 | -0.1 | -0.1 |
| Privatization and long-term lease of fixed assets | 0.7 | 0.5 | 0.3 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.0 |
| Statistical discrepancy | -0.4 | 0.1 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | |
| Nominal GDP (millions of Seychelles Rupees) | 13,304 | 15,468 | 16,723 | 18,103 | 18,103 | 18,103 | 18,103 | 19,381 | 20,750 |
| Pension Fund contribution | 0.5 | 0.7 | 0.6 | 0.3 | 0.5 | 0.8 | 1.0 | 1.0 | 1.0 |
| Pension Fund benefits payment | 0.6 | 0.6 | 0.8 | 0.2 | 0.4 | 0.6 | 0.8 | 0.8 | 0.7 |
| Pension Fund operating expenses | ... | ... | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.1 |
| Public domestic debt (% GDP) [5] | 27.7 | 32.2 | 27.7 | 27.8 | 28.0 | 27.8 | 27.3 | 24.6 | 22.5 |
| Excluding t-bills issued for monetary purposes | ... | 26.1 | 23.1 | 21.4 | 20.5 | 20.3 | 18.6 | 16.5 | 14.9 |
| Publicly guaranteed domestic debt (% GDP) | 2.2 | 2.3 | 1.6 | 1.4 | 1.3 | 1.2 | 1.1 | 0.9 | 0.4 |

Sources: Seychelles authorities and IMF staff estimates and projections.

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

[2] VAT replaced GST in January 2013.

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

[4] Includes one-off operations in 2011 of repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million), and the bond issuance for sterilization purposes in Q2 2014.

[5] Includes debt issued by the Ministry of Finance for monetary purposes.

## Table 3. Seychelles: Consolidated Government Operations (2001 format), 2012–16 [1,2] (concluded)

| | 2012 | 2013 | 2014 Q1 Proj. | 2014 Q2 Proj. | 2014 Q3 Proj. | 2014 Q4 Proj. | 2015 Proj. | 2016 Proj. |
|---|---|---|---|---|---|---|---|---|
| | (Millions of Seychelles rupees; cumulative from the start of the year) | | | | | | | |
| Transactions affecting net worth | | | | | | | | |
| Revenue | 5322 | 5420 | 1184 | 2693 | 4111 | 5604 | 5983 | 6414 |
| Tax | 4600 | 4676 | 1060 | 2405 | 3676 | 4995 | 5358 | 5747 |
| Taxes on income, profits and capital gains | 1517 | 1635 | 332 | 897 | 1335 | 1793 | 1921 | 2058 |
| Payable by individuals | 702 | 754 | 193 | 406 | 614 | 849 | 916 | 982 |
| Payable by corporations and other enterprises | 816 | 882 | 139 | 491 | 721 | 944 | 1004 | 1075 |
| Taxes on goods and services | 2191 | 2275 | 534 | 1168 | 1789 | 2461 | 2641 | 2833 |
| General taxes on goods and services [3] | 1465 | 1623 | 354 | 777 | 1205 | 1667 | 1790 | 1923 |
| Excises | 726 | 652 | 180 | 391 | 583 | 794 | 851 | 910 |
| Taxes on international trade and transactions | 401 | 411 | 98 | 152 | 208 | 271 | 294 | 319 |
| Customs and other import duties | 401 | 411 | 98 | 152 | 208 | 271 | 294 | 319 |
| Other Taxes | 491 | 354 | 95 | 188 | 344 | 469 | 502 | 538 |
| Social contributions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Grants | 702 | 691 | 94 | 320 | 412 | 520 | 364 | 330 |
| Other Revenue | 722 | 744 | 125 | 287 | 435 | 609 | 625 | 667 |
| Property income | 314 | 446 | 13 | 99 | 157 | 261 | 291 | 310 |
| Interest | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends | 266 | 402 | 7 | 67 | 116 | 213 | 239 | 255 |
| Rent | 46 | 44 | 7 | 32 | 41 | 48 | 51 | 55 |
| Administrative fees and charges | 408 | 299 | 111 | 189 | 278 | 348 | 334 | 357 |
| Expense | 4076 | 4597 | 1201 | 2347 | 3591 | 4754 | 4921 | 5176 |
| Compensation of employees | 998 | 1129 | 326 | 646 | 961 | 1261 | 1334 | 1414 |
| Use of goods and services | 1134 | 1218 | 339 | 668 | 966 | 1258 | 1320 | 1385 |
| Interest payments | 540 | 790 | 115 | 186 | 416 | 600 | 562 | 569 |
| External | 174 | 189 | 6 | 32 | 96 | 177 | 222 | 255 |
| Domestic | 366 | 601 | 110 | 153 | 320 | 423 | 340 | 314 |
| Subsidies | 660 | 663 | 210 | 411 | 592 | 755 | 766 | 804 |
| Grants | 290 | 307 | 79 | 169 | 257 | 358 | 383 | 410 |
| Social benefits | 348 | 396 | 112 | 225 | 337 | 449 | 491 | 536 |
| Other expense | 107 | 93 | 18 | 42 | 60 | 73 | 65 | 59 |
| Other | 23 | 31 | 7 | 20 | 27 | 28 | 20 | 14 |
| Contingency | 83 | 62 | 11 | 23 | 34 | 45 | 45 | 45 |
| Gross Operating Balance | 1948 | 1514 | 78 | 666 | 932 | 1369 | 1426 | 1568 |
| Transactions in non-financial assets | | | | | | | | |
| Purchases of nonfinancial assets | 1613 | 1508 | 169 | 498 | 690 | 1162 | 1125 | 1162 |
| Sales of nonfinancial assets | 84 | 53 | 9 | 21 | 28 | 65 | 38 | 0 |
| Net acquisition of non-financial assets | 1529 | 1455 | 161 | 477 | 662 | 1097 | 1087 | 1162 |
| Net lending/borrowing | 420 | 59 | -83 | 188 | 270 | 272 | 340 | 406 |
| Transactions in financial assets and liabilities | 434 | -30 | -83 | 188 | 270 | 272 | 340 | 406 |
| Net acquisition of financial assets | 1187 | 12 | 41 | 989 | 935 | 887 | 281 | 328 |
| Currency and deposits | 1194 | 5 | 20 | 946 | 870 | 800 | 45 | 26 |
| Shares and other equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans | -6 | 6 | 22 | 43 | 65 | 87 | 236 | 302 |
| Policy loans (net lending) | -6 | 6 | 22 | 43 | 65 | 87 | 236 | 302 |
| Net incurrence of liabilities | 753 | 42 | 124 | 801 | 665 | 614 | -59 | -78 |
| Foreign | 53 | 112 | -6 | -86 | -101 | 303 | 75 | 0 |
| Disbursements | 168 | 277 | 11 | 24 | 32 | 551 | 338 | 385 |
| Budget support loans | 89 | 125 | 0 | 0 | 0 | 294 | 0 | 0 |
| Project loans | 79 | 152 | 11 | 24 | 32 | 257 | 338 | 385 |
| Scheduled amortization | -121 | -165 | -16 | -111 | -134 | -248 | -263 | -385 |
| Change in amortisation arrears | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic | 700 | -70 | 130 | 887 | 766 | 311 | -134 | -79 |
| Monetary sector | 552 | 390 | 86 | 911 | 808 | 507 | -116 | -68 |
| Non-monetary sector | 148 | -460 | 44 | -23 | -41 | -195 | -18 | -10 |
| Statistical discrepancy | 14 | -89 | 0 | 0 | 0 | 0 | 0 | 0 |

Sources: Seychelles authorities and IMF staff estimates and projections.

[1] Seychelles is in the process of transitioning to the 2001 format; this is a preliminary accounting.

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

[3] VAT replaced GST in January 2013.

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

## Table 4. Seychelles: Monetary Survey and Central Bank Accounts, 2010–14

| | 2010 | 2011 | 2012 | 2013 | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Mar. | Jun. | Sep. | Dec. |
| | | | | | Proj. | Proj. | Proj. | Proj. |
| | (Millions of Seychelles rupees) | | | | | | | |
| **Monetary survey** | | | | | | | | |
| Net foreign assets | 3,644 | 4,450 | 5,297 | 7,247 | 7,631 | 7,608 | 7,839 | 8,111 |
| Central bank | 2,709 | 3,303 | 3,434 | 4,580 | 4,897 | 4,805 | 4,967 | 5,107 |
| Deposit money banks | 935 | 1,147 | 1,863 | 2,667 | 2,735 | 2,803 | 2,872 | 3,004 |
| Net domestic assets | 3,622 | 3,145 | 2,257 | 2,093 | 1,952 | 2,145 | 2,080 | 2,000 |
| Domestic credit | 5,652 | 5,657 | 5,295 | 5,825 | 5,775 | 5,862 | 5,825 | 5,750 |
| Net claims on the government | 2,567 | 2,380 | 1,786 | 2,335 | 2,401 | 2,300 | 2,273 | 2,042 |
| Credit to the economy | 3,085 | 3,277 | 3,510 | 3,490 | 3,374 | 3,562 | 3,552 | 3,709 |
| *Of which* : credit to the private sector | 2,861 | 3,011 | 3,266 | 3,412 | 3,300 | 3,475 | 3,468 | 3,644 |
| Other items, net | -2,029 | -2,511 | -3,039 | -3,732 | -3,823 | -3,717 | -3,745 | -3,750 |
| Broad money | 7,266 | 7,596 | 7,554 | 9,340 | 9,583 | 9,753 | 9,918 | 10,111 |
| Currency in circulation | 580 | 623 | 629 | 757 | 772 | 788 | 803 | 819 |
| Foreign currency deposits | 1,708 | 2,406 | 2,441 | 2,948 | 3,256 | 3,360 | 3,465 | 3,570 |
| Local currency deposits | 4,979 | 4,566 | 4,484 | 5,635 | 5,555 | 5,605 | 5,650 | 5,722 |
| **Central bank** | | | | | | | | |
| Net foreign assets | 2,709 | 3,303 | 3,434 | 4,580 | 4,897 | 4,805 | 4,967 | 5,107 |
| Foreign assets | 3,087 | 3,800 | 3,972 | 5,103 | 5,421 | 5,351 | 5,504 | 5,667 |
| Foreign liabilities | 379 | 497 | 538 | 524 | 525 | 547 | 538 | 560 |
| Net domestic assets | -962 | -1,604 | -1,617 | -2,484 | -2,238 | -2,154 | -2,325 | -2,470 |
| Domestic credit | -506 | -883 | -1,113 | -2,082 | -1,826 | -1,729 | -1,881 | -2,012 |
| Government (net) | 780 | 835 | -358 | -414 | -434 | -1,361 | -1,284 | -1,214 |
| Commercial banks | -1,135 | -1,512 | -636 | -1,570 | -1,294 | -270 | -499 | -700 |
| Other (parastatals) | -151 | -206 | -119 | -98 | -98 | -98 | -98 | -98 |
| Other items, net | -456 | -721 | -504 | -401 | -412 | -425 | -444 | -458 |
| Reserve money | 1,746 | 1,699 | 1,816 | 2,096 | 2,659 | 2,651 | 2,642 | 2,637 |
| Currency in circulation | 580 | 623 | 629 | 757 | 772 | 788 | 803 | 819 |
| Commercial bank reserves (includes cash in vault) | 1,166 | 1,075 | 1,187 | 1,339 | 1,887 | 1,863 | 1,839 | 1,818 |
| *Of which* : vault cash | 74 | 84 | 110 | 143 | 146 | 149 | 152 | 155 |
| *Of which* : excess reserves (excl. bank vault cash) | 355 | -10 | 59 | -59 | 450 | 400 | 350 | 300 |
| *Of which* : required reserves in foreign currency [1, 2] | 193 | 322 | 350 | 385 | 446 | 460 | 475 | 489 |
| required reserves in domestic currency [2] | 545 | 679 | 667 | 870 | 845 | 854 | 862 | 874 |
| *Memorandum items:* | | | | | | | | |
| Gross international reserves (millions of U.S. dollars) [3] | 254 | 277 | 307 | 425 | 446 | 437 | 446 | 456 |
| Foreign currency deposits (millions of U.S. dollars) | 141 | 175 | 188 | 243 | 268 | 274 | 281 | 287 |
| Broad money growth (12–month percent change) | 13.5 | 4.5 | -0.6 | 23.7 | 24.9 | 16.3 | 14.3 | 8.3 |
| Credit to the private sector (12–month percent change) | 23.6 | 5.2 | 8.5 | 4.5 | 2.1 | 7.7 | 3.5 | 6.8 |
| Reserve money (end of period; 12–month percent change) | 34.7 | -2.7 | 6.9 | 15.4 | 41.5 | 40.7 | 37.5 | 25.8 |
| Reserve money (daily average over quarter; 12–month percent change) | … | … | … | … | 20.1 | 12.0 | 1.4 | -10.8 |
| Money multiplier (broad money/reserve money) | 4.2 | 4.5 | 4.2 | 4.5 | 3.6 | 3.7 | 3.8 | 3.8 |
| Velocity (GDP/broad money; end of period) | 1.6 | 1.8 | 2.0 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |

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

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

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

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

## Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2010–13 [1]

| | 2010 | | | | 2011 | | | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | (Percent, end of period) | | | | | | | | | | | | | | | |
| **Capital adequacy** | | | | | | | | | | | | | | | | |
| Regulatory capital to risk weighted assets | 21.4 | 22.1 | 21.7 | 21.5 | 23.3 | 24.8 | 26.3 | 24.2 | 24.9 | 25.9 | 26.2 | 26.7 | 26.9 | 26.0 | 26.1 | 26.7 |
| Regulatory tier 1 capital to risk weighted assets | 20.7 | 21.5 | 21.1 | 20.8 | 16.8 | 21.0 | 21.1 | 17.3 | 18.1 | 21.6 | 19.9 | 19.3 | 18.6 | 22.0 | 20.8 | 21.0 |
| Capital to assets (net worth) | 9.3 | 8.7 | 9.1 | 9.2 | 9.3 | 9.6 | 10.1 | 9.0 | 9.1 | 9.5 | 9.8 | 10.3 | 10.4 | 9.8 | 9.4 | 9.7 |
| Net tangible capitalization [2] | 9.4 | 8.8 | 9.1 | 9.3 | 9.4 | 9.7 | 10.2 | 9.1 | 9.3 | 9.6 | 9.9 | 10.4 | 10.5 | 9.9 | 9.6 | 9.8 |
| **Asset quality** | | | | | | | | | | | | | | | | |
| Foreign exchange loans to total loans | 34.3 | 29.7 | 27.8 | 25.5 | 23.7 | 20.1 | 18.5 | 18.4 | 20.9 | 20.0 | 17.9 | 18.7 | 17.8 | 17.1 | 18.6 | 18.7 |
| Nonperforming loans to gross loans | 4.1 | 6.9 | 6.4 | 5.5 | 5.4 | 5.6 | 5.3 | 8.1 | 8.3 | 9.2 | 8.3 | 9.3 | 9.6 | 9.5 | 12.5 | 9.4 |
| Provisions as percentage of nonperforming loans | 41.7 | 26.0 | 26.0 | 31.4 | 30.9 | 37.3 | 40.4 | 33.8 | 33.9 | 32.1 | 33.3 | 29.5 | 37.0 | 37.3 | 27.6 | 39.2 |
| Provisions as percentage of total loans | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 2.1 | 2.2 | 2.7 | 2.8 | 3.0 | 2.7 | 2.7 | 3.5 | 3.5 | 3.4 | 3.7 |
| **Earnings and profitability** | | | | | | | | | | | | | | | | |
| Return on assets (annualized) | 3.4 | 5.0 | 3.0 | 3.7 | 3.9 | 3.1 | 3.6 | 5.6 | 3.5 | 3.9 | 4.2 | 3.1 | 2.3 | 3.3 | 2.7 | 1.9 |
| Return on equity (annualized) | 33.6 | 54.3 | 33.7 | 40.0 | 40.8 | 32.6 | 36.4 | 61.6 | 38.3 | 40.8 | 41.3 | 29.8 | 22.2 | 33.7 | 28.3 | 19.6 |
| Interest margin to gross income | 56.5 | 60.2 | 59.9 | 50.6 | 46.8 | 56.3 | 61.6 | 55.8 | 52.8 | 57.5 | 64.6 | 62.7 | 84.7 | 61.1 | 56.9 | 56.6 |
| Noninterest expense to gross income | 44.0 | 52.0 | 47.6 | 39.9 | 46.7 | 49.3 | 46.4 | 22.3 | 44.0 | 40.7 | 39.0 | 56.6 | 56.6 | 45.4 | 46.3 | 65.1 |
| Net interest margin (annualized)[3] | 3.1 | 3.6 | 3.4 | 3.1 | 3.0 | 3.5 | 4.2 | 3.9 | 3.6 | 3.5 | 3.9 | 4.1 | 4.3 | 3.9 | 3.3 | 3.2 |
| Net noninterest margin (annualized)[4] | 0.0 | -0.7 | -0.4 | 0.6 | 0.4 | -0.3 | -0.5 | 1.5 | 0.3 | 0.2 | 0.1 | 0.0 | -1.3 | -0.6 | -0.4 | -0.4 |
| Expense to income | 53.0 | 58.0 | 53.6 | 46.6 | 50.8 | 53.6 | 50.1 | 28.5 | 44.7 | 45.4 | 45.4 | 46.4 | 57.0 | 52.1 | 51.9 | 54.5 |
| Interest expense to gross income | 19.0 | 14.2 | 12.8 | 12.5 | 8.5 | 9.3 | 7.4 | 8.7 | 9.3 | 9.7 | 10.9 | 11.8 | 20.0 | 17.0 | 16.4 | 15.3 |
| **Liquidity** | | | | | | | | | | | | | | | | |
| Core liquid assets to total assets[5] | 43.5 | 44.7 | 44.7 | 46.9 | 47.1 | 47.1 | 47.7 | 49.9 | 49.6 | 48.6 | 47.9 | 39.6 | 38.9 | 39.5 | 41.4 | 41.6 |
| Broad liquid assets to total assets[6] | 58.6 | 60.0 | 58.1 | 58.9 | 56.6 | 55.7 | 57.0 | 58.8 | 59.3 | 57.9 | 59.6 | 52.0 | 52.2 | 53.3 | 53.0 | 54.7 |
| Liquid assets (broad) to short term liabilities | 65.0 | 63.4 | 62.1 | 62.9 | 60.0 | 58.8 | 60.9 | 63.0 | 65.4 | 64.6 | 66.6 | 58.1 | 58.6 | 59.5 | 58.9 | 61.2 |
| Liquid assets (broad) to total liabilities | 64.7 | 65.7 | 63.8 | 64.9 | 62.4 | 61.6 | 63.4 | 64.7 | 65.3 | 64.0 | 66.1 | 58.0 | 58.2 | 59.1 | 58.5 | 60.6 |
| Liquid assets to deposit liabilities | 72.4 | 72.0 | 69.1 | 69.1 | 65.5 | 64.5 | 68.7 | 71.0 | 70.9 | 69.7 | 71.0 | 62.5 | 62.6 | 63.1 | 62.4 | 64.3 |
| **Foreign exchange exposure** | | | | | | | | | | | | | | | | |
| Net open foreign exchange position to capital | 22.2 | 24.7 | 29.2 | 5.6 | 3.8 | 2.2 | 1.5 | 1.9 | 2.9 | -3.9 | -0.8 | 7.9 | 6.8 | -0.6 | 3.7 | 8.9 |

Source: Central Bank of Seychelles.

