



# SEYCHELLES

January 2016

## THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; AND STAFF REPORT

In the context of the third review under the Extended Arrangement, and request for waiver and modification of performance criteria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended September 30, 2015 with the officials of Seychelles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 4, 2015.

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

Letter of Intent sent to the IMF by authorities of Seychelles\*  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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December 21, 2015

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### **IMF Executive Board Completes Third Review Under the Extended Fund Facility Arrangement for Seychelles, and Approves US\$2.3 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the third review under the Extended Fund Facility arrangement (EFF)<sup>1</sup> with Seychelles. The completion of the review enables a disbursement of SDR 1.635 million (about US\$2.3 million), bringing total disbursements under the arrangement to SDR 6.540 million (about US\$9.1 million). The Executive Board's decision was taken without a meeting.<sup>2</sup>

The EFF was approved on June 4, 2014 (see [Press Release No. 14/262](#)) for SDR 11.445 million (about US\$15.7 million, at the time of approval of the arrangement or 105 percent of Seychelles' quota), and follows the expiration of the previous EFF in December 2013.

Macroeconomic outcomes in 2015 have been positive and the external current account deficit is estimated to have narrowed substantially, supported by low commodity prices and higher than expected tourism receipts. Program implementation remains on track, and all end-June performance criteria were met. Economic growth for 2015 has been revised up from 3.5 to 4.3 percent, reflecting strong tourist arrivals and expanding credit to the private sector. The exchange rate appreciated 6.7 percent against the US dollar during the first three quarters of the year. Together with low oil and food prices internationally, this supports a subdued outlook for inflation. The Central Bank of Seychelles (CBS) continued accumulating foreign exchange, bringing the reserve coverage to just under five months of imports. With the primary fiscal surplus expected to be close to 4 percent of GDP in 2015, the authorities are

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<sup>1</sup> The Extended Fund Facility under the Extended Arrangement is an instrument of the IMF designed for countries facing medium-term balance of payments problems because of structural weaknesses that require time to address. Assistance under the Extended Fund Facility features longer program engagement—to help countries implement medium-term structural reforms—and a longer repayment period. (See <http://www.imf.org/external/np/exr/facts/eff.htm>). Details on Seychelles' Extended Arrangement are available at [www.imf.org/seychelles](http://www.imf.org/seychelles).

<sup>2</sup> The Executive Board takes decisions without a meeting (based on lapse-of-time procedures) when it is agreed by the Board that a proposal can be considered without convening formal discussions.

continuing to make progress in reducing the country's debt burden. The outlook for 2016 remains benign, with growth projected at around 3.3 percent.

With inflation and private sector credit growth slowing, the authorities can now move to normalize monetary conditions. Given the commendable progress in building external buffers, further foreign exchange purchases can now be limited to those necessary to preserve coverage at adequate levels. Continued fiscal discipline will be a critical anchor for macroeconomic stability. At the same time, improved attention to the quality of fiscal expenditures should ensure sufficient space for critical investment in human and physical capital, and thereby support inclusive and sustainable growth. Looking ahead, the structural agenda should focus on improving the business climate, particularly with regard to small and medium-sized enterprises. Further progress in reducing vulnerabilities will also be critical, including addressing potential fiscal risks stemming from public enterprises, and ensuring that the offshore sector operates in line with international best practice.



# SEYCHELLES

December 4, 2015

## THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

### KEY ISSUES

**Context.** Program performance remains strong, and economic developments since the second review in June 2015 have been favorable. With low commodity prices and higher than projected tourism arrivals, the balance of payments has been positive and the reserve accumulation has substantially exceeded the targets. Growth for 2015 has been revised upwards to just over 4 percent. Presidential elections are taking place during 3 – 5 December.

**Focus.** Discussions centered on the 2016 budget, as well as on the appropriate reserve accumulation path. The stance of monetary policy was discussed in the context of the strong balance of payments outturn, contained inflationary expectations, and declining, albeit still strong, credit growth. The risks to the banking sector were examined to consider specific micro-prudential measures. Discussions also covered structural measures to reduce risks and promote growth, including progress in governance of state-owned enterprises (SOEs), improving public financial management, and strengthening the business environment.