[#] Excluding purely offshore banks.

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

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

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

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

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

## Table 6. Seychelles: Gross Financing Requirements, 2012–19

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| | | Prel | | Program | | Proj | Proj | Proj |
| | | | | (Millions of US Dollars) | | | | |
| **Gross external financing requirements** | **301.2** | **256.5** | **300.4** | **299.8** | **299.8** | **323.6** | **320.0** | **333.1** |
| Current account deficit (if surplus = -) [1] | 284.5 | 234.0 | 278.5 | 275.9 | 265.2 | 278.5 | 273.8 | 288.2 |
| Amortization of medium- and long-term debt | 16.6 | 22.5 | 21.9 | 23.9 | 34.6 | 45.2 | 46.2 | 44.9 |
| To external private creditors | 4.3 | 7.4 | 8.1 | 8.5 | 17.4 | 25.5 | 22.0 | 18.5 |
| To external official creditors | 12.3 | 15.1 | 13.7 | 15.4 | 17.1 | 19.7 | 24.3 | 26.4 |
| IMF | 5.6 | 8.4 | 3.4 | 2.8 | 4.1 | 5.7 | 7.3 | 8.1 |
| Other official creditors | 6.7 | 6.7 | 10.3 | 12.5 | 13.0 | 14.0 | 17.0 | 18.3 |
| **Available financing** | **326.5** | **370.0** | **265.0** | **288.6** | **292.9** | **323.4** | **327.2** | **340.0** |
| Net FDI | 208.2 | 183.5 | 243.6 | 231.2 | 241.3 | 252.5 | 264.8 | 278.2 |
| Medium- and long-term borrowing | 13.0 | 12.6 | 20.9 | 30.7 | 33.0 | 41.7 | 41.5 | 41.6 |
| Project loans from official creditors | 13.0 | 12.6 | 20.9 | 30.7 | 33.0 | 41.7 | 41.5 | 41.6 |
| Other net capital inflows [2] | 105.3 | 173.9 | 0.4 | 26.7 | 18.6 | 29.3 | 21.0 | 20.2 |
| **Reserve assets (decrease = +)** | **-25.3** | **-113.5** | **-30.9** | **-23.1** | **-24.5** | **-27.8** | **-31.1** | **-30.7** |
| **Remaining financing gap** | **0.0** | **0.0** | **66.4** | **34.3** | **31.3** | **27.9** | **23.9** | **23.9** |
| **Program financing** | **0.0** | **0.0** | **66.4** | **34.3** | **31.3** | **27.9** | **23.9** | **23.9** |
| Borrowing from IMF (gross) | | | 5.0 | 5.1 | 5.1 | 2.6 | 0.0 | 0.0 |
| Program loans from other official creditors | | | 24.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank | | | 14.0 | | | | | |
| AfDB | | | 10.0 | | | | | |
| Program and project grants | | | 37.4 | 29.2 | 26.2 | 25.3 | 23.9 | 23.9 |
| EU | | | 6.0 | 1.4 | 1.4 | 1.4 | | |
| Other | | | 31.4 | 27.8 | 24.8 | 23.9 | 23.9 | 23.9 |
| Of which: Identified | | | 31.4 | 27.8 | 24.8 | 0.0 | 0.0 | 0.0 |
| **Memorandum items** | | | | | | | | |
| Gross official reserves | 307.5 | 425.1 | 456.3 | 480.5 | 506.0 | 530.8 | 554.6 | 577.2 |
| In months of imports | 3.0 | 3.8 | 4.0 | 4.1 | 4.2 | 4.2 | 4.2 | 4.3 |
| Total external debt in percent of GDP | 45.3 | 37.6 | 37.2 | 36.5 | 35.0 | 33.1 | 31.0 | 29.0 |

Sources: Seychelles authorities and IMF staff estimates and projections.

[1] Excludes official sector program grants.

[2] For 2012 and 2013 includes program financing under the 2010 EFF.

## Table 7. Seychelles: Indicators of Fund Credit, 2013-22

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (in millions of SDR) | | | | | |
| **Existing Fund credit** | | | | | | | | | | |
| Stock [1] | 28.3 | 26.1 | 24.2 | 21.6 | 18.1 | 13.7 | 9.3 | 5.2 | 2.6 | 0.8 |
| Obligation | 5.8 | 2.5 | 2.1 | 2.9 | 3.8 | 4.6 | 4.5 | 4.2 | 2.6 | 1.8 |
| Principal (repayments/repurchases) | 5.5 | 2.2 | 1.8 | 2.6 | 3.6 | 4.4 | 4.4 | 4.1 | 2.6 | 1.8 |
| Charges and interest | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 |
| Disbursements | 6.6 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Projected EFF** | | | | | | | | | | |
| Disbursement | | 3.3 | 3.3 | 3.3 | 1.6 | ... | | | | |
| Stock [1,] | | 3.3 | 6.5 | 9.8 | 11.4 | 11.3 | 10.6 | 9.4 | 7.6 | 5.7 |
| Obligations [2] | | 0.0 | 0.1 | 0.10 | 0.1 | 0.3 | 0.8 | 1.4 | 1.9 | 2.0 |
| Principal (repayments/repurchases) | | 0.0 | 0.0 | 0.00 | 0.0 | 0.1 | 0.7 | 1.2 | 1.8 | 1.9 |
| Charges and interest | | 0.0 | 0.1 | 0.10 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| **Stock of existing and prospective Fund credit [1]** | 28.3 | 29.3 | 30.8 | 31.4 | 29.5 | 25.0 | 19.9 | 14.6 | 10.2 | 6.5 |
| In percent of quota | 259.4 | 269.2 | 282.4 | 288.4 | 270.7 | 229.0 | 182.4 | 133.8 | 94.0 | 60.0 |
| In percent of GDP | 3.1 | 3.1 | 3.1 | 3.0 | 2.7 | 2.2 | 1.6 | 1.1 | 0.8 | 0.5 |
| In percent of exports of goods and services | 3.9 | 4.0 | 4.1 | 4.0 | 3.7 | 3.0 | 2.3 | 1.6 | 1.1 | 0.7 |
| In percent of gross reserves | 10.2 | 10.0 | 10.0 | 9.8 | 8.9 | 7.2 | 5.5 | 4.0 | 2.8 | 1.8 |
| **Obligations to the Fund from existing and prospective Fund arrangements** | | | | | | | | | | |
| Disbursements | 6.6 | 3.3 | 3.3 | 3.3 | 1.6 | ... | ... | ... | ... | |
| Obligations | 5.8 | 2.5 | 2.2 | 3.0 | 3.9 | 4.9 | 5.4 | 5.5 | 4.5 | 3.8 |
| Principal (repayments/repurchases) | 5.5 | 2.2 | 1.8 | 2.6 | 3.6 | 4.5 | 5.1 | 5.3 | 4.3 | 3.7 |
| Charges and interest | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 |
| In percent of quota | 52.8 | 23.3 | 20.1 | 27.2 | 36.1 | 44.6 | 49.1 | 50.6 | 41.2 | 35.0 |
| In percent of GDP | 0.6 | 0.3 | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| In percent of exports of goods and services | 0.8 | 0.3 | 0.3 | 0.4 | 0.5 | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 |
| In percent of gross reserves | 2.1 | 0.9 | 0.7 | 0.9 | 1.2 | 1.4 | 1.5 | 1.5 | 1.2 | 1.0 |

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.

## Table 8. Seychelles: Schedule of Reviews and Purchases Under the Proposed Extended Arrangement, 2014–17

| Program Review | Date of availability | Conditions | Amount (Millions of SDR) | Amount (Percent of quota) |
|---|---|---|---|---|
| | June 4, 2014 | Board approval of the Extended Arrangement | 1.635 | 15 |
| First | September 15, 2014 | Completion of first review and compliance with end-June 2014 quantitative performance criteria | 1.635 | 15 |
| Second | March 31, 2015 | Completion of second review and compliance with end-December 2014 quantitative performance criteria | 1.635 | 15 |
| Third | September 15, 2015 | Completion of third review and compliance with end-June 2015 quantitative performance criteria | 1.635 | 15 |
| Fourth | March 31, 2016 | Completion of fourth review and compliance with end-December 2015 quantitative performance criteria | 1.635 | 15 |
| Fifth | September 15, 2016 | Completion of fifth review and compliance with end-June 2016 quantitative performance criteria | 1.635 | 15 |
| Sixth | March 31, 2017 | Completion of sixth review and compliance with end-December 2016 quantitative performance criteria | 1.635 | 15 |
| **Total** | | | **11.445** | **105** |

Source: IMF.

# Annex I. Debt Sustainability Analysis[1]

*While the public debt level remains high by international standards, it has been falling sharply since the 2008 crisis as a result of the significant fiscal primary surpluses and substantial debt relief from creditors. Risks remain significant but are mitigated by the authorities' strong commitment to further reducing the public debt-to-GDP ratio to below 50 percent of GDP over the medium term. Under the baseline scenario, gross public debt is expected to fall below 50 percent of GDP by 2018. Risks to the baseline debt profile include depreciation (60 percent of the debt is in foreign currency) and a deviation from the baseline fiscal path. With almost 30 percent of the debt stock in short-term domestic instruments, gross financing needs remain significant over the medium term, albeit on a declining trend, and rollover risks are limited by large cash reserves. While the external debt burden has fallen significantly in recent years, the large financing needs implied by the substantial current account deficit remain a source of vulnerability. The risks are mitigated, however, by the extent to which official creditors are willing to provide support on favorable terms, combined with the predominant reliance on non-debt creating flows to the private sector.*

1. **Macroeconomic and fiscal assumptions:** The assumptions underpinning the DSA are those of the baseline scenario of the staff report. Real GDP growth is projected at 3.7 percent in 2014, remaining around that level in the medium term. Inflation is projected at around 3 percent over the medium term. The program primary fiscal surplus (the program definition, which includes net lending by the government to SOEs, is retained in this analysis given that gross debt levels are a concern and the PUC's tariff structure is not currently sufficient to cover fully the cost of its capital) is expected to remain just over 3 percent of GDP until 2017, after which it is projected to decline slightly. Projected outcomes for exports, tourism and FDI have strengthened since the last DSA, reflecting Seychelles' success in diversifying the sources of visitors as well as a stronger-than-projected FDI pipeline. The DSA tool that assesses the realism of the main assumptions on growth, primary balance, and inflation does not indicate systematic forecast errors.

2. **The definition of public debt in this DSA includes:** (i) central government debt as reported by the authorities; (ii) government guarantees issued for loans extended to state-owned enterprises; and (iii) obligations to the IMF. In view of the persistent excess liquidity in the Seychelles, debt issued by the central government for monetary purposes is included in the public debt stock in this analysis: for while there is an offsetting unremunerated deposit in the central bank, the debt does impose an interest cost and rollover need for the public sector, and this debt is not expected to be unwound over the medium term.[2]

3. **The DSA framework suggests that Seychelles' public debt is currently around the high-risk benchmark, but is falling rapidly.** The DSA suggests that although debt was still high at around 65 percent of GDP at end-2013, it is projected to fall by almost 20 percentage points in

[1] Prepared by Joseph Thornton (AFR), with input from Naly Carvalho (AFR).

[2] In order to illustrate the impact of excluding debt issued for monetary purposes, the "net public debt" figures shown in the tables consist of gross debt less the government deposits held at the central bank as a counterpart to the sterilization operations. The net debt does not exclude other, smaller, government deposits which may be required for cash management purposes etc.

the medium term under the baseline scenario, reaching 46 percent in 2019.[3] Assuming unchanged policies and no major negative shocks, the debt-to-GDP ratio will continue falling far below 70 percent, the indicative threshold used in the DSA framework to highlight high risk debt levels (red in the standardized heat map on page 4).[4] Under this scenario, the authorities are assumed to maintain their commitment to fiscal discipline, which, although evidenced by their strong track record, may come under increasing pressure as a result of pent-up demands for investment spending, as well as wage pressures.

4. **Under a number of individual shock scenarios the debt-to-GDP ratio remains below the corresponding high-risk benchmark of 70 percent.** Under the growth shock, the debt-to-GDP ratio would peak in 2016 and fall thereafter but to levels still above the 50 percent target, rather than falling below it as under the baseline. A real exchange rate shock would see the debt increase slightly in 2015 before falling thereafter. Other one-time shocks to the primary balance and the real interest rate would merely moderate the pace of the fall in the debt-to-GDP ratio.

5. **A combined macro-fiscal shock would send the debt-to-GDP ratio above the critical value of 70 percent.** The combined macro-fiscal shock is an aggregation of the shocks to real growth, the interest rate, the primary balance and the exchange rate. Under this scenario the debt-to-GDP ratio would peak close at around 90 percent before falling gradually, while the debt-to-revenue ratio would increase to almost 290 percent.

6. **The baseline scenario and the numerous shocks produced by the DSA template indicate that, while Seychelles remains very vulnerable to exogenous shocks, continued strong policy implementation should see these risks diminish over the medium term.** Under the baseline, gross financing needs remain above the 10 percent indicative threshold for high risk throughout the projection period. Moreover, gross financing needs increase significantly under various shocks, especially under the combined macro-fiscal shock or the real GDP growth shock. While the continued fiscal consolidation will help to reduce gross financing needs, further measures to extend the average maturity of domestic issuance would also reduce rollover risks.

7. **While the heat map suggests risks stemming from Seychelles' high gross financing needs and external financing requirements, these risks are somewhat mitigated by country-specific factors.** Risks from the debt level are deemed low or medium given that the debt-to-GDP ratio tends to remain under the 70 percent threshold. However, all gross financing needs cells are red, suggesting high risk according to the threshold of 10 percent of GDP. In addition, Seychelles' high current account deficit also results in high gross external financing requirements, which is accompanied by significant amounts of debt held by non-residents as well as large debts held in foreign currency. Assuming Seychelles continues to generate significant fiscal surpluses

[3] The debt-to-GDP ratios for end-2012 onwards have been revised down significantly since the last DSA, reflecting a 8.2 percent upward revision to 2012 nominal GDP, a stronger-than-projected currency, and slower-than-projected disbursements of debt supporting large infrastructure projects.

[4] The 70 percent of GDP debt benchmark is based on a cross-country early-warning exercise of emerging market countries that have experienced episodes of debt distress.

over the medium term, the government's external financing needs can be comfortably accommodated by borrowing from multilateral and bilateral creditors, while the significant excess domestic liquidity offers ample scope for additional domestic issuance.[5] Rollover risks are further mitigated by the significant government deposits (around one-fifth of annual rollover needs) and negligible non-resident participation in the domestic debt market (97 percent of marketable securities are held by the domestic banking system). Furthermore, the current account deficit is largely financed by relatively stable sources of FDI, particularly in the tourism sector. In this context, barring large shocks to the tourism sector, the risks highlighted by the heat map are contained and diminishing. Seychelles is also discussing a debt-for-nature swap with its external creditors, which if realized could serve to reduce its external debt obligations and reduce pressures on the balance of payments.[6]

8. **Gross external debt stood at 38 percent of GDP at end-2013, less than half its level five years earlier.[7]** A combination of debt relief from external creditors and strong fiscal surpluses has served to bring down the substantial debt overhang. The end-2013 debt figure is 14 percentage points lower than projected in the previous DSA (IMF Country Report No. 13/24), reflecting a large upward revision to GDP as well as a stronger-than-expected currency and slower disbursement of large debt-funded infrastructure investments. Under current policies, the external debt burden is expected to fall further as the large current account deficit continues to be financed largely through FDI, with modest external public borrowing confined to official bilateral and multilateral sources at favorable rates.

9. **Nevertheless, risks remain given the small size and vulnerability of Seychelles' economy.** External financing needs remain high over the medium term, as repayment of the privately held public debt rescheduled post-crisis begins to put pressure on the balance of payments. A permanent ½ standard deviation shock to growth, implying growth of around 1.1 percent rather than the 3.6 percent in the baseline, would lead to a brief increase in the external debt-to-GDP ratio, but assuming that FDI flows were not affected, the ratio would still fall just below 30 percent of GDP by the end of the projection period as under the baseline. A permanent ½ standard deviation shock to the current account (excluding interest payments) would have a more dramatic impact on the external debt burden and would increase the debt-to-GDP ratio to almost 50 percent by 2019, compared with 30 percent in the baseline scenario. The country also remains vulnerable to higher interest rates on the external debt: a permanent ½ standard deviation shock to interest rates would see the debt increase to 36 percent at the end

[5] In considering the appropriate mix between domestic and external financing, the authorities will need to weigh the longer maturities offered by external creditors against the foreign exchange risk and possible consequences for increased sterilization needs that external finance can entail.

[6] Under the proposal, Seychelles would buy-back or swap part of its foreign debts in exchange for issuing (domestic) debt instruments to a trust which would support marine conservation efforts.

[7] This external DSA is based largely on public and publicly-guaranteed debt, in the absence of good data on the extent of private external borrowing. Work is ongoing to improve the coverage of private debt data. A large part of private debt liabilities are believed to have been incurred by the larger hotel groups, including intra-group loans from the (foreign) parent company.

of the projection period. Finally, a 30 percent depreciation of the domestic currency would see the external debt-to-GDP ratio peak at around 55 percent in 2015 before declining thereafter to 44 percent in 2019.

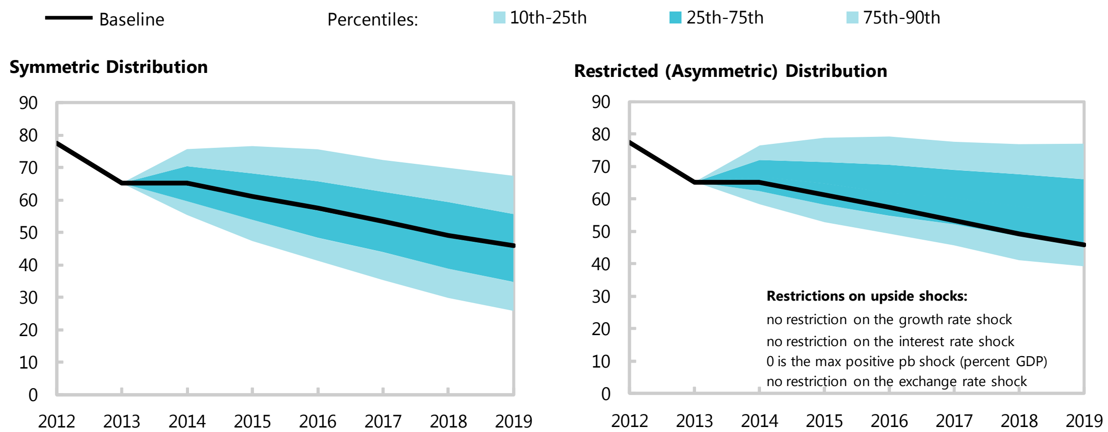
## Seychelles Public DSA Risk Assessment

### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level 1/ | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs 2/ | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile 3/ | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

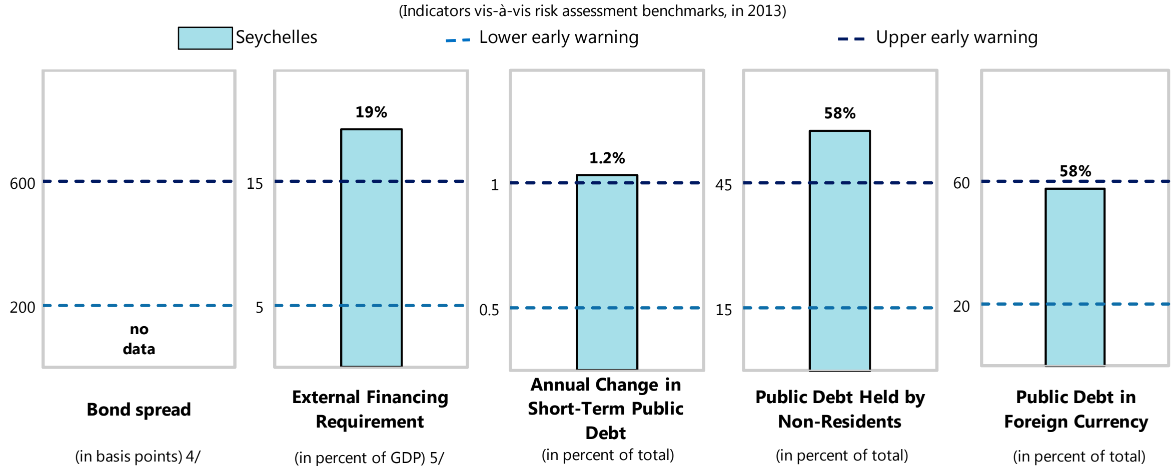
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)




Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

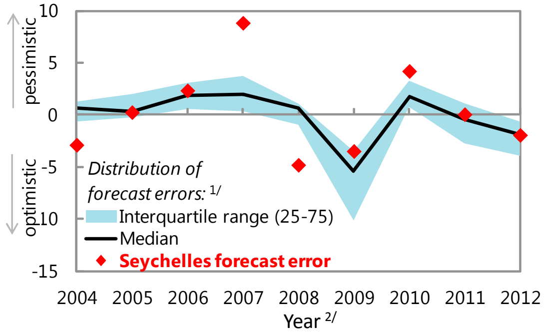
4/ Long-term bond spread over German bonds, an average over the last 3 months, 03-Jul-13 through 01-Oct-13.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

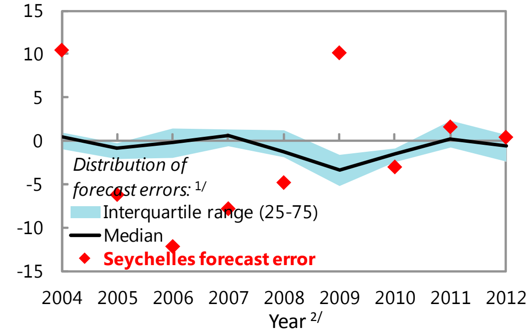
## Seychelles Public DSA - Realism of Baseline Assumptions

### Forecast Track Record, versus program countries

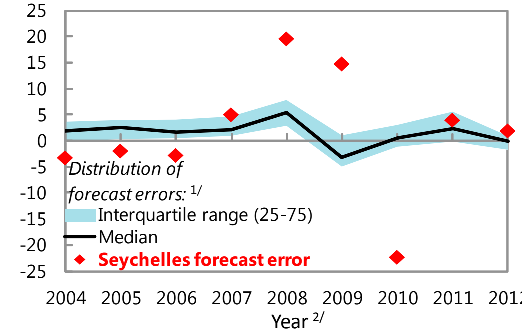
**Real GDP Growth**
(in percent, actual-projection)
Seychelles median forecast error, 2004-2012: **0.01**
Has a percentile rank of: **42%**




**Primary Balance**
(in percent of GDP, actual-projection)
Seychelles median forecast error, 2004-2012: **-3.01**
Has a percentile rank of: **5%**

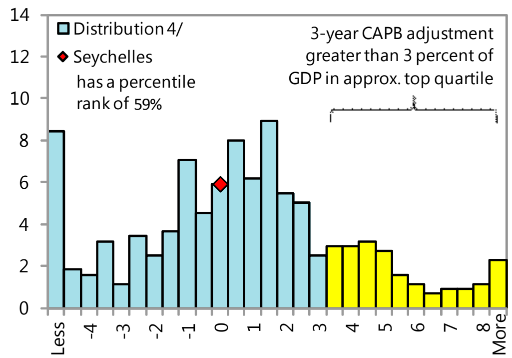



**Inflation (Deflator)**
(in percent, actual-projection)
Seychelles median forecast error, 2004-2012: **1.88**
Has a percentile rank of: **60%**

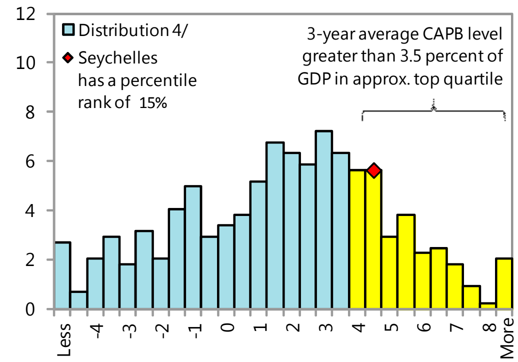



### Assessing the Realism of Projected Fiscal Adjustment

**3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)**
(Percent of GDP)

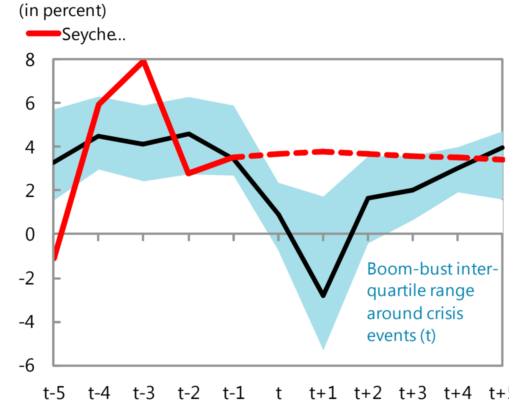



**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**
(Percent of GDP)




### Boom-Bust Analysis 3/

**Real GDP growth**
(in percent)




Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Seychelles has had a positive output gap for 3 consecutive years, 2011-2013. For Seychelles, t corresponds to 2014; for the distribution, t corresponds to the first year of the crisis.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

## Seychelles Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

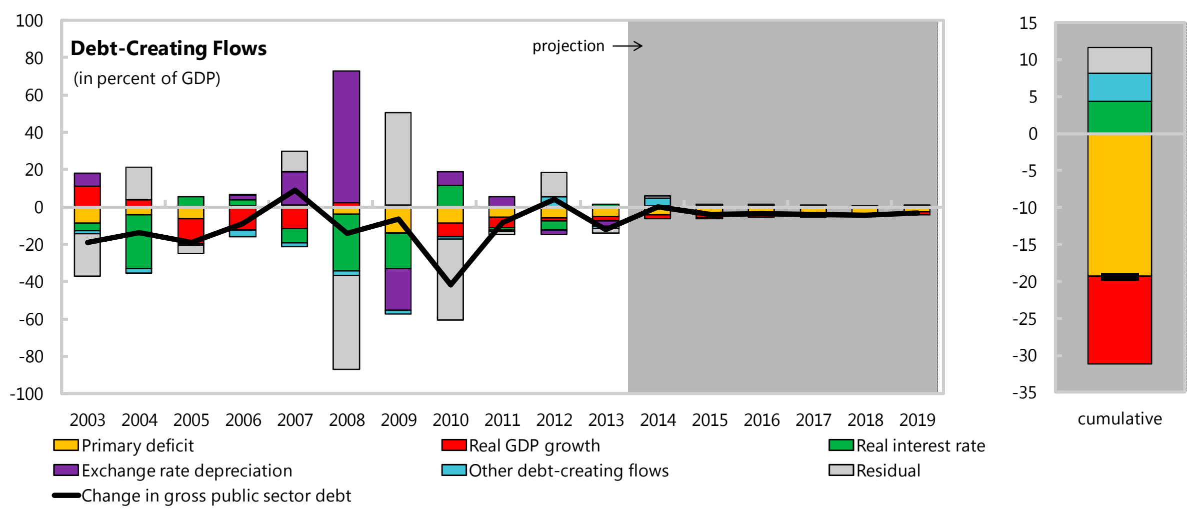
### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003-2011 [2/] | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Nominal gross public debt | 130.2 | 77.5 | 65.3 | 65.2 | 61.2 | 57.5 | 53.4 | 49.1 | 45.9 |
| Of which: guarantees | 0.7 | 2.3 | 1.6 | 1.4 | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 |
| Public gross financing needs | 38.4 | 15.2 | 23.7 | 20.3 | 17.8 | 18.9 | 19.4 | 18.7 | 17.8 |
| Net public debt | 130.2 | 71.4 | 60.7 | 56.5 | 53.1 | 49.9 | 46.3 | 42.5 | 39.7 |
| Real GDP growth (in percent) | 3.4 | 2.8 | 3.5 | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| Inflation (GDP deflator, in percent) | 12.0 | 13.1 | 4.5 | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Nominal GDP growth (in percent) | 15.3 | 16.3 | 8.1 | 8.3 | 7.1 | 7.1 | 7.0 | 6.8 | 6.7 |
| Effective interest rate (in percent) [4/] | 5.2 | 5.7 | 6.8 | 5.9 | 4.8 | 4.9 | 4.4 | 4.4 | 4.8 |

| As of October 01, 2013 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | n.a. |
| 5Y CDS (bp) | | n.a. |
| Ratings | Foreign | Local |
| Moody's | n.a. | n.a. |
| S&Ps | n.a. | n.a. |
| Fitch | B | B+ |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003-2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | cumulative | debt-stabilizing primary balance [9/] |
| Change in gross public sector debt | -13.6 | 4.2 | -12.2 | -0.1 | -4.0 | -3.7 | -4.1 | -4.2 | -3.3 | -19.4 | |
| Identified debt-creating flows | -8.7 | -8.9 | -9.9 | -1.3 | -4.8 | -4.5 | -4.6 | -4.4 | -3.3 | -22.9 | |
| Program Primary deficit | -5.3 | -5.7 | -4.7 | -4.0 | -3.2 | -3.2 | -3.2 | -3.1 | -2.4 | -19.2 | -0.9 |
| Primary (noninterest) revenue and grant | 38.3 | 38.9 | 36.5 | 33.8 | 32.7 | 32.5 | 32.3 | 32.2 | 32.1 | 195.8 | |
| Primary (noninterest) expenditure | 33.0 | 33.2 | 31.8 | 29.8 | 29.5 | 29.3 | 29.1 | 29.1 | 29.8 | 176.5 | |
| Automatic debt dynamics [5/] | -1.4 | -8.8 | -3.8 | -1.4 | -1.3 | -1.3 | -1.4 | -1.2 | -0.9 | -7.5 | |
| Interest rate/growth differential [6/] | -11.2 | -6.6 | -0.9 | -1.4 | -1.3 | -1.3 | -1.4 | -1.2 | -0.9 | -7.5 | |
| Of which: real interest rate | -7.8 | -4.9 | 1.6 | 0.8 | 1.0 | 0.8 | 0.6 | 0.5 | 0.7 | 4.4 | |
| Of which: real GDP growth | -3.4 | -1.8 | -2.5 | -2.2 | -2.3 | -2.1 | -1.9 | -1.8 | -1.6 | -11.9 | |
| Exchange rate depreciation [7/] | 9.8 | -2.1 | -2.8 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | -1.9 | 5.6 | -1.4 | 4.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 3.9 | |
| Privatization Proceeds (negative) | -1.9 | -0.5 | -0.3 | -0.4 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -0.6 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Domestic debt issuance for monetary p | 0.0 | 6.1 | -1.0 | 4.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.4 | |
| Residual, including asset changes [8/] | -5.0 | 13.1 | -2.4 | 1.3 | 0.8 | 0.8 | 0.5 | 0.1 | 0.0 | 3.5 | |




Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, and lending by the IMF.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

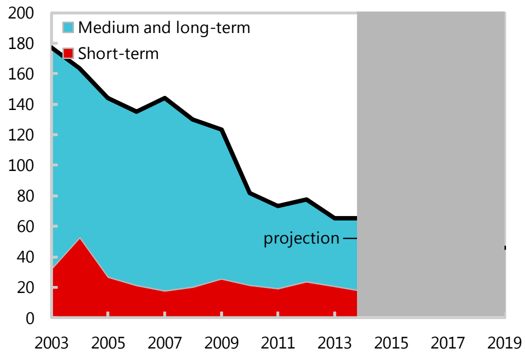
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

## Seychelles Public DSA - Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

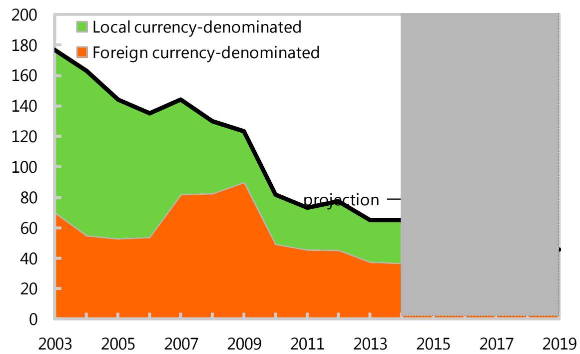
**By Maturity**

(in percent of GDP)




**By Currency**

(in percent of GDP)

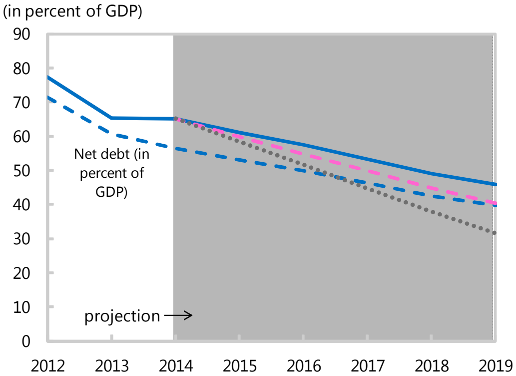



### Alternative Scenarios

Baseline    Historical    Constant Primary Balance

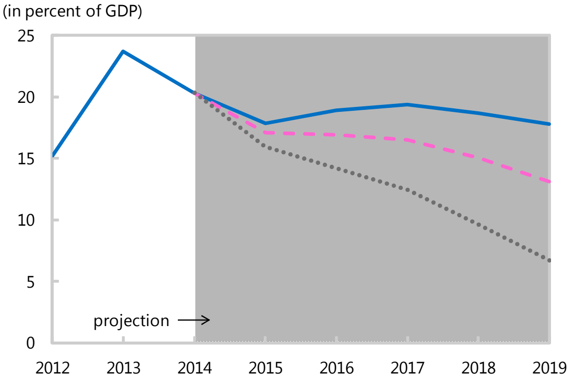
**Gross Nominal Public Debt**

(in percent of GDP)




**Public Gross Financing Needs**

(in percent of GDP)




### Underlying Assumptions

(in percent)

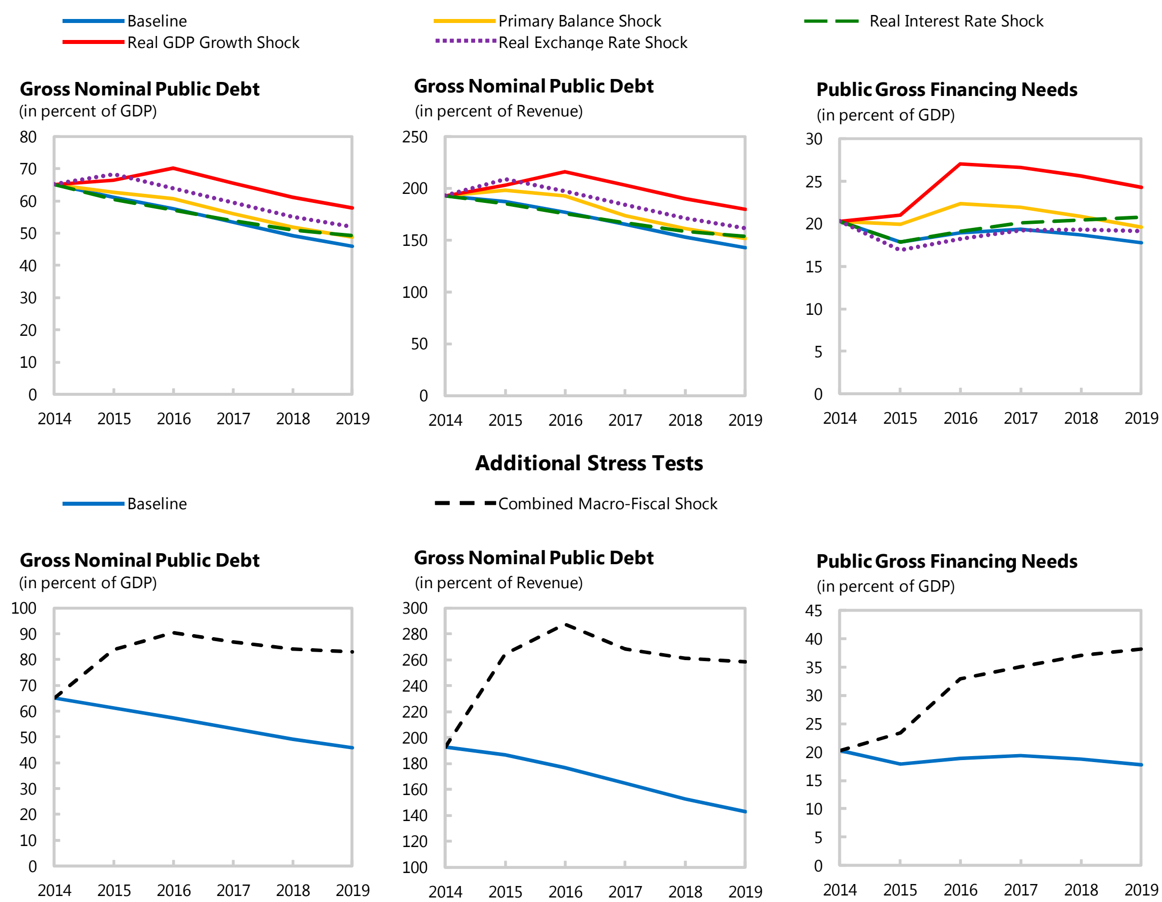
| Baseline Scenario | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| Inflation | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Primary Balance | 4.0 | 3.2 | 3.2 | 3.2 | 3.1 | 2.4 |
| Effective interest rate | 5.9 | 4.8 | 4.9 | 4.4 | 4.4 | 4.8 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| Inflation | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Primary Balance | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Effective interest rate | 5.9 | 4.8 | 4.9 | 4.5 | 4.5 | 4.9 |

| Historical Scenario | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.7 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Inflation | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Primary Balance | 4.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Effective interest rate | 5.9 | 4.8 | 4.0 | 3.3 | 3.0 | 3.4 |

Source: IMF staff.