**Program performance.** All performance criteria for end-June 2015, the program's third test date, were met. Based on preliminary data, all the third quarter indicative targets were also met. The structural agenda is proceeding, albeit with some delays. Staff recommends completion of the third review under the Extended Arrangement and modification of the performance criteria for end-December 2015.

**Policies in the period ahead.** The authorities are committed to the program's fiscal anchor of reducing public debt below 50 percent of GDP by 2018; fiscal policy in 2016 continues to target a primary surplus of 3.8 percent, which strikes an appropriate balance between debt reduction and allowing for investment in critical human and physical capital. Monetary policy aims to stabilize inflation at low levels, while the exchange rate will remain flexible. Planned micro-prudential measures and structural reforms are expected to reduce risks, promote sound credit growth to productive sectors, and foster inclusive growth in the medium-term.

**Risks.** Domestic risks center on SOEs, where excessive risk-taking could endanger the hard-won public debt reduction achieved by the central government. External risks stem from growing weakness in hitherto rapidly-growing emerging market economies.

Approved by  
**David Owen and  
 Luis Cubeddu**

Discussions were held in Victoria October 15–28, 2015. The staff team comprised Mr. Samuel (head), Ms. Radzewicz-Bak, and Messrs. Dallari and Thornton (all AFR). Mr. Cafrine (OED) also 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. The three-year Extended Arrangement under the Extended Fund Facility (EFF) for SDR 11.445 million (105 percent of quota) expires on June 4, 2017. The program aims to bolster the foundations for sustained and inclusive growth, while addressing remaining vulnerabilities.

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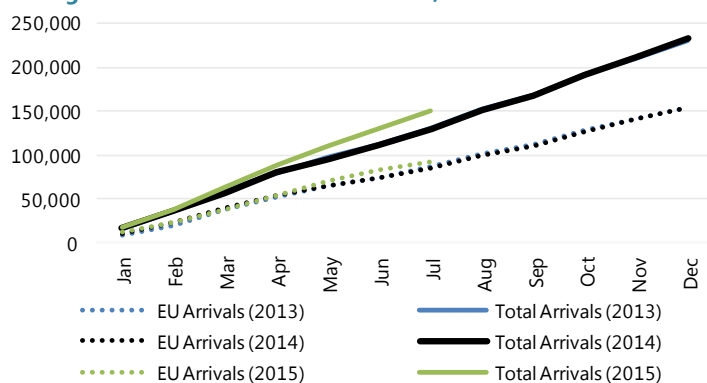
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# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

**1. Economic growth has been stronger than expected, driven by a favorable balance of payments.** Real GDP growth is being revised up to 4.3 percent, driven by a 19 percent year on year increase in tourist arrivals in the first nine months of 2015. India has been the fastest growing market, reflecting the introduction of direct flights to Mumbai, while China delivered 12 percent growth. However, arrivals from Russia are down 20 percent compared to 2014, and while arrivals from the Asian countries help to sustain tourism volumes and hotels occupancy rates, their average length of stay and propensity to spend tend to be lower.<sup>1</sup> While European arrivals were strong, the weak Euro led to a fall in yields. Nonetheless, together with low commodity prices, the current account deficit is expected to fall to 14.4 percent of GDP. The Central Bank of Seychelles (CBS) has been able to take advantage of the strong balance of payments position to purchase \$79 million through end-October. At the same time, the exchange rate has reversed part of the depreciation experienced in 2014, appreciating by 6.7 percent against the dollar in the first three quarters of the year. The output gap is estimated to be around zero.

**Text Figure 1. Cumulative tourist arrivals, 2013-2015**



Source: Seychelles authorities and IMF staff estimates

**2. Tight monetary policy has helped to contain inflation and reduce credit growth.** After a spike in annual inflation to 5.8 percent in March, inflation has started to decline.<sup>2</sup> Supported by low international energy and food prices, appreciation of the Seychelles Rupee against the U.S. dollar, and tight monetary policy stance throughout the year, inflation is expected to recede to 4.4 percent by end-2015. Private sector credit growth has decelerated to 14.3 percent in September, from 25.7 percent in end-2014. Although the overall pace of credit growth has been brought down to more sustainable levels, commercial banks' lending remains concentrated in few sectors, reflecting the economy's low level of diversification, while the rise in unsecured lending products, as well as current

**Credit growth dynamics in 2005-2015**



<sup>1</sup> While granular data allowing for a comparison of length of stay across source countries are not available, the reported average length of stay has declined to 9.3 days in the first quarter of 2015 from 10.6 days a year ago.

<sup>2</sup> The spike in annual inflation rate to 5.8 percent in March was driven by technical revisions, as certain components of the CPI had not been surveyed for over a year.

dynamics in foreign currency loans require strong vigilance and strengthening some micro-prudential tools, such as risk weights to strengthen the capital buffers, and limits on debt service-to-income ratio. (Annex I).

**3. The offshore banking sector in Seychelles is facing significant headwinds, in the context of a global trend of de-risking and of international initiatives on financial integrity and tax transparency.** Barclays Bank, the largest bank providing offshore services, announced on August 31<sup>st</sup> that it was terminating its involvement in the sector and closing accounts offshore. The second largest offshore player, BMI Offshore Bank, remains under CBS management and currently is not accepting new businesses. However, a reorganization plan has been approved by the Supreme Court, and the authorities envisage returning the management of the bank to its shareholders (Nouvobang and Al Salam Bank of Bahrain, which acquired BMI Bahrain in the coming months).

**4. Strong growth has supported continued sound fiscal outturns.** The authorities are on track to achieve a primary fiscal surplus of just under 4 percent of GDP this year, exceeding the envisaged budget target, albeit with some decline in the quality of expenditures. While a supplementary budget to meet some unforeseen needs was largely met through spending reallocation, primary current spending increased by ½ percent of GDP. The large overperformance on reserve accumulation also necessitated the issuance of additional monetary debt to mop up the resulting liquidity, although Seychelles remains on track with its medium-term debt reduction target.

**5. The macroeconomic outlook for 2016 is benign, though with some downside risks stemming from the external environment.** Growth is projected to be broadly around trend, with a slight dip reflecting a slowdown in construction. Efforts to enhance value-added in the tourism and fisheries sector should support exports, which together with favorable terms of trade should support the balance of payments. While financial performance in a number of SOEs has improved, with Air Seychelles and the Seychelles Petroleum Company (Seypec) on track to achieve profits this year, careful monitoring of the sector continues to be warranted. External risks are centered on lower growth in traditional and emerging tourism source regions, which could result in less favorable arrivals than seen in 2015 (paragraph [21]).

## PROGRAM PERFORMANCE

*Implementation of the EFF-supported program has been strong, with the quantitative PCs exceeded by a substantial margin. The structural agenda is progressing with some delays.*

**6. All end-June PCs were met by comfortable margins (LOI Table 1), and the structural agenda is proceeding, albeit with some delays (LOI Table 2a).**

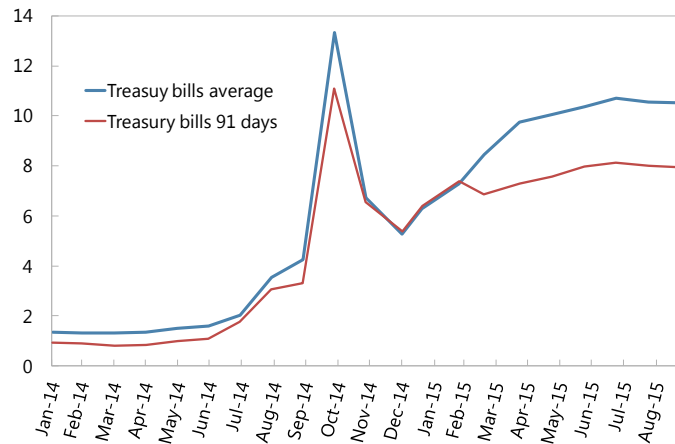
- **The mid-year fiscal primary surplus target was exceeded by nearly ¾ percent of GDP.** With the exception of disappointing business tax collections, tax revenues have performed well: receipts were slightly (0.4% of GDP) above projections for H1. However, with non-tax revenues and grants falling short, total revenues and grants were ½ percent of GDP lower than projected for the first half of the year. Foreign-financed capital expenditures fell below projections (largely



due to technical delays), leading the primary surplus to be exceeded by over  $\frac{3}{4}$  percent of GDP. Preliminary indications suggest that the end-September indicative target was also attained.