## Seychelles Public DSA - Stress Tests

### Macro-Fiscal Stress Tests




### Underlying Assumptions

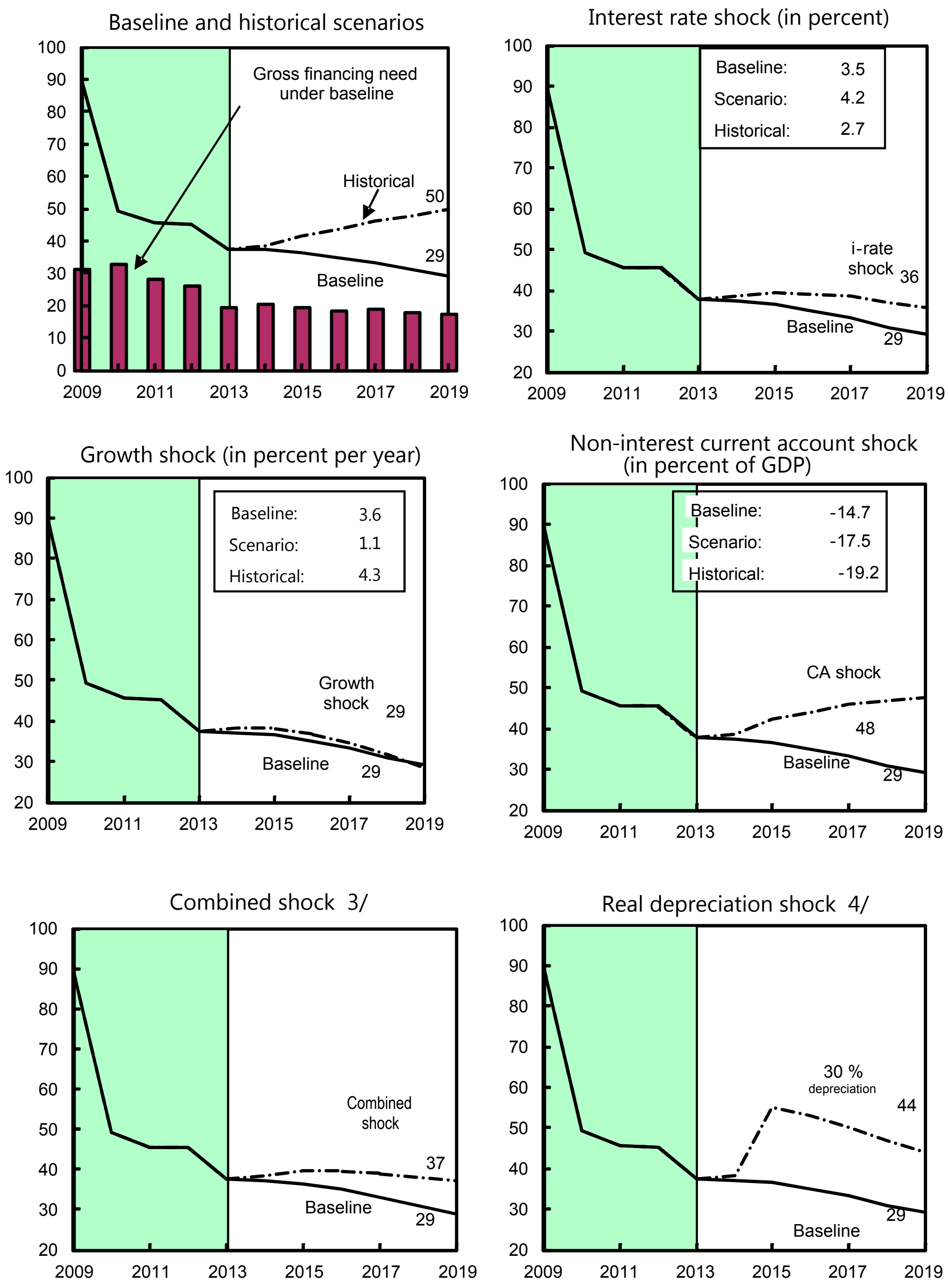
(in percent)

| **Primary Balance Shock** | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| Inflation | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Primary balance | 4.0 | 1.1 | 1.1 | 3.2 | 3.1 | 2.4 |
| Effective interest rate | 5.9 | 4.8 | 4.9 | 4.5 | 4.4 | 4.7 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| Inflation | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Primary balance | 4.0 | 3.2 | 3.2 | 3.2 | 3.1 | 2.4 |
| Effective interest rate | 5.9 | 4.8 | 6.3 | 6.4 | 7.1 | 8.0 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 3.7 | -1.2 | -1.4 | 3.6 | 3.5 | 3.4 |
| Inflation | 4.4 | 1.9 | 2.0 | 3.3 | 3.2 | 3.1 |
| Primary balance | 4.0 | 0.3 | -1.7 | 3.2 | 3.1 | 2.4 |
| Effective interest rate | 5.9 | 5.7 | 6.0 | 6.3 | 7.1 | 7.9 |

| **Real GDP Growth Shock** | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.7 | -1.2 | -1.4 | 3.6 | 3.5 | 3.4 |
| Inflation | 4.4 | 1.9 | 2.0 | 3.3 | 3.2 | 3.1 |
| Primary balance | 4.0 | 1.4 | -0.6 | 3.2 | 3.1 | 2.4 |
| Effective interest rate | 5.9 | 4.8 | 4.9 | 4.6 | 4.4 | 4.7 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| Inflation | 4.4 | 13.9 | 3.3 | 3.3 | 3.2 | 3.1 |
| Primary balance | 4.0 | 3.2 | 3.2 | 3.2 | 3.1 | 2.4 |
| Effective interest rate | 5.9 | 5.7 | 4.7 | 4.3 | 4.3 | 4.7 |

Source: IMF staff.

## Seychelles: External Debt Sustainability: Bound Tests[1/ 2/]




Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2015.

Seychelles: External Debt Sustainability Framework, 2009-2020
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Debt-stabilizing non-interest current account |
| **Baseline: External debt** | 89.9 | 49.3 | 45.6 | 45.3 | 37.6 | **37.2** | **36.5** | **35.0** | **33.1** | **31.0** | **29.0** | **26.1** | **-15.2** |
| Change in external debt | 7.3 | -40.6 | -3.7 | -0.3 | -7.8 | -0.3 | -0.7 | -1.5 | -1.9 | -2.1 | -2.0 | -3.0 | |
| Identified external debt-creating flows (4+8+9) | 11.7 | -9.9 | 5.5 | 5.2 | -4.8 | -1.7 | -0.5 | -0.7 | -0.9 | -1.0 | -0.9 | -2.3 | |
| Current account deficit, excluding interest payments | 17.8 | 25.4 | 26.3 | 24.1 | 16.2 | 17.5 | 16.5 | 14.8 | 14.7 | 13.7 | 13.7 | 12.3 | |
| Deficit in balance of goods and services | 16.7 | 21.6 | 20.9 | 21.5 | 10.6 | 14.8 | 12.6 | 10.8 | 10.5 | 10.0 | 9.9 | 8.7 | |
| Exports | 100.3 | 86.7 | 88.2 | 82.6 | 79.5 | 76.2 | 75.8 | 74.7 | 73.2 | 71.8 | 70.6 | 69.8 | |
| Imports | 117.0 | 108.3 | 109.1 | 104.0 | 90.1 | 91.0 | 88.4 | 85.4 | 83.7 | 81.8 | 80.5 | 78.4 | |
| Net non-debt creating capital inflows (negative) | -21.3 | -25.9 | -17.0 | -17.8 | -13.3 | -17.8 | -16.8 | -15.5 | -15.6 | -14.7 | -14.7 | -14.3 | |
| Automatic debt dynamics 1/ | 15.3 | -9.4 | -3.8 | -1.1 | -7.7 | -1.3 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | |
| Contribution from nominal interest rate | 3.6 | 1.9 | 1.0 | 1.1 | 0.7 | 1.0 | 1.1 | 1.2 | 1.1 | 1.1 | 1.0 | 0.7 | |
| Contribution from real GDP growth | 1.0 | -4.7 | -3.5 | -1.2 | -1.3 | -1.3 | -1.3 | -1.3 | -1.2 | -1.1 | -1.0 | -1.0 | |
| Contribution from price and exchange rate changes 2/ | 10.6 | -6.7 | -1.3 | -1.0 | -7.1 | -1.0 | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 3/ | -4.4 | -30.7 | -9.2 | -5.5 | -2.9 | 1.3 | -0.2 | -0.8 | -1.0 | -1.1 | -1.1 | -0.7 | |
| External debt-to-exports ratio (in percent) | 89.6 | 56.9 | 51.7 | 54.9 | 47.2 | 48.8 | 48.2 | 46.9 | 45.3 | 43.2 | 41.1 | 37.3 | |
| **Gross external financing need (in billions of US dollars) 4/** | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | |
| in percent of GDP | 31.3 | 32.8 | 28.3 | 26.0 | 19.2 | 20.5 | 19.5 | 18.1 | 18.7 | 17.6 | 17.4 | 15.3 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | **38.4** | **41.3** | **43.7** | **45.9** | **47.8** | **49.6** | **51.4** | **-17.1** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | -1.1 | 5.9 | 7.9 | 2.8 | 3.5 | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 | 3.4 | |
| GDP deflator in US dollars (change in percent) | -11.4 | 8.0 | 2.7 | 2.2 | 18.6 | 2.7 | 1.4 | 2.2 | 2.4 | 2.4 | 2.0 | 1.5 | |
| Nominal external interest rate (in percent) | 3.8 | 2.5 | 2.3 | 2.6 | 1.9 | 2.8 | 3.2 | 3.6 | 3.5 | 3.5 | 3.6 | 2.6 | |
| Growth of exports (US dollar terms, in percent) | -7.7 | -1.1 | 12.7 | -1.6 | 18.2 | 2.0 | 4.6 | 4.4 | 4.0 | 3.9 | 3.8 | 3.8 | |
| Growth of imports (US dollar terms, in percent) | -8.6 | 5.9 | 11.6 | 0.2 | 6.4 | 7.5 | 2.2 | 2.5 | 3.9 | 3.6 | 3.9 | 2.4 | |
| Current account balance, excluding interest payments | -17.8 | -25.4 | -26.3 | -24.1 | -16.2 | -17.5 | -16.5 | -14.8 | -14.7 | -13.7 | -13.7 | -12.3 | |
| Net non-debt creating capital inflows | 21.3 | 25.9 | 17.0 | 17.8 | 13.3 | 17.8 | 16.8 | 15.5 | 15.6 | 14.7 | 14.7 | 14.3 | |

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

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

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

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

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

# Annex II. Reserve Adequacy[1]

*Under the previous SBA and EFF programs, the Seychellois authorities were able to rebuild reserves from ½ month to 3.8 months of imports (equivalent to 170 percent of the ARA metric). Seychelles has unusual vulnerabilities as a remote, highly open, and tourism-dependent micro-state; as a result, standard reserve adequacy metrics underestimate country-specific needs. The analysis of the impact of potential shocks and peer comparisons on pertinent metrics indicates that coverage has now reached a desirable range. Based on these considerations, staff and the authorities consider levels equivalent to around 4 months of import cover or somewhat above 150 percent of the ARA metric as a desirable objective. The program envisages a further gradual accumulation of reserves in order to preserve reserve coverage levels at about their current levels despite balance of payments pressures.*

1. **High tourism receipts allowed a substantial reserve build up in 2013**. Gross international reserves reached $425 million by year-end (a 38 percent increase over 2012), bringing the reserve cover to 3.8 months of prospective imports. In keeping with the program, the accumulation resulted from opportunistic purchases by the central bank.

1. **For a small open economy as Seychelles, holding international reserves is desirable primarily to deal with current account shocks**. Reserves can play an important role in smoothing consumption in countries with less mature markets and a dependency on tourism.[2] With an extraordinarily large import bill (90 percent of GDP), a heavy reliance on tourism earnings, and current account deficits around 20 percent of GDP (albeit financed to a large degree by FDI), the economy is particularly vulnerable to shifts in global economic conditions and commodity prices. The reliance on imports for nearly all basic necessities heightens the sense of vulnerability. On the other hand, unlike other small emerging market economies, Seychelles appears to have limited exposure to capital account shocks induced by capital flow reversals. Foreign currency deposits accounted for about a third of total deposits at end-2013, external debt has been substantially restructured and reduced, and foreign capital is overwhelmingly in the form of direct investment.

## F. Optimal Reserves under an Insurance Model

2. **The optimal level of reserves should weigh the benefits of holding reserves against their costs**. Based on the calibration of parameters generally accepted in the literature, the optimal level of reserves can be estimated for different types of shocks that may be relevant for Seychelles.[3] Seychelles faces difficulties in weathering some extreme current account shocks (Figure 1). Comparison of actual reserve holdings to the optimal reserve level to withstand various shocks suggests that the economy would be well placed to weather a shock to tourism earnings of up to 40 percent, similar to the one that

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[1] Prepared by Alex Culiuc and Nagwa Riad (SPR), with input from Graham Campbell (AFR).

[2] A recent study shows that the exchange rate has a smaller positive impact on tourism receipts in small islands than in other countries, suggesting that the adjustment falls primarily on contraction of domestic demand. For details, see Culiuc, Alex (2014) "Determinants of international Tourism", IMF Working Paper.

[3] See Jeanne, Olivier (2007), "International Reserves in Emerging Market Economies: Too Much of a Good Thing?" *Brookings Papers on Economic Activity*.

impacted the Maldives during the tsunami in late 2004, and to a terms of trade shock that could push up food and other imports (excluding fuel) by 20 percent. However, at their current levels, reserves would be almost entirely exhausted in the event of a combined shock to tourism earnings and goods and services imports.[4]

## G. Reserve Adequacy Metrics

3. **Seychelles' reserve coverage reached comfortable levels based on widely used traditional metrics** (Table 1). Seychelles fares average in peer comparison of pertinent traditional reserve coverage metrics. Drawing on a sample of small tourism dependent economies (Figure 2), Seychelles compares favorably on coverage relative to GDP and broad money, although these represent coverage of less pertinent risks for the country. In terms of import cover (which is more relevant), Seychelles is around the mean among its tourism-dependent peers, with 3.8 months of reserves at end-2013, but still only in the second to bottom quartile among all emerging markets, which average around 6 months of imports.

4. **While the IMF reserve adequacy metric (2011) would suggest adequate level of reserves since 2011, it does not sufficiently take into account Seychelles'' unusual country characteristics**. Based on the metric for floating exchange rate regimes, coverage was below the minimum threshold until 2011. Reserves have surpassed the upper suggested limit of 150 percent in 2013, and they are projected to remain slightly above it in the medium term.[5] This higher level is in line with staff recommendations, which support the additional buffer reflecting the small island's increased sensitivity to external shocks, extreme openness, and tourism dependency (which forces adjustment onto imports). Alternative measures support the conclusion that reserves have only recently reached the lower bound of the comfortable level. A measure due to Lipschitz et al. suggests inadequate reserve cover for all years except in 2013.[6] A small islands-specific metric[7] also shows adequate coverage of reserves starting in 2011 under a floating exchange rate regime.

5. **Although minimum reserve thresholds have been reached, maintaining a marginally comfortable reserve coverage requires substantial and sustained efforts**. Medium term projections are based on considerable nominal reserve accumulation, supported by disciplined macroeconomic policies and disbursements under the proposed IMF-supported program. Aiming for a strong reserve cover is therefore warranted from a precautionary perspective to fend off potential current account shocks, provided the benefits outweigh the costs of holding reserves.

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[4] This combination of shocks cannot be dismissed—for example, severe commodity price shocks could trigger them both. That said, a negative tourism shock would have the effect *ceteris paribus* of reducing imports to serve tourists.

[5] Using the metric for fixed regimes, reserves would be barely above the 100 percent threshold for the projection period. Seychelles maintains a flexible exchange rate regime, but given its extreme openness and tourism dependency (which forces adjustment onto imports), one can consider that intervention might be necessary to defend the exchange rate against overshooting more often than in more conventional circumstances.

[6] Lipschitz, Leslie, Miguel Messmacher, and Alexandros Mourmouras (2006), "Reserve Adequacy: Much Higher Than You Thought?" IMF Institute.

[7] Mwase, Nkunde (2013), "How Much Should I Hold? Reserve Adequacy in Emerging Markets and Small Island Economies?" *IMF Working Paper* #205.