- The net international reserve targets were also exceeded by significant margins.** With a lower import bill due to subdued international oil prices, and higher tourism arrivals, the CBS was able to purchase US\$79 million by end-October, exceeding the end-June target by US\$31 million and the end-September indicative target by US\$53 million. The pace of reserve accumulation in 2015 remains among the highest since the 2008 crisis, and has contributed to strengthening external buffers.
- The reserve money targets on daily average were achieved in the second and third quarters of 2015, but the sizable operations to withdraw liquidity pushed up interest rates on government securities.** The CBS was able to maintain its policy target within the programmed range during the period, but liquidity in the banking system has become tighter, with precautionary liquidity buffers occasionally falling into negative territory.<sup>3</sup> This resulted in rising interest rates on treasury bills which doubled since end-December 2014 across the whole yield curve, despite declining volumes of open market operations. Real interest rates are substantially above historical averages encouraging larger capital inflows. Reflecting tighter liquidity conditions in the system, seasonal factors related to end-year fluctuation of currency in circulation, and significant revisions in the broad money components, the reserve money target on daily average for end-December 2015 was revised slightly upwards.<sup>4</sup>
- The structural agenda continues to advance, albeit with some delay** (LOI Table 2b). The structural benchmark for submission to the National Assembly of legislation on International Business Companies was delayed to the end of the year to allow for further consultations with the private sector, while establishing a macro-prudential unit has also required further time in light of the need to provide an appropriate legal framework.

Interest rates at various maturities



Sources: Authorities data and IMF staff estimates

<sup>3</sup> In this case, liquidity is measured as cumulative excess reserves of the banking system.

<sup>4</sup> As a result of inaccurate reporting by one of the domestic banks, foreign currency deposits were incorrectly recorded as offshore deposits. Consequently broad money was higher by 7.7 percentage points compared with December 2014. The larger broad money component would lead to a higher level of bank reserves, and to avoid considerable tightening at end-2015, staff are proposing that the reserve money target be adjusted accordingly. Consequently, monetary conditions remain broadly in line with what was envisaged under the program.

## POLICIES IN THE PERIOD AHEAD

*Fiscal policy remains anchored on the authorities' debt reduction goal. After tightening monetary policy forcefully in the last year, the CBS has normalized its monetary policy stance, which should help to return interest rates towards their neutral rate. Structural reforms aim to contain fiscal risks, while laying the groundwork for broad-based and sustainable growth.*

### A. Fiscal Policy

**7. The authorities are on track to attain or exceed the 2015 target of a primary fiscal surplus equivalent to 3.8 percent of GDP.** Revenues, which had been on track to overperform the budget targets substantially, were reduced by larger-than-anticipated tax refunds towards the end of the year. While the authorities have taken measures to improve execution of the capital budget, capacity constraints in line ministries have resulted in continued delays in procurement and implementation of foreign-financed projects.

**8. Beyond 2015, achieving the debt target will require continued fiscal discipline, and the baseline fiscal path set out in the previous reviews remains broadly appropriate.** Primary fiscal surpluses of 3½ to 4 percent of GDP allow for debt reduction while protecting essential expenditures in infrastructure and human capital. However, achieving the authorities' target of reducing the debt-to-GDP ratio below 50 percent by 2018 has become more challenging, as a result of the government securities issued to sterilize the rapid accumulation of international reserves by the CBS. Assuming no unwinding of the monetary debt stock, the debt-to-GDP ratio at end-2018 would stand above 50 percent.<sup>5</sup> However, the baseline scenario (in line with WEO projections) assumes that global interest rates normalize over the medium term, improving the CBS' returns on international reserves, allowing it to bear more of the costs of sterilization. Starting in 2017 and continuing in 2018, it assumes that a portion of the Treasury's monetary debt is unwound in line with increasing global interest rates.<sup>6</sup>

<sup>5</sup> Seychelles' debt target, unlike that of Mauritius, includes debt issued for monetary purposes.

<sup>6</sup> See Box 1 for a discussion of excess liquidity in Seychelles.

### Box 1. Structural Excess Liquidity: Causes, Management, and Options

The economy of Seychelles has been characterized by structural excess liquidity in the banking system for many years, recently as a result of unsterilized purchases of foreign exchange by the CBS as it progressively built its reserves buffer - which now stands at about \$500 million, or one third of GDP.

Excess liquidity can weaken the monetary transmission mechanism as commercial banks do not have to participate in Open Market Operations (OMO), and can always opt to maintain liquid assets rather than accepting the terms offered by the Central Bank. Over time, this may lead to a reduction in interest rates, with consequences for inflation (if demand grows too fast) and the exchange rate (if inflation expectations become unanchored).

Given the observed volatility in core monetary aggregates during 2012-13 in the context of establishing a forward looking framework for monetary policy, the CBS and the Ministry of Finance agreed on an ambitious sterilization program in early 2014, comprising the issuance of over SR800 million of Treasury bonds (with maturities of 2, 3, and 5 years) to mop up much of the existing excess liquidity, and the introduction of a reserve money objective that targeted the average of daily reserve money over the quarter to permanently reduce bank's free reserves. This resulted in a substantial reduction of excess liquidity in the banking system (Box Figure 1), and strengthened the signaling function of short-term interest rates.

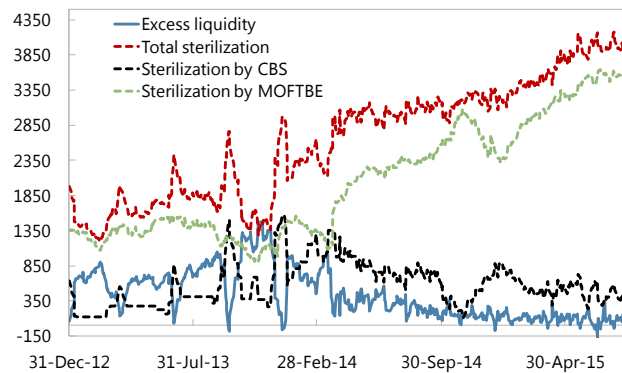
While the cost of sterilization ultimately rests on the consolidated public finances, both government securities and Central Bank auctions are often used in practice, and their relative importance depends on country-specific circumstances (Nyawata, 2012). In this regard, recent developments in Seychelles illustrate how the choice of the instruments used for sterilization needs to reflect the trade-off between monetary management and debt management.

Starting in March 2014, the liquidity surplus has been absorbed for the most part through government securities, leading to a rapid increase in the level of government debt (treasury bills and treasury bonds issued for monetary policy purposes are included in the definition of public debt). The authorities' decision has the merit of safeguarding the CBS' balance sheet, as large issuances of interest-bearing monetary instruments can undermine its financial position, and can play a catalytic role for financial development in a shallow market like Seychelles. However, the issuance of government securities also has the potential to put at risk the authorities' goal of reducing the debt-to-GDP ratio of 50 percent by 2018.

Going forward, some options may be available to support attainment of the debt target without jeopardizing the effectiveness of monetary policy (see Annex II). While the Ministry of Finance would continue issuance of debt for monetary purposes, the CBS could consider using part of the existing government securities on its balance sheet for sterilization operations. As monetary policy in the United States normalizes driving global interest rates up, the CBS should be able to increase the returns from its holdings of foreign exchange reserves, which in turn would allow the Central Bank to bear more of the costs of sterilization. Other alternatives seem to be less recommendable in the context of Seychelles. For example, commercial banks could be asked to keep a higher fraction of minimum required reserves for their deposits. However, the existing minimum reserve requirement set at 13 percent appears appropriate, and any upward revision would increase absorption of domestic liquidity only by imposing a further tax on financial intermediation. In countries where the government, its agencies or the parastatals hold substantial amounts of cash balances with commercial banks it may be advisable to transfer those amounts to the Central Bank in order to drain surplus liquidity in a cost effective way. However, in Seychelles a single treasury account for the central government is already in place, and forcing SOEs to hold their operational accounts at the CBS may hamper their capacity to make timely payments.

References: Nyawata, O., (2012). "Treasury Bills and/or Central Bank Bills for Absorbing Surplus Liquidity: The Main Considerations", IMF Working Paper 12/40.

**Box Figure 1. Sterilization Operations**  
(Millions of SR)



Sources: CBS data and IMF staff calculations.