## Table 1: Seychelles - Gross International Reserve Coverage

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Prel | | | Proj | | | |
| **In months of prospective imports of G & S** | 0.4 | 0.9 | 2.2 | 2.6 | 2.8 | 3.0 | 3.8 | 4.0 | 4.1 | 4.2 | 4.2 | 4.2 | 4.3 |
| **In percent of:** | | | | | | | | | | | | | |
| External debt service (Guidotti rule) | 43 | 78 | 172 | 352 | 1278 | 1386 | 1006 | 1020 | 1029 | 918 | 762 | 778 | 803 |
| Gross PPG External Debt (contracted, ex. IMF) | 6 | 9 | 26 | 53 | 57 | 60 | 81 | 83 | 85 | 88 | 92 | 96 | 101 |
| Broad money | 7 | 20 | 34 | 42 | 50 | 53 | 55 | 56 | 56 | 55 | 54 | 54 | 53 |
| GDP | 3.9 | 7.5 | 23.1 | 26.2 | 25.8 | 27.2 | 30.5 | 30.8 | 30.9 | 30.6 | 30.3 | 29.8 | 29.4 |
| **Reserve adequacy metrics (IMF)** | | | | | | | | | | | | | |
| *Floating: 30% STD + 15% OPL + 5% M2 + 5% X (G&S)* | | | 247 | 276 | 237 | 201 | 246 | 254 | 265 | 278 | 295 | 308 | 320 |
| *Seychelles, percent of the metric* | | | *80* | *92* | *117* | *153* | *172* | *179* | *181* | *181* | *179* | *179* | *179* |
| *Fixed: 30% STD + 20% OPL + 10% M2 + 10% X (G&S)* | | | 368 | 410 | 365 | 318 | 387 | 401 | 418 | 439 | 463 | 484 | 504 |
| *Seychelles, percent of the metric* | | | *53* | *62* | *76* | *97* | *109* | *114* | *115* | *115* | *114* | *114* | *114* |
| **Lipschitz, Messmacher, and Mourmouras (2006)** | 342 | 347 | 369 | 342 | 311 | 315 | 369 | 394 | 407 | 427 | 457 | 475 | 492 |
| *100% External debt service + 10% M2 + 20% M (G&S)* | | | | | | | | | | | | | |
| **Mwase (2013)** | | | | | | | | | | | | | |
| *Floating: 10% X (G&S) + 30% M2 + 40% STD* | 280 | 228 | 289 | 285 | 265 | 271 | 354 | 369 | 388 | 411 | 438 | 462 | 483 |
| *Seychelles, percent of the metric* | *14* | *32* | *68* | *89* | *104* | *113* | *119* | *123* | *124* | *123* | *121* | *119* | *119* |
| *Fixed: 35% X (G&S) + 10% M2 + 95% STD* | 407 | 423 | 434 | 405 | 397 | 393 | 493 | 504 | 525 | 554 | 591 | 616 | 639 |
| *Seychelles, percent of the metric* | *10* | *17* | *45* | *63* | *70* | *78* | *86* | *90* | *91* | *91* | *89* | *90* | *90* |
| ***Memorandum items:*** | | | | | | | | | | | | | |
| International reserves ($ million) | **40** | **73** | **196** | **254** | **277** | **307** | **423** | **455** | **480** | **504** | **529** | **552** | **574** |
| Nominal GDP ($ million) | 967 | 847 | 970 | 1,075 | 1,129 | 1,386 | 1,476 | 1,552 | 1,645 | 1,744 | 1,849 | 1,951 | 2,049 |

*Source: Seychelles authorities, WEO, and staff calculations.*

## Figure 1: Seychelles: Optimal Level of Reserves under Different Types of Shocks

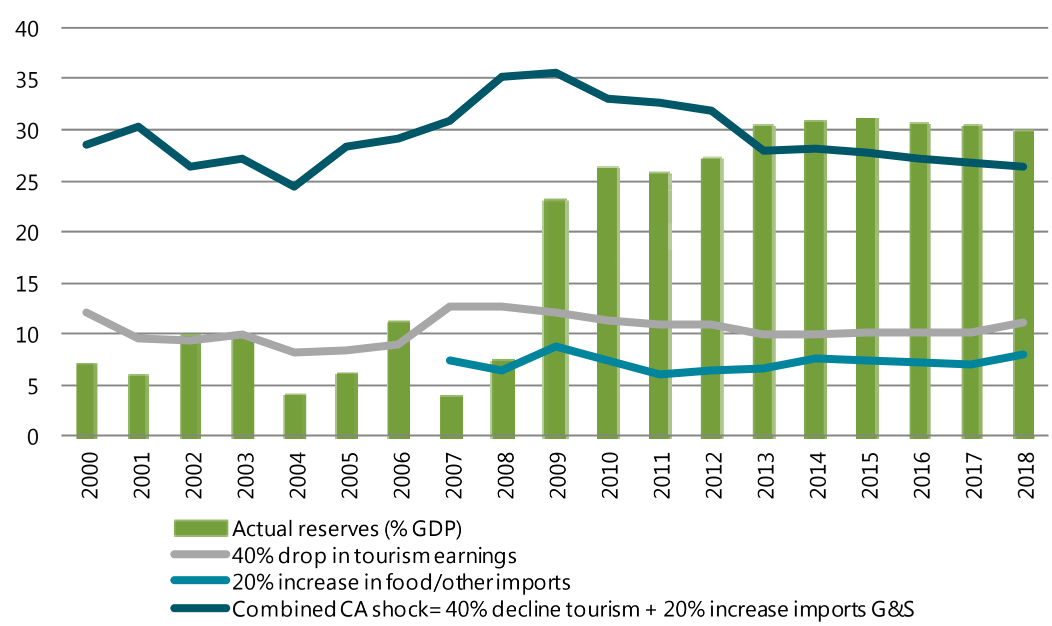
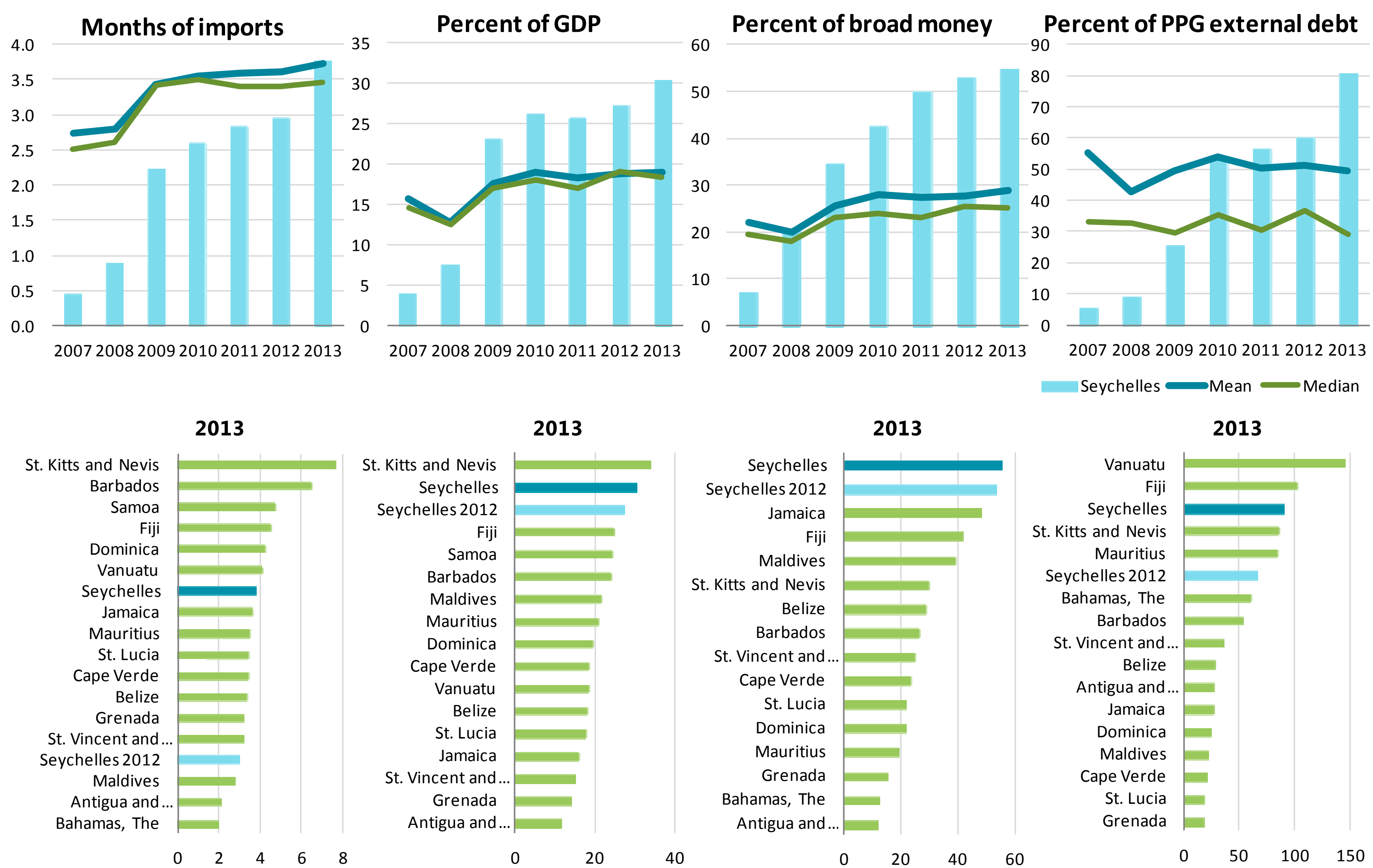


**Figure 2: Reserve Coverage—Seychelles and Other Tourism Dependent Economies**



# Annex III. Real Exchange Rate Assessment[1]

1. **A range of approaches indicates that the Seychellois rupee is broadly in line with fundamentals.** The analysis is based on the application of three CGER-like approaches: macroeconomic balance (MB), external sustainability (ES) and equilibrium real exchange rate (ERER). The standard CGER methodology estimates the misalignment using data for the end of the medium-term projections (2018). Given uncertainties concerning medium-term balance of payments projections, estimating the misalignment using the latest actual data (2013) is also useful, an approach which is also better aligned to the EBA methodology.

**Measured REER misalignment**

| Approach | 2012 | 2013 | 2018 |
|---|---|---|---|
| MB | 14.0 | 4.8 | 2.8 |
| ES | 14.0 | 3.5 | 0.4 |
| ERER | -19.2 | -5.4 | -5.9 |

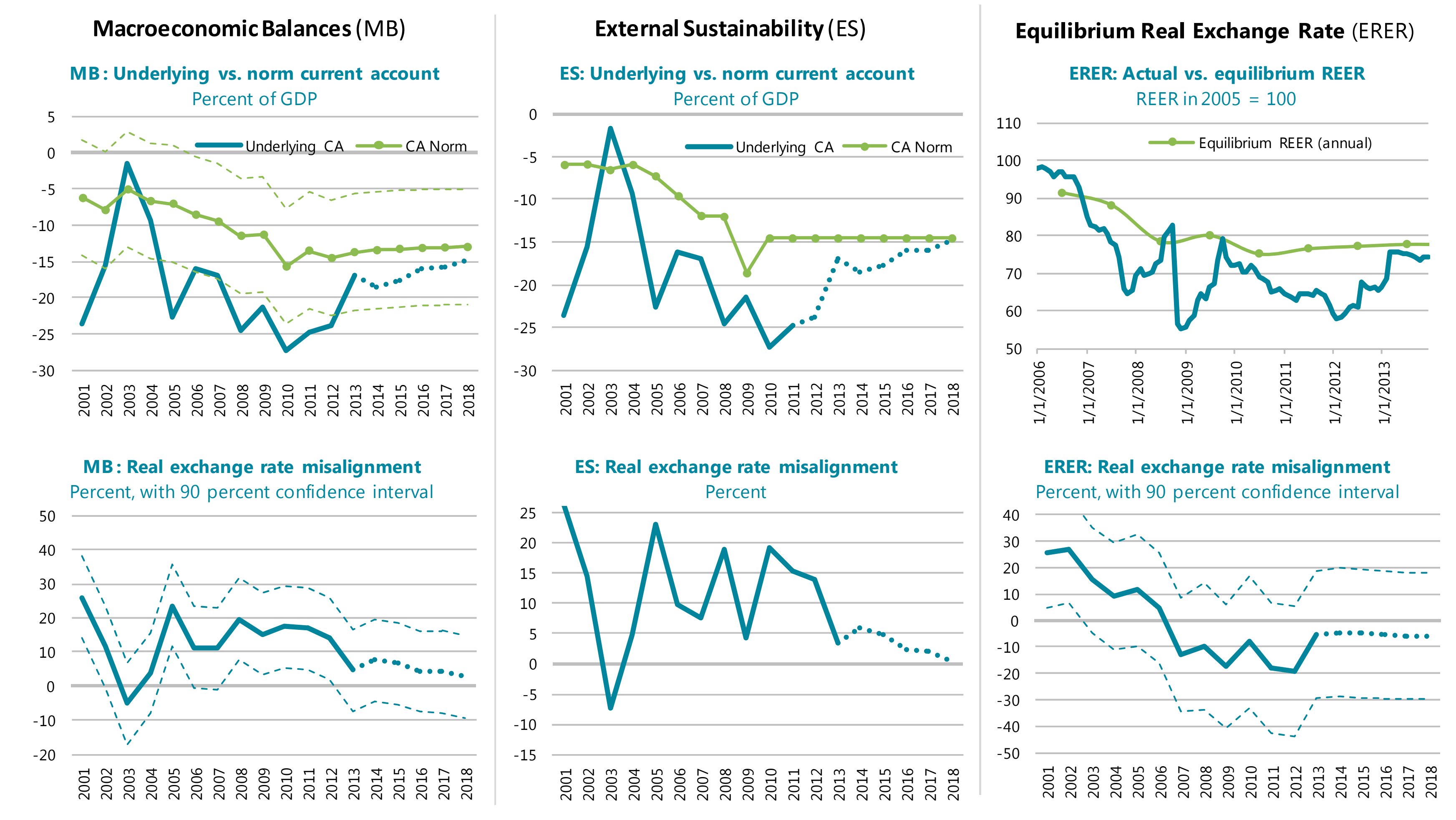
2. **Both MB and ES – approaches based on the current account – show that the current account has been approaching the equilibrium (i.e., CA norm) in recent years**. Like many other island economies, Seychelles has maintained a large current account deficit, averaging 16 percent of GDP during 2001-12.[2] The underlying current account balance was obtained by stripping large one-off in kind donations (e.g., $28m in wind power generators in 2011). The current account deficit norm computed under both MB and ES are very close at around 14-15 percent of GDP, which results in very similar estimates for the real exchange rate misalignment – under 5 percent for 2013 and close to zero in the medium term. The ERER results suggest that the recent appreciation has brought the rupee closer to the equilibrium level. The estimated undervaluation decreased from 19 percent in 2012 to just 5 in 2013, as the actual REER has converged to its estimated equilibrium level, which has been slowly trending upwards over the last three years.

3. **The three CGER methodologies result in a relatively small spread in estimated misalignments of around zero for 2013**. The same conclusion is reached when using the conventional CGER approach to estimate misalignment based on end of projection period data (2018).

[1] Prepared by Alex Culiuc (SPR).

[2] For more on the large current account deficits exhibited by small islands see, for example, Pineda, Cashin and Sun, 2009 "Assessing Exchange Rate Competitiveness in the ECCU".

## Figure 3. Seychelles: Exchange Rate Assessment Results



# Appendix I. Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
May 13, 2014

Dear Ms. Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) for 2014–16 describes Seychelles' recent performance as well as our policies for the 3-year period 2014–16.

2. In support of these policies we request a 3-year arrangement under the Extended Fund Facility (EFF) for an amount of SDR 11.445 million (105 percent of quota) and disbursement of the first tranche of SDR 1.635 million (15 percent of quota).

3. Through prudent fiscal and monetary policies over the last five years—supported by a SBA (2008-09) and a subsequent EFF arrangement (2009-2013),—coupled with significant structural reforms, we have been able to stabilize the Seychelles economy, with growth rates over the last five years averaging 3¾ percent, inflation contained in low single digits, annual primary fiscal surpluses averaging 7.7 percent, halving public debt to 65 percent of GDP, gross official reserves approaching 4 months of imports by end-2013, and unemployment below 2 percent. Our structural reform agenda has been a wide-ranging, including elimination of universal subsidies including on inefficient state-owned enterprises and on fuel, introduction of automatic adjustment of fuel prices and utility tariffs, significant tax reforms including introduction of VAT and reduction in business tax rates, major advances in public finance management, budget preparation and execution, and important reforms of the investment climate, among others.

4. The EFF arrangement will support our continuous effort to safeguard macroeconomic stability and strengthen Seychelles' resilience against possible external shocks. To achieve these goals, our policies will be geared toward attaining fiscal sustainability through reduction of public debt, maintaining price stability, boosting international reserves, and pursuing structural reforms, which are all prerequisites for long-term sustainable growth.

5. We believe that the economic and financial policies set forth in the MEFP are sufficient to ensure that the objectives of the program will 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.

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

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| Pierre Laporte | Caroline Abel |
| Minister of Finance, Trade and Investment | Governor |
| Republic of Seychelles | Central Bank of Seychelles |

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

# Attachment I. Memorandum of Economic, Financial and Structural Reform Policies for 2014–16

## A. INTRODUCTION

1. Seychelles embarked on a comprehensive reform program in late 2008 aimed at addressing large fiscal and external deficits and economic inefficiencies. At the end of our arrangement under the Extended Fund Facility (EFF) in late 2013, we have been able to achieve a satisfactory level of macroeconomic stability, which has sustained growth. However we are aware that the economy remains highly vulnerable to external shocks, and that we need to pursue further fiscal and monetary stabilization in order to preserve and strengthen our international reserve position, reduce the gross public debt to a more sustainable level. These would further strengthen resilience of the economy and support sustained growth. An active policy of structural reforms is also needed to promote inclusive growth and put the economy firmly on a sustainable path. In this context, we are of the view that an EFF-supported program would help to realize those objectives and maintain confidence of external partners, and provide an appropriate framework for stability and growth oriented policies.

**This memorandum**

- Reviews macroeconomic and financial performance under our previous Extended Fund Facility arrangement through end-December 2013;
- Describes our macroeconomic policies and reaffirms our reform commitments for the three-year period 2014–16 under a successor Extended Fund Facility arrangement.

## B. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

2. **The key objectives of the 2010-13 EFF arrangement to preserve macroeconomic stability, move toward external sustainability, improve efficiency and raise growth through the implementation of a second generation of structural reforms were achieved**. During 2010-13 we were able to (i) achieve an average GDP growth rate of 4.2 percent, led by a strong performance of tourism and related foreign direct investment; (ii) contain the rate of average consumer price inflation to 4.3 percent in 2013, after a spike in 2012; (iii) reduce steadily our gross public debt as a share of GDP, from 82 percent of GDP at end-2010 to 65 percent at end-2013, well below the original program target of 77 percent debt–GDP ratio for 2013; and (iv) strengthen our gross official reserves from 2.4 months of imports at end-2010 to 3.8 months of imports at end-2013, above the initial program target of 2.7 months.

3. **The decline in public debt was achieved through a combination of higher than expected GDP growth and primary budget surpluses which consistently exceeded program targets and averaged 5.5 percent of GDP during 2011-13, and 4.7 percent of revised GDP in 2013**. The public external debt fell from 48 percent of GDP at end-2010 to 36 percent at end-2013, compared with a small increase projected under the program. We were able to maintain a strong fiscal revenue performance, with the revenue–to–GDP ratio averaging 35.3 percent during 2010-13, and owing to a disciplined control of current expenditures we were able to allocate

adequate resources to capital investment (7 percent of GDP on average in 2010-13), including on-lending of external borrowing to the public utility company.

5. **Our monetary policy was successful in containing inflation**. In 2012 we were able to counter pressures on the exchange rate with appropriate policy tightening in mid-year. In 2013 the exchange rate strengthened, and the Central Bank of Seychelles (CBS or the Bank) was able to increase considerably our gross reserves, while domestic liquidity was controlled through treasury bills issuance for monetary purposes and liquidity absorbing operations by the Bank despite volatility in some monetary aggregates.