**9. The 2016 budget will target a primary surplus equivalent to 3.8 percent of GDP.** While there will be some increase in the public wage bill following the announcement of a 13<sup>th</sup> month of salary by the President for most government workers, current spending will otherwise be kept tight to prevent an erosion in capital spending.<sup>7</sup> Supported by an increase in foreign financing, capital expenditure is budgeted to increase by 1½ percent of GDP over the projected end-2015 outturn, which together with on-lending by the government will allow for further progress in the country's infrastructure, including the water, sewer and electricity networks.

### Box 2. Borrowing Strategy

With its target of reducing government debt below 50 percent of GDP by 2018 necessitating continued fiscal surpluses, Seychelles' borrowing needs are limited over the medium term. Multilateral and bilateral creditors are providing around two percent of GDP in project financing, just over half of which will be on-lent by the government to the Public Utilities Corporation to support improvements to the electricity and water systems. Budget support is around one percent of GDP. While multilateral development banks would be willing to provide additional financing, under the baseline scenario additional support is not required.

Domestic financing is largely in the form of short-term treasury instruments, the rollover of which accounts for the majority of the financing needs. Monetary debt has been issued to mop up the additional liquidity generated by the CBS' reserve accumulation. While this issuance increases gross debt, the debt is offset by deposits held in a blocked account at the central bank. In 2014 the authorities were able to support an extension of average maturities of domestic debt by issuing medium-term bonds for monetary purposes, and going forward further opportunities for lengthening the average tenure of domestic debt instruments should be explored.

<b>Public Borrowing Program</b>				
(SR Million)				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b><u>Financing Needs</u></b>	4,494	4,813	4,240	3,108
<b><u>Uses of debt financing</u></b>				
Budget finance 1/	4,390	4,513	3,798	2,560
Project finance	105	300	442	548
<i>o/w for onlending to PUC</i>	78	108	280	395
<b><u>Financing Sources</u></b>	4,494	4,813	4,240	3,108
External (Medium and long term)	198	567	577	683
<i>o/w budget support</i>	93	267	135	135
Domestic	4,297	4,246	3,664	2,425

1/ Includes rollover of debt stock, including monetary debt.

**10. With business taxes continuing to underperform in 2015, improving the take from this tax will be a major focus for 2016.** The authorities are also keen to introduce greater progressivity into the income tax system, which is currently based on a flat rate with no exemptions. An FAD tax

<sup>7</sup> Certain expenditure categories increase/decrease as a result of classification changes (e.g. social safety net expenditure is being shifted from "Social Programs of Central Government" to "Benefits and Programs of Social Security Fund", and some expenditure that fell under "Goods and Services" and "Social Programs of Central Government" will now fall under "Transfers to the Public Sector").

policy mission is planned for January, which will work with the authorities to assess the potential for greater gradation, taking account of the capacity constraints at the Seychelles Revenue Commission.

## B. Monetary Policy and Price Stability

### 11. Monetary policy remains geared towards containing end-year inflation below 5 percent.<sup>8</sup>

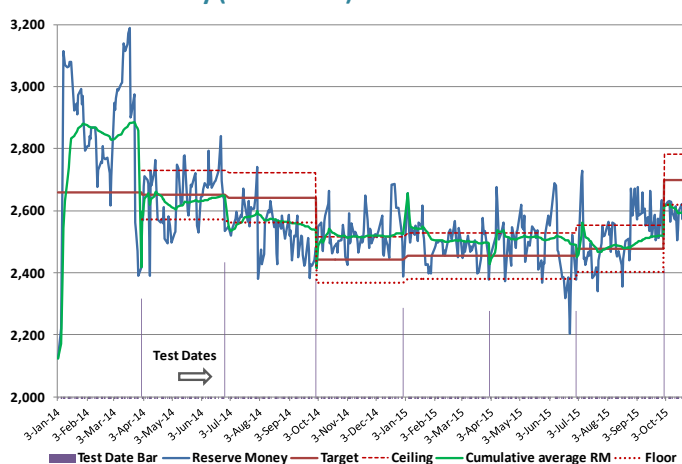
A tight reserve money target maintained through three quarters of 2015 has contributed to containing inflationary pressures stemming from the delayed pass-through of the exchange rate depreciation towards the end of 2014 to domestic prices, and to reining in private sector credit growth. Supported by low international food and fuel prices throughout 2015, falling local production costs (as measured by the producer price index), and anchored inflation expectations, the annual inflation rate is expected to decline to 3 percent by end-2016, once the impact of one-time technical revisions in prices of several CPI components phases out.