6. **Under the EFF-supported program we have pursued vigorous structural reforms in many key areas, such as:** (i) taxation, with the introduction of the VAT in January 2013, the reduction of the business tax rate and the simplification of excise taxes; (ii) expenditure management, with the adoption of international accounting standards and budget framework, a new chart of accounts, a new Public Finance Management Act, the piloting of Performance Program-Based Budgeting (PPBB); (iii) improved state-owned enterprise (SOE) monitoring through: a new law which *inter alia* established an independent commission; measures to enhance the public utility company financial viability, including a new electricity and water tariff that gradually rebalances the rates across users; the restructuring of the national airline, which was partially privatized in 2012 with the sale of 40 percent to a major international company; restructuring of the debt of the SEYPEC tankers which eased pressure on the cash flow; and (iv) modernized the banking and financial system, through reform of the Development Bank, a new policy of housing finance which saw the reorganization of the housing finance corporation and the introduction of smart subsidies, the launching of the stock exchange, introduction of a credit information system, and modernization of the payment system including an electronic clearing house, and electronic fund transfers.

### C. POLICIES FOR THE PERIOD 2014-2016

7. **The key objectives of the successor arrangement will be to**

- strengthen macroeconomic stability and fiscal and external sustainability;
- maintain a disciplined fiscal and monetary policy which would place the debt on a strong path toward sustainability by reducing our gross public debt to below 50 per cent of GDP by 2018 and contribute to further international reserves accumulation; and
- sustain economic growth and enhance efficiency through the intensification of structural reforms in a number of key areas, including taxation, public finance management, banking and financial system, SOE management and oversight, and support for private sector development.

8. **In order to meet our overarching target of reducing gross public debt below 50 percent of GDP by 2018, while at the same time still allowing room for critical infrastructure investment we shall maintain adequate primary budget surpluses, not less than 3.2 percent per year**. Barring significant negative exogenous shocks, we shall adjust policies

as necessary over the course of the program to meet this debt target. Monetary policy will aim at maintaining inflation at low single digits, in the context of a flexible exchange rate regime. The Bank will control domestic liquidity through a policy directed at meeting average quarterly bank reserve targets, with the monetary policy framework anchored by quarterly targets on average daily reserve money.

9. **We expect that our reform agenda will be supported by our development partners (IBRD, AfDB, EU, UNDP, etc) through budget support and technical assistance in various key areas**. A key action to promote a coordinated approach to growth is the preparation of a Medium Term National Development Strategy (MTNDS), which will be submitted, to Cabinet for approval by end-September 2014 (structural benchmark (SB)). This plan will integrate the public sector investment needs, including those of state-owned enterprises, in a medium term fiscal framework, which ensures adequate financing for priority investments.

## D. MEDIUM-TERM MACROECONOMIC AND STRUCTURAL REFORM POLICIES

### Macroeconomic objectives

10. **The main macroeconomic objectives for the next three years are to:**

- achieve an average growth rate of GDP of 3.7 percent;
- contain inflation in single digits;
- narrow the current account deficits and build reserves further; and
- bring debt to sustainable levels

Growth is likely to be sustained by continued favorable prospects in tourist arrivals, construction in the tourism and non-tourism sector, expansion of the fishing sector and services, including port services. We expect inflation to remain at low single digits, owing to a prudent monetary policy. We also expect a gradual decline of the current account deficit as a ratio to GDP, from 17 percent of GDP in 2013 to 14.5 percent in 2016, as tourism earnings would rise by 6-7 percent per year in US dollar terms, in line with recent years' growth. Balance of payments developments should allow increasing further the official reserve coverage to about 4.2 months of imports by 2016. Foreign direct investment will remain sustained, at a level close to that of 2011-12 with further expansion of hotel facilities and services. We will conduct a prudent debt policy, in order to achieve the targeted reduction of the debt –GDP ratio to 50 percent by 2018. We expect the external public debt to decrease gradually as a percent of GDP, as public investment financing is expected to rely on concessional borrowing from a number of multilateral and bilateral agencies and institutions. These macroeconomic projections will be incorporated into our Medium-Term Fiscal Framework (MTFF), which will anchor our MTNDS and provide a solid foundation for a full Medium-Term Budget Framework (MTBF) to be elaborated in 2015.

**Fiscal Policy**

11. **The budget for 2014 aims at protecting investment spending, while continuing to reduce the countries' debt burden, and targets a primary surplus including net-lending to state-owned enterprises of 4 percent of GDP**. Despite an increase in wages which partially compensates for the real wage compression of the post crisis period 2009-2012, current expenditure will decline as a share of GDP. Moreover, as we pursue opportunities for further privatization of non-strategic state enterprises, we will use proceeds to strengthen our capital budget.

12. **In 2014 total revenue excluding grants will decline from 32.3 percent of GDP to 31 percent**, as a temporary impact of GST arrears collection receded, and business tax collection reflects lower 2013 profits in certain sectors which faced increased competition from imports.

**Tax policy and Improvements in tax administration**

13. **Under the program we shall focus on improving the functioning of tax administration, with particular attention to VAT and trade and excise taxes, with actions to facilitate electronic filing, speed up VAT refunds, reduce exemptions, simplify trade documentation filing and strengthen the audit and investigative capacity of the SRC**. Specific measures will include: (i) a mandatory requirement for compulsory VAT registered businesses to file their monthly return online starting on July 1, 2014, following the establishment of an e-payment facility which will eliminate the need for payments in person; (ii) reducing the exemptions on VAT and further reduction of the threshold for compulsory registration; (iii) the strengthening of the single window principle at customs, to avoid the involvement of more than one agency to which trade documentation has to be submitted; resulting in improved efficiency of official controls and lower compliance costs; (iv) an action plan on excise management including amendments to regulations, following a 2013 TA report; (v) the recruitment of more specialized audit personnel at SRC to strengthen its investigative and auditing function; and (vi) we are also taking measures on international tax cooperation as discussed below. Following the introduction of the Corporate Social Responsibility and Tourism Marketing Taxes in 2013, the government will review the way these taxes are collected in order to make certain that the application of these two taxes is done in a fair and equitable manner.

14. **Strengthening of auditing capacity.** Effort will continue to build audit capacity in SRC**.** More experienced tax auditors have been recruited and will be integrated into various areas, including the existing Customs Investigation Unit. This will have the advantage of newly appointed, inexperienced investigators benefiting from mentoring from the experienced officers in the unit. To improve the audit capacity, the SRC will be using a risk management process to prioritize its audit work load. This will contribute to timely assessment of risks to revenue and assist with prioritization of audit cases.

| Fiscal Policy | | |
|---|---|---|
| **Actions** | **Timing** | **Objectives** |
| Cabinet approval of the Medium-Term Fiscal Framework (MTFF) **(Structural Benchmark (SB))**. | Sep-14 | Support continued strong fiscal policies by strengthening credibility and ensuring adequate financing for medium-term development objectives, particularly public investment to address infrastructure needs. |
| Improve Seychelles Revenue Commission's analysis, audit, and investigative capacity, including through recruitment of more experienced auditors and tax agents, and enhancing investigation and enforcement activities. | Sep-14 | Enhance revenue mobilization in the face of recent declines in the revenue to GDP ratio. |
| Extend e-filing and e-payment beyond Value-Added Tax and encourage migration to e-filing through incentives/benefits/education. | Sep-14 | Facilitate tax compliance and enhance revenue mobilization in the face of recent declines in the revenue to GDP ratio. |
| Review the current system of turnover taxes to consider potential for minimizing distortions and for introducing deductibility. | Oct-14 | Ensure transparent and appropriate tax collection while working to minimize distortions that turnover taxation may pose. |
| Modernize customs administration and support trade facilitation by creating a single window system and on-line portal. | Sept 15 | Promote transparency and compliance at customs by eliminating cumbersome administrative practices that impact adversely on competitiveness. |

**Public Financial Management and Expenditure Reform**

15. **The government priorities in the area of public financial management are to**: (i) prepare a full MTFF; (ii) gradually widen the adoption of Performance Program-Based Budgeting (PPBB) which has started with two ministries in 2014; (iii) strengthen public investment management by developing the PSIP instrument, formulating infrastructure plans in key areas, and preparing detailed guidelines for every stage of project preparation, execution and monitoring; (iv) adopt the necessary guidelines to prepare financial statements according to the International Public Sector Accounting Standards (IPSAS) principles, as it was started on a pilot basis for 2011; and (v) establish and publish comprehensive asset register for state-owned enterprises and public land and strengthen the management of public land.

- **MTFF-** To enhance the predictability and sustainability of our public finances, we are preparing an MTFF which should be approved by Cabinet by end-September (structural benchmark). A key tool in strategic fiscal management, the MTFF will establish integrated multi-year policy-based targets for the main fiscal aggregates – debt, financing, primary balance, revenues and expenditures – consistent with the overall macroeconomic framework.

Moreover, the MTFF will provide the foundation for a full MTBF to be elaborated next year, which will allow for an improved process for the allocation of budgetary resources.

- **PPBB**- The Ministry of Finance is providing support to the two pilot ministries and put in place all other necessary pillars required to implement PPBB in all ministries and agencies. A first step is to prepare strategic plans in the two pilot ministries by June 2014 and to launch the preparation of such plans in all other ministries, with assistance from the Department of Public Administration. PPBB will be introduced in three more ministries in 2015. Appropriate training of officials will be undertaken, with World Bank assistance, and the School of Business Management will help in building capacity, within its public finance management department.

- **Public Investment Management (PIM) and the Public Sector Investment Program** (PSIP)- To improve the formulation and execution of the PSIP, a PSIP Development Committee will be established to coordinate the preparation of Investment program. This committee will comprise of representatives of the Ministry of Finance and line ministries. As part of the process, the Ministry of Finance will carry out quarterly review of projects above the threshold of SR 10 million. As part of its plan to encourage growth, Government is putting emphasis on infrastructure development.

- **PIM Guidelines and project monitoring-** Over the medium term we aim to develop a complete, integrated set of guidelines or manual for PIM—covering all stages of PIM: project proposal submission, pre-screening, appraisal, financing, design, project management, monitoring and evaluation. We also aim to consolidate the legal foundation for project monitoring. In particular, the budget circular will add the reporting on monitoring as a requirement for budgeting that line ministries have to follow, and establish mechanism for periodic, on-site joint monitoring by the Ministry of Finance, NTB, and line ministries.

- **Preparation of financial statements in accordance with IPSAS-** While the new PFM Act requires preparation of the financial statements in accordance with IPSAS, the applicable rules and regulations, incorporated in the accounting manual, needs to be amended. This requires further developing the legal and regulatory framework, the accounting policies, detailed accounting procedures including roles and responsibilities, use of the chart of accounts, required report formats, and related internal control procedures. The Government, supported by the AFRITAC South mission, has prepared financial statements in IPSAS format for the year 2011, based on the Annual Financial Statements (AFS 2011) which have been approved by the National Assembly. 2011 is therefore considered a parallel year.

- **Seychelles Pension Fund-** A strategic plan to ensure the long run financial self-sufficiency of the Seychelles Pension Fund (SPF) will be prepared in 2014 and submitted to Cabinet by end-October 2014.

- **A register for public assets of the state-owned enterprises, including state land, will be established and published, beginning with the five largest by the end of 2014 (SB).** In 2015 a comprehensive government asset register will be prepared, and more transparency will be introduced in the management of public land, with clear valuation, and revenue and transaction reporting.

| Public Financial Management Policy | | |
|---|---|---|
| **Actions** | **Timing** | **Objectives** |
| Reporting in IPSAS format. | Jun-14 | Enhance transparency and economic governance through disclosure of information according to international best practices. |
| Establish and publish comprehensive asset register for the following 5 state-owned enterprises (Air Seychelles, Seypec, SCAA, STC, PUC), including state land (**SB**). | Dec-14 | To ensure transparency in use of state assets, which will facilitate subsequent proper valuation of these assets. |
| Establish and publish comprehensive government asset register, including state land. Review the regulatory framework governing use and disposal of state land to ensure that it is in line with best practice. Update fiscal management procedures to strengthen transparency on: Valuation of public land and accounting, transparency and reporting of transactions, including prior public notice of any transactions in state assets, including land**.** | Dec-15 | Safeguard public finances and enhance economic governance through better and more transparent management of state assets. Enhance the role for the private sector through more competitive use of state assets. |
| Establish a special unit in Ministry of Finance for quarterly monitoring of execution of PSIP. | Jun-14 | Enhance the efficiency of public investment spending, helping to address growing infrastructure needs. |
| Cabinet adoption of a strategic plan to ensure the long term financial self-sufficiency of Seychelles Pensions Fund (SPF). | Oct-14 | Ensure SPF is financially self-sustainable so as to protect the budget from future contingent liabilities. |
| Extension of Performance Program-Based Budgeting (PPBB) to three more ministries in 2015, with further roll-out thereafter. | Jan-15 | Enhance the quality of and accountability for public spending. |

**State-owned Enterprise Reform**

16. **The government through the PEMC will continue to strengthen transparency in the operations of all state-owned enterprises and ensure that they meet their performance objectives.** Findings of a recent performance assessment of one major SOE (Seychelles Public Transportation Corporation) by the World Bank indicate that major weaknesses remain. In this regard the Public Enterprise Monitoring Commission (PEMC) will continue to strengthen its framework for monitoring of SOEs so as to minimize risks, particularly to public finances. We will seek technical assistance from our partners to strengthen capacity of the Commission.

Key actions under the program include:

(i) Creation of a web based public information system to publish reports on the financial performance of SOE's by the PEMC, to be established by end- June 2014;

(ii) Full consolidation of SOEs and government accounts by June 2014;

(iii) Establishment of annual performance objectives for all state-owned enterprises drawing on their Statement of Corporate Intent, including definition of their strategic mandates and scope of activities, starting with the year 2014;

(iv) Submission by PEMC of quarterly reports of the performance of the SOEs to the Ministry of Finance;

(v) Approval by the PEMC Board of a plan for carrying out governance audits of SOEs, including a plan for ensuring sufficient capacity (**SB**);

(vi) Privatization of the government's stake in the insurance company SACOS by end-2014, and a review of other government's holdings to consider possible privatization;

(vii) Endorsement by the National Tender Board of the procurement policies of all SOEs incorporated under the companies act by September 2014 **(SB)**;

(viii) Simplification of the tariff structure for the electricity and water utility company, which was adopted in 2013. Review of key parameters and developments in the sector with a view to accelerating the completion of tariff rebalancing;

(ix) Adoption of International Financial Reporting Standards (IFRS) by all SOEs by end of 2016.

| State-Owned Enterprises (SOEs) | | |
|---|---|---|
| **Actions** | **Timing** | **Objectives** |
| Full consolidation of SOEs and government accounts. | Jun-14 | Facilitate appraisal and monitoring of potential macro-fiscal risks. |
| Creation of a web-based public information sharing system to report on the financial performance of SOEs by the Public Enterprise Monitoring Commission (PEMC). | Aug-14 | Promote monitoring of transparency in the financial performance of SOEs to prevent build-up of risks. |
| Privatization of State Assurance Corporation of Seychelles (SACOS). | Sep-14 | Encourage efficiency by increasing private sector participation in enterprises in which the government has minority stake or those which do not play a strategic role. |
| Approval by PEMC Board of a plan for carrying out governance audits of SOEs, including a plan for ensuring sufficient capacity (**SB**). | Dec-14 | Ensure that strategic objectives of SOEs are well aligned with goals of their respective management. |
| Cabinet approval of a simplified tariff structure for the utilities company. Review key parameters and developments in the sector with a view to accelerating the completion of tariff rebalancing. | Dec-14 | Avoid complexities of multi-blocked tariff structure and ensure financial sustainability of the utilities company. |
| Institute annual performance objectives for all major SOEs, drawing on clear definition of the strategic mandate and scope of activities | Dec-14 | Ensure that SOEs remain focused on their core mandates and minimize potential contingent liabilities that may arise from unprofitable lateral activities. |
| Clarify the supervisory roles of the SSI and of the PEMC. | Sep-14 | Facilitate oversight of those SOEs that operate along commercial grounds. |
| Endorsement by the National Tender Board of the procurement policies of all SOEs incorporated under the companies act. (**SB**) | Sep-14 | To bring procurement policies of SOEs in line with provisions of the procurement act. |

## E. Promoting growth and private sector development

17. **The government places the highest priority on sustained and inclusive growth and to this end the MTNDS which is currently being prepared will provide for a coordinated approach to the country's development and align the sectoral strategies**. Implementation of these strategies and investment will be carried out consistently with the overall macro-economic framework. To maximize input and ownership we will carry out extensive consultation with all the stakeholders including the private sector and civil society.

18. **Recognizing that the private sector is the engine of growth, government will continue to promote competition and private sector involvement in key sectors, including infrastructure, such as fisheries and port services.** The expansion of the port of Victoria is a capital intensive endeavour, and government strategy is to attract private investors to participate, in the framework of a Public-Private Participation scheme, which will have to be developed and that shares the risk and provides appropriate incentives for the private sector. It will consider measures to eliminate restrictive practices in the provision of port services. This practice currently restricts competition and is a barrier to increased efficiency. It could also be a potential stumbling block in government's efforts to attract funding from potential private operators for redevelopment of the commercial port. It will also facilitate title registration, by adopting an automated system, in order to speed up the provision of housing financing by financial institutions.

19. The government will join the Extractive Industry Transparency Initiative (EITI) program by implementing the necessary steps to apply for adherence to the EITI, with a view to attaining full adherence by June, 2016.

| **Real Sector and Private Sector Development** | | |
|---|---|---|
| **Actions** | **Timing** | **Objectives** |
| Cabinet approval of the Medium-Term National Development Strategy **(SB)**. | Oct-14 | Promote growth by aligning development efforts both domestically and with external partners and ensuring that medium term fiscal plans support medium-term growth objectives. Coordinate strategy with public sector investment plans, including SOEs, in a medium-term fiscal framework which ensures adequate financing for priority investment. |
| Develop a framework for private sector participation (e.g., Public Private Partnership (PPP)) in large infrastructure projects such as expansion of Port Victoria that shares risks and provides proper incentives to private sector. | Mar-15 | Enhance private sector participation in key infrastructure projects, such as the port, taking advantage of competition and efficiencies in the private sector, while limiting the risks to public finances. |
| Eliminate restrictive practices at the Port of Victoria. | Dec-14 | Enhance efficiency and competitiveness of port services and strengthen the role of the port as regional hub and logistics platform. |
| Join Extractive Industry Transparency Initiative (EITI) program by implementing the 5 EITI steps | Jun-16 | Enhance transparency in reporting of any future revenues from oil or other natural resources, to promote fiscal soundness and fairness. |

## F. Public Debt Management Strategy

20. **Our external debt restructuring launched in 2009 is near completion.** We will now focus our effort towards the management of government and government guaranteed debt. Over the long term, we intend to gradually shift, to the extent possible, the financing mix for investment projects towards domestic sources (government revenues, domestic borrowing) and away from external borrowing. The proposed initiative for a debt swap of the existing Paris Club debt for environmental project, if successful, would go some way in achieving this shift to more domestic borrowing.

21. **Annually we will continue to present to the National Assembly together with the budget**, an update of the debt management strategy for the following year which will highlight the amount and composition of expected borrowing, the terms of the debt we envisage to contract, and its impact on the debt and debt service profile, so as to evaluate its consistency with the medium term debt target.

## G. Foreign Trade Regime

22. **Seychelles is in the final stages of WTO accession and is aiming to complete its accession in the second half of 2014.** A legal action plan agreed with the WTO Secretariat was fully implemented in April 2014. We are also in the process of finalizing negotiation for membership of the SADC Free Trade Area. Negotiations are also in the final stages and we anticipate that we will join in mid-2014.

## H. Monetary, Exchange Rate, and Financial Sector Policies

23**.** **CBS has revised its Monetary Policy Framework to allow for more flexibility in its implementation.** The main objective is to strengthen the transmission mechanism by adopting a framework that is built on a forward-looking approach to monetary policy. Operationally, CBS' interventions on the open market aim to stabilise commercial banks' reserves through the use of short-term instruments which will eventually lead to the development of a benchmark yield curve. This should enable the banks to better price their free reserves, thus strengthening the interest rate transmission. Reserve money will continue to serve as the nominal anchor for the monetary policy framework, and the CBS will be guided by quarterly average values rather than end-quarter targets. This will provide more flexibility to focus on short-term liquidity conditions, supporting the move to a more forward-looking framework.

24. **Under a formal agreement between the Ministry of Finance and the Central Bank of Seychelles, the Ministry of Finance has committed to issue T-Bonds for the amount of SR 800 million for monetary policy purposes** to address the bulk of the liquidity overhang and to strengthen operations under the new monetary policy framework. As of end-April, over 80 percent of the bonds have already been subscribed. By end-June, any remaining shortfall to the SR 800 million will be covered by issuance of additional government securities for sterilization purposes.

25. **We remain committed to a flexible exchange rate.** The exchange rate will continue to be determined in the market and adjust in line with economic fundamentals, serving as a shock absorber. However, in the case of excessive exchange rate volatility, and self-fulfilling expectations that could give rise to exchange rate overshooting, the bank would be ready to intervene to ensure orderly market conditions**.** We view our current reserve coverage as broadly adequate to face even severe external shocks, and the Bank will continue to accumulate external reserves opportunistically with the aim of achieving set targets to preserve and strengthen this buffer against potential risks.

**26. In 2014 the Bank has taken additional steps to ensure a more active management of its foreign exchange reserves.** Beginning of 2014, the Bank engaged with the Crown Agent Investment Management (CAIM), through a 3-year agreement whereby it will invest a portion of our reserves. As part of the agreement, CAIM will also offer training to staff who both are directly and indirectly involved in reserves management over the time frame. This is in line with the Bank's strategy to optimize return on its reserves, and build internal capacity within the Bank in reserve management activities.

**Financial Sector Development and Stability**

27. **To deepen the financial system and improve financial inclusiveness, the CBS has enlisted a diagnostic project supported by the World Bank's FIRST initiative to develop a comprehensive Financial Sector Development Implementation Plan (FSDIP).** The FSDIP will focus on access to finance, financial markets, financial infrastructure, banks and NBFIs' supervision and regulation. The final report and recommendations are expected by June 2014, which will allow the authorities to endorse a strategic plan by October 2014 (**SB**). This plan will inform reform measures for 2014 – 2017.

28. **Following the coming into force of the Financial Leasing Act in late 2013 the Bank is working on the main enabling Regulations to be issued under the Act, which include the licensing regulations and the capital adequacy and reserve fund regulations.** Once these main regulations are issued the Bank will start accepting license applications for the conduct of financial leasing. Additionally, the Bank is working towards the establishment of a Corporation Agreement with the International Finance Corporation to further assist with the upcoming phases, which will include assistance for a sensitization campaign as well as capacity building for various local authorities.

29. **CBS will strengthen the macro prudential policy framework.** A strong macro prudential policy framework is important to continue to safeguard the financial sector. CBS has drafted a timeline for the developing of the macro prudential policy framework, which begins with the Identification of the key indicators required for macro prudential surveillance for financial stability. This will be followed by developing appropriate tools to be used in addressing financial stability issues and developing guidelines on how to compute these financial stability indicators by end 2014. This will facilitate the formulation and implementation of a framework for macro-prudential surveillance by end 2015.

30. **CBS will continue to pursue its effort to upgrade banking regulations.** As recommended in the MCM TA Needs Evaluation in July 2013, CBS will be receiving TA towards the conduct of a complete analysis of the relevant and possibly tailored components of Basel II and III which could be applied in Seychelles and to develop a roadmap for implementation of these relevant elements.

31. **Work on a modern payment system is being accelerated**. Following the successful implementation of the first phase of the Electronic Funds Transfer (EFT) project across all banks in mid-August 2013, the second phase of the project will be implemented in 2014 and is scheduled for completion by end-September of 2014. This second phase of the EFT project will further modernise and increase the efficiency of the country's payments systems by extending the new internet based online platform from banks to the general public. The project to enhance the supervision of the payments system is currently ongoing. CBS is formulating the relevant payments systems oversight function and reviewing the payments system law to encompass the full array of payment systems activities, products and services such as mobile payments. The new payments system law will become effective by the end-July of 2014 whilst the oversight function will be operational by the fourth quarter of 2014.

**CBS Operations and Governance**

32. **In 2013 Internal Audit Division (IAD) performed an initial self-assessment, as part of the Quality Assurance and Improvement Program (QAIP), of its conformity with the Institute of Internal Auditors' (IIA) Standards**. An external consultant facilitated the exercise and the result showed that IAD was in partial conformity. Going forward, the External consultant will carry out an assessment to validate the result of the initial exercise by September 2014. Following this, IAD will follow a program to bridge any gap with the IIA standards.

33. **The CBS Board has approved the new 5 year Strategic Plan 2014 – 2018 for the Bank.** The Strategic Plan will guide the Bank in achieving its primary objective of promoting domestic price stability and the soundness of the financial system. The strategic plan explains how CBS intends to deliver on its mission of contributing towards the sustainable economic growth and development of Seychelles through prudent monetary policy and maintenance of a sound financial system over the 5-year period. To support the strategic plan, a matrix of key actions and timeframes has been prepared for implementation. The action plan will be reviewed annually whilst monitoring will be performed quarterly, to ensure the successful implementation of the strategic plan.

**Financial Services Authority and Non-Bank Financial Services Sector**

34. **The newly created Financial Service Authority (FSA) will provide a more modern and effective framework for supervision of non-banking financial services.** Under the new framework the FSA has the mandate of supervising and regulating non-bank financial institutions not under the ambit of the CBS. The Bank will continue to focus on banks and other commercial lending institutions. The FSA will also continue to have the mandate of regulating offshore financial services (international business companies (IBCs), Trusts, Foundations, etc.). However a fundamental aspect of this reform was to make the FSA purely a regulator, unlike its predecessor,

the Seychelles International Business Authority, which was also the promoter. To ensure effective regulation of the non-bank financial service sector and to eliminate conflicting objectives, the functions of promoting financial services, including offshore, have now been transferred to the Seychelles Investment Board.

35. **We are committed to meet best international practices on transparency and exchange of information on tax matters.** To this end, we will continue to work closely with the OECD and other international partners to bring our legal framework in line with best international practices on transparency and exchange of information on tax matters. In addition to being part of the Peer Review Assessment Team, and having expressed our intention in becoming a signatory to the Multilateral convention on Mutual Administrative Assistance in Tax Matters, we will further amend the Seychelles Revenue Commission Act, 2009 (**SB**-June 2014). Still in the context of bringing our financial service sector laws in line with modern international standards we will enact new laws that cover IBC's, Trusts, etc. Moreover we will expand our TIEA and DTAA networks which are already based on the OECD model.

| **Financial Sector Development** | | |
|---|---|---|
| **Action** | **Timing** | **Objectives** |
| Completion of the draft FSDIP, including matrix of past and ongoing projects/ recommendations, and sections on:<br>- legal framework<br>- financial infrastructure<br>- financial markets<br>- nonbank financial institution supervision<br>- SME access to credit. | Jun-14 | Devise a coherent strategy that identifies priorities and appropriate sequencing for reforms that enhance the sector's contribution to inclusive growth and development. |
| Cabinet approval of a Strategic Plan on Financial Sector Development **(SB)**. | Oct-14 | Create political backing and legitimacy for action plan implementation. |
| Cabinet approval of a strategic plan to ensure the long term financial self-sufficiency of Seychelles Pensions Fund (SPF). | Oct-14 | Foster financial deepening and increase availability of long-term funding in the financial system. |
| Implementation of the action plan under the FSDIP begins under the coordination and supervision of high level steering committee (including MFTI and CBS) supported by a technical secretariat to be established within the CBS. | 2015 | Enhance the financial sector's contribution to inclusive growth and development. |

| Macro prudential Policy Framework | | |
|---|---|---|
| **Action** | **Timing** | **Objectives** |
| Identify the key indicators required for macro prudential surveillance and develop guidelines on how to compute these indicators. | Dec-14 | Strengthen financial stability. |
| Formulate and implement framework for macro prudential surveillance. | Dec-15 | Strengthen financial stability. |

| Payments System | | |
|---|---|---|
| **Action** | **Timing** | **Objectives** |
| Submission to the National Assembly of the new Payments Systems Law. | Jun-14 | Modernise the payments system. |
| Implementation of phase two of the Seychelles Electronic Funds Transfer system. | Dec-14 | Enhance the efficiency of the payments system. |
| Start of the implementation of the new payments system oversight function. | Dec-14 | Enhance resilience and safeguard integrity of the payments system. |

| International Financial Services Sector | | |
|---|---|---|
| **Action** | **Timing** | **Objectives** |
| Submission to national assembly of (i) amendment of Seychelles Revenue Commission Act to be consistent with international standards; and (ii) ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (**SB**). | Jun-14 | To safeguard the global business sector by harmonizing domestic legislation with international best practice. |
| Enactment of new laws governing the international financial services sector such as (i) IBCs and Trust laws; and (ii) signing of more Tax Information Exchange Agreements (TIEAs) and Double Taxation Avoidances (DTAs). | Dec-14 | Safeguard the global business sector, following the OECD finding, and lay the foundation for sustained growth in the business and financial services sector through best practice regulation for the sector, to enhance its contribution to growth. |

## I. National Statistics

36. **As part of our strategy to achieve compliance with the IMF's Special Data Dissemination Standard (SDDS),** the Bureau has developed its Strategic, Operational and SDDS Plans. Work is currently ongoing to produce the SDDS Real Sector indicators and achieve SDDS compliance by the committed target date of mid-2015. In line with our objective to become SDDS compliant by mid-2015, work is currently ongoing to produce real sector indicators as well as to improve coverage of external sector statistics. A TA mission from the IMF Statistics Department has assisted with the formulation and implementation of a survey through which statistics are to be collected from corporate service providers (CSP), therefore allowing for the inclusion of data on international businesses in the country's BOP and IIP statistics by end 2014.

37. **As part of our plan to produce more frequent national account data a first set of preliminary quarterly GDP data for the period 2006 Q1 – 2013 Q3 was published in December 2013.** This work is ongoing on an experimental basis to improve on the quality, coverage and timeliness with which the source data are made available. The Bureau is aiming to publish the QGDP as per the indicated dates on the release calendar, in line with SDDS dissemination requirements. Currently only constant price estimates are being compiled for all the relevant quarters. The compilation of QGDP in "current" prices for the current and previous year is still being explored.

38. **A continuous quarterly labour force survey (QLFS) was launched in January 2014**. This survey will provide up-to-date and timely statistics on *unemployment* to inform policy programs with regards to labour market. The Bureau will continue to make use of administrative source data to compile quarterly employment numbers and earnings. However, deficiencies in the data remain the primary concern and set-back in the timely compilation of these statistics. All efforts will be put into resolving this issue in close working collaboration with the Seychelles Revenue Commission (SRC) from which the data is sourced.

39. **A Household Budget Survey (HBS) was conducted in 2013**. The data is currently being processed and the first set of preliminary results is expected by end-June 2014. The results from this survey will be used to update the basket of commodities, and update the weights for the compilation of the monthly Consumer Price Index. The results from this survey will also be used in the compilation of Household Final Consumption Expenditure (HFCE) in the estimated GDP project to be developed in the medium term, as well as to provide inputs to update poverty measures.

## J. Program Monitoring

40. **The EFF-supported program will be monitored by semi-annual program reviews, quantitative performance criteria, and disbursements**. The quantitative performance criteria (QPCs) for end-June and end-December 2014 are shown in Table 2. The structural benchmarks for 2014 are shown in Table 1. The completion of the first review under the EFF will be based on meeting the QPCs at end-June 2014. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets and adjusters under the program. We look forward to cooperating with the IMF in completing a new Safeguards Assessment of the CBS by the time of the first review; the process has been initiated already. We stand ready to adopt any additional measures, in consultation with IMF staff, which may become necessary to ensure program success.

**Table 1. Seychelles. Structural Benchmarks Under the Extended Arrangement, 2014**

| Measure | Target Date | Macroeconomic Rationale |
|---|---|---|
| **Real Sector** | | |
| Cabinet approval of the Medium-Term National Development Strategy. | End October, 2014 | To provide common guidance for national and international actors supporting development, including ensuring that medium-term fiscal framework has adequate financing for priority investment projects. |
| Submission to National Assembly of (i) amendment of Seychelles Revenue Commission Act to be consistent with international standards; and (ii) ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. | End June, 2014 | To safeguard the global business sector by harmonizing domestic legislation with international best practice. |
| **Financial Sector** | | |
| Cabinet approval of a Strategic Plan on Financial Sector Development. | End October, 2014 | To deepen the financial system and reinforce inclusiveness. |
| **Fiscal Policy** | | |
| Cabinet approval of a Medium-term Fiscal Framework (MTFF). | End September, 2014 | To ensure medium-term fiscal framework is sustainable and has adequate financing for priority public investment projects, including SOEs. |
| **Public Financial Management Policy** | | |
| Establish and publish comprehensive asset register for the following 5 state-owned enterprises (Air Seychelles, Seypec, SCAA, STC, PUC), including state land | End December, 2014 | To ensure transparency in use of state assets. |
| **State-Owned Enterprises** | | |
| Endorsement by the National Tender Board of the procurement policies of all those state-owned enterprises incorporated under the companies act. | End September, 2014 | To bring procurement policies of SOEs in line with provisions of the procurement act. |
| Approval by PEMC Board of a plan for carrying out governance audits of SOEs, including a plan for ensuring sufficient capacity | End December, 2014 | To enhance management practices and accountability in SOEs. |

## Table 2. Quantitative Performance Criteria Under the Extended Arrangement, 2014

| | 2014 | | |
|---|---|---|---|
| | End-June | End-September | End-December |
| | Proposed Performance Criteria | Proposed Indicative Targets | Proposed Performance Criteria |
| | (Millions of Seychelles rupees; end-of-period) | | |
| **Performance criteria** | | | |
| Net international reserves of the CBS, millions of U.S. dollars (floor) [1] | 340 | 350 | 357 |
| Reserve money (ceiling on daily average) [2] | 2,731 | 2,721 | 2,716 |
| Primary balance of the consolidated government (cumulative floor) [3] | 310 | 593 | 721 |
| Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [3] | 52 | 60 | 70 |
| Contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [3] | 0.0 | 0.0 | 0.0 |
| Accumulation of external payments arrears by the public sector (ceiling) [4] | 0.0 | 0.0 | 0.0 |
| Accumulation of domestic payment arrears by the government (ceiling) | 0.0 | 0.0 | 0.0 |
| ***Memorandum items:*** | | | |
| Net external non-project financing (millions of U.S. dollars; cumulative) [3, 5] | -8.3 | -8.1 | -3.3 |
| External budget loans | 7.0 | 7.0 | 24.0 |
| Cash payments on foreign debt service | 20.0 | 22.2 | 37.1 |
| External budget grants | 4.7 | 7.1 | 9.8 |
| Reserve money target (daily average) | 2,651 | 2,642 | 2,637 |
| **Program accounting exchange rates** [6] | | | |
| SR/US$ (end-of-quarter) | 12.13 | 12.13 | 12.13 |
| US$/Euro (end-of-quarter) | 1.38 | 1.38 | 1.38 |
| US$/UK pound (end-of-quarter) | 1.67 | 1.67 | 1.67 |
| US$/AUD (end-of-quarter) | 0.89 | 0.89 | 0.89 |
| US$/CAD (end-of-quarter) | 0.90 | 0.90 | 0.90 |
| US$/SDR (end-of-quarter) | 1.55 | 1.55 | 1.55 |

Sources: Seychelles authorities and IMF staff estimates and projections.

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

[2] As per TMU, the ceiling is the upper bound of a symmetrical band of three percent in both directions around the reserve money target.

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

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

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

[6] Program exchange rates have been set according to prevailing market rates at the last available update on projected external public financing flows.

# Attachment II: 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 letter of intent (LOI), 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 2014 are listed in Tables 1 and 2 attached to the LOI, respectively.

## I. QUANTITATIVE PERFORMANCE CRITERIA

### A. Net International Reserves of the CBS (Floor)

**Definition**

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

**Calculation method**

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

**Monitoring and reporting**

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

**Adjusters**

5. The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and non-project cash grants exceeds (falls short of) the amounts assumed in the program (LOI Table 1). The floors will also be adjusted upwards

(downwards) by the amount that external debt service payments fall short (exceed) the amounts assumed in the program.

## B. Reserve Money and Reserve Money Band (Ceiling)

**Definition**

6. Reserve money is equivalent to currency issued and deposits held by other depository corporations at the central bank (bank reserves), including those denominated in foreign currencies. The reserve money targets are the projected daily averages of the quarter preceding the test date, surrounded by a symmetrical band of three percent in both directions. The upper bound of the band serves as performance criterion or indicative target (ceiling). Quarterly average reserve money will be calculated as the arithmetic average of reserve money observed on all days over the quarter. The resulting value will be compared with the program ceiling.

**Monitoring and reporting**

7. Daily reserve money data will be submitted by the CBS to the IMF on a weekly basis with a time lag no later than one week. The cumulative average over the quarter will also be monitored by the CBS and reported to the IMF on a weekly basis.

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

8. The program 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 and net lending of the government and social security fund.

## D. Public External Debt (Ceiling)

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

10. For the purposes of this performance criterion, the definition of debt is set out in Point 9 of the "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements," attached to Executive Board Decision No. 6230-(79/140), as amended. 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 sometime 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. Failure to make payment on an obligation that is not considered debt under this definition (e.g. payment on delivery) will not give rise to debt.

## E. 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, subject to any applicable grace period, including contractual and late interest. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

## F. Domestic Arrears of Government

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.

## II. 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)

- Daily reserve money data.
- 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 and in GFSM2001 format.
- The detailed revenues and expenditures of the central government and social security fund.
- Import and export data from the customs department.
- Public debt report, reconciled with the cash operations to minimize any statistical discrepancy.
- Consolidated creditors schedule on domestic expenditure arrears of the government.

**Quarterly** (within one month from the end of the quarter)

- Accounts of the public nonbank financial institutions.

14. 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.

Press Release No. 14/262
FOR IMMEDIATE RELEASE
June 5, 2014

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Approves US$ 17.6 Million Extended Fund Facility Arrangement for Seychelles**

The Executive Board of the International Monetary Fund (IMF) yesterday approved a three year SDR 11.445 million (about US$ 17.6 million, or 105 percent of Seychelles' quota) arrangement under the Extended Fund Facility (EFF) for the Republic of Seychelles to support the authorities' economic program. The approval enables the immediate disbursement of SDR 1.635 million (about US$ 2.5 million), while the remaining amount will be phased over the duration of the program, subject to semi-annual program reviews.

The authorities' EFF-supported program aims to reduce the high debt levels, improve external buffers and sustainability in the face of emergent balance of payments pressures, and strengthen the economy through sustained and inclusive growth.

Following the Executive Board discussion on Seychelles, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"The authorities have undertaken comprehensive reforms since the 2008 crisis that have supported a strong recovery and improvements in fiscal and external sustainability. Growth was strong in 2013, boosted by increased tourism arrivals. Inflation stabilized at a low level. The current account deficit fell sharply, allowing the central bank to rebuild its reserves. However, debt levels and the current account deficit remain high, while some persistent structural weaknesses are holding back growth potential and economic resilience.

"The authorities' economic program supported by the EFF-arrangement appropriately focuses on reducing vulnerabilities and containing fiscal risks while fostering sustained and inclusive growth. The authorities' target of reducing the debt-to-GDP ratio to below 50 percent by 2018 remains an anchor for stability, while allowing the necessary investments in human and physical capital to support growth. The new monetary policy framework builds on recent progress in mopping up structural excess liquidity, and exchange rate flexibility and moderate reserve accumulation continue to facilitate adjustment to external shocks.

"The structural reform agenda is ambitious and targeted. The adoption of a Medium-Term National Development Strategy, the associated medium-term fiscal framework, and a financial sector development strategy, together constitute critical reforms needed to promote growth. Reforms also aim to strengthen the management and transparency of public finances. Building on the progress already made, it is important to enhance the oversight of state-owned enterprises to contain fiscal risks and avoid excessive expansion from crowding out the private sector."

**ANNEX**

**Recent economic developments**

In the five years following the 2008 crisis, the Seychellois authorities have successfully enacted a comprehensive IMF-supported program of reforms – floating the exchange rate, eliminating exchange restrictions, turning fiscal deficits into surpluses, and halving the debt burden with the assistance of external debt relief. Structural reforms sought to foster long-term growth, including through simplifying the tax system and promoting the private sector.

These reforms have borne fruit in the form of a strong and sustained recovery: real Gross Domestic Product (GDP) growth accelerated to around 3.5 percent in 2013, boosted by strong tourist arrivals. Inflation fell to 2.2 percent in March 2014. The external position improved thanks to a boom in tourism and tuna exports, and Foreign Direct Investment (FDI) flows remain strong. Reserve coverage reached an estimated 3.8 months of imports at end-2013, up from 3.0 months at end-2012. The 2013 fiscal outturn was largely in line with the authorities' ambitious targets, although business and income tax revenues were somewhat weaker than expected.

Nevertheless, important risks and challenges remain. At 65 percent of GDP, Seychelles' public debt remains high, as does the current account deficit (18.5 percent of GDP), — although the latter has been largely funded by FDI. Moreover, the balance of payments faces headwinds as debt service and investment income payments rise. Sustained GDP growth will require adequate infrastructure investment and an active reform agenda to enhance productivity. At the same time, fiscal policy faces pressures, as revenue and grants have been falling as a proportion of GDP.

**Program Summary**

The program is designed to strengthen macroeconomic stability, reduce vulnerabilities, and support wide-ranging structural reforms aimed at laying the foundation for sustained and inclusive growth. The macroeconomic framework is anchored on the authorities' goal of reducing the debt-to-GDP ratio below 50 percent by 2018. This requires continued fiscal primary surpluses of 3 to 4 percent of GDP over the medium term, a fiscal path which strikes a balance between the pace of debt reduction and addressing vital social and investment needs. Revenue measures under the program will focus on improving tax compliance and administration, while enhancing the quality of fiscal spending will be a core priority of the program.

The monetary policy framework aims to maintain low and stable inflation. In advance of the new program, the excess liquidity problem has been largely addressed through the issuance of medium-term Treasury bonds. The adoption of average reserve money targeting will further strengthen the policy framework, supporting the move towards a more forward-looking framework. While reserve coverage has recently reached the desirable range, maintaining it will require continued reserve accumulation in the face of balance-of-payments pressures. Exchange rate flexibility remains key to ensuring external stability over the medium term.

Sustaining growth and tackling risks to stability will require the implementation of a new generation of ambitious structural reforms, including: the adoption of a Medium-Term National Development Strategy, a medium-term fiscal framework, and a financial sector development strategy, as well as measures to combat international tax evasion. A new framework for Public Private Partnerships will support infrastructure investment and promote the role of the private sector. Establishing a registry of state assets, including land, will help protect public finances and support more efficient land use. The oversight of state owned enterprises will also be progressively strengthened, building on past progress, to contain fiscal risks and focus them on their core missions.

| Seychelles: Selected Economic and Financial Indicators, 2011–19 | 2011 | 2012 Prel. | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. | 2019 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| National income and prices | (Percentage change, unless otherwise indicated) | | | | | | | | |
| Nominal GDP (millions of Seychelles rupees) | 13,304 | 15,468 | 16,723 | 18,103 | 19,381 | 20,750 | 22,196 | 23,716 | 25,303 |
| Real GDP | 7.9 | 2.8 | 3.5 | 3.7 | 3.8 | 3.7 | 3.6 | 3.5 | 3.4 |
| CPI (annual average) | 2.6 | 7.1 | 4.3 | 3.6 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 |
| CPI (end-of-period) | 5.5 | 5.8 | 3.4 | 4.0 | 3.2 | 3.1 | 3.0 | 3.0 | 3.0 |
| GDP deflator average | 5.3 | 13.1 | 4.5 | 4.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.1 |
| Money and credit | (Percentage change, unless otherwise indicated) | | | | | | | | |
| Credit to the private sector | 5.2 | 8.5 | 4.5 | 6.8 | … | … | … | … | … |
| Broad money | 4.5 | -0.6 | 23.7 | 8.3 | … | … | … | … | … |
| Reserve money | -2.7 | 6.9 | 15.4 | 25.8 | … | … | … | … | … |
| Velocity (GDP/broad money) | 1.8 | 2.0 | 1.8 | 1.8 | … | … | … | … | … |
| Money multiplier (broad money/reserve money) | 4.5 | 4.2 | 4.5 | 3.8 | … | … | … | … | … |
| Savings-Investment balance | (Percent of GDP) | | | | | | | | |
| External savings | 27.4 | 25.2 | 16.9 | 18.5 | 17.7 | 16.0 | 15.9 | 14.8 | 14.8 |
| Gross national savings | 7.0 | 12.4 | 21.4 | 17.5 | 15.3 | 14.8 | 15.3 | 15.0 | 15.2 |
| *Of which*: government savings | 10.6 | 13.3 | 9.6 | 8.0 | 7.7 | 7.8 | 8.2 | 8.2 | 7.9 |
| Gross investment | 34.3 | 37.6 | 38.3 | 36.0 | 32.9 | 30.9 | 31.2 | 29.8 | 29.9 |
| *Of which*: public investment | 7.3 | 10.6 | 9.7 | 7.1 | 7.2 | 7.3 | 7.2 | 7.2 | 7.7 |
| Government budget | | | | | | | | | |
| Total revenue, excluding grants | 35 | 34.4 | 32.4 | 31.0 | 30.9 | 30.9 | 30.9 | 30.9 | 30.9 |
| Expenditure and net lending | 35.2 | 36.2 | 36.6 | 33.1 | 32.2 | 31.8 | 31.2 | 31.0 | 31.6 |
| Current expenditure | 27.2 | 25.8 | 27.1 | 26.0 | 25.2 | 24.7 | 24.2 | 24.0 | 24.2 |
| Capital expenditure (including onlending)[1] | 8.0 | 10.4 | 9.5 | 7.1 | 7.0 | 7.1 | 7.0 | 6.9 | 7.4 |
| Overall balance, including grants | 0.9 | 2.2 | 0.3 | 0.7 | 0.3 | 0.5 | 0.9 | 1.0 | 0.3 |
| Program primary balance | 5.3 | 5.7 | 4.7 | 4.0 | 3.2 | 3.2 | 3.2 | 3.1 | 2.4 |
| Total public debt | 73.2 | 77.5 | 65.3 | 64.5 | 61.0 | 57.4 | 53.3 | 49.1 | 45.9 |
| Domestic [2] | 27.7 | 32.2 | 27.7 | 27.3 | 24.6 | 22.5 | 20.2 | 18.2 | 16.9 |
| External | 45.6 | 45.3 | 37.6 | 37.2 | 36.5 | 34.9 | 33.1 | 30.9 | 29.0 |
| External sector | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Current account balance including official transfers | -27.4 | -25.2 | -16.9 | -18.5 | -17.7 | -16.0 | -15.9 | -14.8 | -14.8 |
| Total public external debt outstanding (millions of U.S. dollars) | 490 | 512 | 521 | 549 | 566 | 575 | 577 | 572 | 566 |
| (percent of GDP) | 45.6 | 45.3 | 37.6 | 37.2 | 36.5 | 34.9 | 33.1 | 30.9 | 29.0 |
| Terms of trade (-=deterioration) | -6.3 | -0.6 | 0.2 | 1.3 | 1.5 | 1.5 | 1.3 | 1.0 | 0.8 |
| Real effective exchange rate (average, percent change) | -7.5 | -2.4 | ... | ... | ... | ... | ... | ... | ... |
| Gross official reserves (end of year, millions of U.S. dollars) | 277 | 307 | 425 | 455 | 481 | 506 | 531 | 555 | 577 |
| Months of imports, c.i.f. | 2.8 | 3.0 | 3.8 | 4.0 | 4.1 | 4.2 | 4.2 | 4.2 | 4.3 |
| Exchange rate | | | | | | | | | |
| Seychelles rupees per US$1 (end of period) | 13.7 | 13.0 | 12.1 | … | … | … | … | … | … |
| Seychelles rupees per US$1 (period average) | 12.4 | 13.7 | 12.1 | … | … | … | … | … | … |

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.
[1] Includes onlending to the parastatals for investment purposes.

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

**Statement by Mr. Ian Davidoff and Ms. Nghi Luu on Seychelles**
**June 4, 2014**

Following a severe economic crisis in 2008, Seychelles pursued ambitious and wide-ranging reforms aimed at stabilizing the economy and reorienting fiscal and monetary policies to lift and sustain stronger growth.

The Seychellois economy has made significant progress under the recently completed 4-year EFF-supported program. Under the program, GDP growth averaged 5 percent, inflationary pressures moderated, the exchange rate remained stable, public debt declined sharply, official reserves were gradually rebuilt, and importantly, macroeconomic stability was restored. These outcomes were underpinned by the removal of exchange controls and the floating of the exchange rate, and tighter monetary and fiscal policies. The exemplary performance throughout the program is a testament to the strength of the authorities' ownership of the program and their related commitment to implement difficult reforms. It also highlights the significant extent to which IMF policy advice has gained traction with policy makers, as well as the broad-based public support for the program which the authorities have been able to garner.

Economic fundamentals in the Seychelles remain stronger today, but the reform process remains unfinished. Public debt remains high and the Seychellois economy remains highly vulnerable to external shocks, owing to its reliance on tourism and imports, which are inherent features of its small, highly open economy. To consolidate the recovery, provide policy continuity, and support the multi-year reform efforts, the authorities are requesting a successor 3-year EFF arrangement (105 percent of quota). As noted in the Memorandum of Economic, Financial and Structural Policies for 2014-16, the successor program will focus on strengthening macroeconomic stability and fiscal and external sustainability; further reducing public debt to below 50 percent of GDP by 2018; accumulating additional international reserves; and intensifying structural reforms in a number of key areas, including taxation, public finance management, banking and the financial system, management and oversight of state owned enterprises (SOEs), and supporting private sector development.

The Seychellois authorities are committed to locking in and building upon the hard-won policy gains that they achieved under the last program. They are particularly committed to persevering with structural reforms to modernize the economy, and upgrade supporting policy frameworks.

## Recent Economic Developments and Outlook

Despite challenging economic conditions, Seychelles continued to record robust growth, supported by prudent policies and the implementation of key reforms. In 2013, real GDP growth accelerated to 3.5 percent and the primary fiscal surplus reached 4.7 percent of GDP.

By the end of 2013, inflation fell to 3.4 percent (from 5.8 percent at end 2012) and official reserves reached 3.8 months of imports through opportunistic purchases in the market.

Looking forward, prospects for growth are positive, with GDP growth expected to average 3¾ percent in 2014 and 2015, before moderating to 3½ percent over the medium-term. Inflation is forecast to remain steady at around 3 percent and unemployment is expected to remain low. With reserves recently reaching adequate levels, the authorities will continue to gradually strengthen external buffers in line with staff's recommendations for safeguarding the Seychellois economy. An improvement in the external environment from an ongoing recovery in Europe, as well as ongoing diversification into non-traditional tourist markets should support overall growth of the all-important tourism sector. More broadly, successful efforts by the authorities to encourage private sector led growth could help to unlock further growth.

**Fiscal Policy**

The Seychellois authorities remain deeply committed to continuing their disciplined approach to fiscal sustainability. This commitment has been demonstrated by the large primary fiscal surpluses recorded in recent years. Further reducing public debt is a core component of the new program. While public debt remains high, the pace of the decline in debt has been strong and steady and it remains on track to meet the debt target of below 50 percent of GDP by 2018. The pace and composition of fiscal adjustment will continue to be closely monitored by the Seychellois authorities.

Despite lower-than-expected revenues from business and income tax in the past year, the primary fiscal surplus reached 4.7 percent of GDP owing to tight control over current spending. The authorities concur with staff that following the successful implementation of comprehensive tax reforms in recent years, efforts should now be directed towards improving tax administration, streamlining exemptions, enhancing audits and strengthening compliance. The authorities recognize that improving the financial performance of parastatals will be important for fiscal sustainability.

In terms of expenditure, spending on critical infrastructure, such as water, electricity and sewerage will be key priorities for the government given pent-up demand following a period of underinvestment. To ensure the timely completion of investments, the Seychellois authorities are aware of the need to lift institutional capacity and strengthen policy implementation capabilities. The alignment of the Medium-Term Fiscal Framework (MTFF) with priority investments set out in the Medium-Term National Development Strategy (MTNDS - discussed in greater detail below) will also be important to ensure the optimal allocation of resources and sufficient funding. Both the MTFF and the MTNDS (which are structural benchmarks for the new program) are currently under development.

Significant steps are also being taken to strengthen public financial management, particularly enhancing the reporting arrangements and transparency of public finances and improving the oversight and compliance of SOEs. Technical assistance from the IMF and the World Bank has been extremely valuable to support these efforts.

**Monetary Policy and Reserves**

Strengthening the monetary framework through adopting a more forward looking regime is a key objective of the Central Bank of Seychelles (CBS). The authorities recognize the importance of improving the transmission mechanism and the need to develop a credible anchor for inflation. While work has been underway for some time to enhance the flexibility of monetary policy, a key milestone was reached in the first quarter of 2014, with a formal agreement between the Ministry of Finance and the CBS to issue SR800 million Treasury bonds for monetary policy purposes. To complement the evolution of monetary policy, the government remains firmly committed to maintaining the independence of the central bank.

The Seychellois authorities share staff's view that reserves should remain slightly above that implied by the reserve adequacy metric given Seychelles' small and open economy. The authorities have been steadily rebuilding reserve buffers over a number of years, and intend to accumulate reserves to a level slightly higher than four months of import coverage in the period ahead. Reserve management will be strengthened by improving the capabilities of the CBS through staff training with the Crown Agent Investment Management (an investment management company). The authorities support staff's proposed move to averaging (quarterly) reserve money targets under the program. This will help strengthen liquidity management through greater flexibility, and support the transition to a more forward looking framework for monetary policy.

**Financial sector**

The government has embarked on a number of initiatives to develop the financial sector and to strengthen the credit channel to support private sector growth. A Financial Sector Development Implementation Plan and a collateral registry are currently being developed and work is underway to establish a modern payment systems. In addition to supporting monetary policy, the issuance of longer term instruments, will contribute to financial deepening, provide alternative investment options, and help shore up market confidence.

In late April 2014, the CBS established a Corporation Agreement with the International Finance Corporation (IFC) to assist with the development of the main regulations under the Financial Leasing Act (recently enacted). The IFC will assist with a sensitization campaign and capacity building to local authorities.

The Seychellois authorities will continue to work closely with commercial banks to strengthen the financial sector and to create a competitive business environment to foster growth in small and medium enterprises. The authorities recognize that there are challenges posed by a lack of scale in generating sufficient competition in the banking sector. To mitigate risks in the financial sector, the authorities will complete the development of a macroprudential policy framework by the end of 2015 and will improve the supervision of non-banking financial services through the newly created Financial Service Authority.

**Structural reforms**

The economic reform agenda is well advanced but far from complete. Wide-ranging structural reforms will continue to feature heavily in the new program as the government seeks to build on the recent reform momentum. As noted in the staff report, the previous wave of structural reforms was aimed at restoring growth and stabilizing the economy as it emerged from a deep recession, while the next wave will look to entrench growth and achieve external debt sustainability.

Over the medium term, the economy will be guided by the National Development Strategy, which will aim to (i) promote a coordinated approach to medium term growth, (ii) prioritize various strategies and reform initiatives, and (iii) integrate public sector investment needs. The MTNDS will be anchored to the medium-term fiscal framework to ensure its feasibility and macroeconomic relevance, and with the aim to improve the allocation of resources with policy priorities and strategic objectives. A broad range of policy matters will be covered in the MTNDS, including economic, government, environment and social matters. The completion and validation of the report is expected by September 2014, with cabinet approval expected by October 2014.

The Seychellois authorities place a high priority on ensuring the efficiency of SOEs, given the critical role they play in small island economies. While recognizing their centrality to the economy, the government is conscious of limiting their footprint in order to promote the development of the private sector and to encourage healthy competition. To this end, the government is taking active steps to strengthen oversight and to improve the transparency and accountability of SOEs, including through the establishment of annual performance objectives with well-defined mandates for all SOEs, and the submission of quarterly reports from the Public Enterprise Monitoring Commission on the performance of SOEs to the Minister of Finance. The authorities will continue to pursue policies to improve productivity and increase value-added in key export sectors, such as tourism and fisheries.

Finally, the Seychellois authorities would like to express their appreciation for the support of management, and the IMF mission team for the valuable and frank discussions and their hard work in helping Seychelles develop a comprehensive economic reform program.