### 12. With falling inflation, growth around potential, decelerating private sector credit growth, and a relatively contained impact of the planned wage bill increase, a normalization of the monetary policy stance is warranted.

With well-anchored inflation expectations, output near potential, and an unchanged fiscal stance, monetary policy could be normalized in the year ahead. This should also help to reduce portfolio inflows and ease pressure on the interest rates. Private

sector credit growth is expected to recede to just over 10 percent in 2016, supported by the adoption of micro prudential policies. Wage policies are not expected to add to inflation pressures. Despite a planned 13<sup>th</sup> month salary, the increase in the public sector wage bill will be relatively limited, and many private sector firms will be unaffected as they already provide such a bonus.

Reserve Money (in mln SCR)



**13. Rapidly increasing monetary debt is however a source of concern.** Sizable liquidity withdrawal operations led to expanding the monetary debt to around 15 percent of GDP in mid-2015. To allow for some unwinding in the coming years, a stronger monetary policy framework needs to be developed over the medium term, with a greater role played by the interest rates. This could be achieved by introducing a policy rate, which would increasingly serve as an indicator of the monetary policy stance and help guide movements in the short-term interest rates. Promoting money market development to reduce the need for the CBS frequent interventions to manage domestic liquidity would also help to alleviate the pressure on the debt. Although the fiscal support in the form of government securities will still be needed to address systemic liquidity condition, consideration could

<sup>8</sup> Monetary policy is implemented through conventional quarterly reserve money targets on daily average, to which the CBS moved in 2014 from end-quarter targets.

be given to using existing debt instruments on the CBS balance sheet for monetary operations purposes. (Annex II).

## C. External Stability

**14. The balance of payments strengthened in the first three quarters of the year, and the outlook is benign for 2016.** Better-than-expected tourism arrivals sustained exports, while low oil prices and a slowdown in FDI flows helped to contain imports. The depreciation of the Euro vis-à-vis the US dollar since 2014 has reduced profit margins of the hotel operators. As a result, despite the impressive 19 percent increase in tourist arrivals in the first three quarters of the year, the value of tourism services is expected to increase only moderately. On the import side, oil prices are expected to remain low for a protracted period of time, and the pipeline of investment projects is less buoyant compared to 2014. Staff assesses the real exchange rate to be broadly in line with fundamentals, and in this context these trends are supportive of a narrowing current account deficit for the remainder of 2015 and for 2016.

**15. The net international reserves target for 2015 has been exceeded by a large margin, leaving Seychelles comfortable with respect to key reserve adequacy metrics.** Lower domestic demand for foreign currency (especially from the oil importer SEYPEC) has been instrumental in supporting overperformance against the NIR target. As a small, open and undiversified economy, Seychelles faces extra vulnerabilities that may not be fully captured by the existing metrics. However, with reserve coverage standing at 4.8 months of prospective imports, or 159 percent of the Assessing Reserves Adequacy metric, Seychelles is now in a comfortable situation, even allowing for these particularities. Moreover, the large spread between domestic and international interest rates imposes a high cost on holding reserves, and further substantial reserve accumulation could compromise achievement of the medium-term debt target. In this context, continued foreign exchange purchases should be confined to those necessary to preserve reserve coverage ratios broadly around present levels. In light of expected pressures on the public sector foreign exchange cash-flow over the medium term—including from the commencement of repayments on the USD 168 million Eurobond in 2016—this will still entail significant purchases. Aside from purchases necessary for reserve management purposes, the authorities plan to continue to allow the exchange rate to adjust in line with fundamentals, unless intervention is warranted to prevent excessive market volatility.

**16. Options continue to be explored to reduce balance of payments pressures.** In December, following some financing-related delays, the Paris Club is expected to begin implementing an innovative debt buyback operation under which obligations to bilateral creditors will be replaced with a debt service stream to a marine conservation project. The operation will result in a reprofiling of debt service which reduces the near-term hump, and replaces a portion of foreign currency obligations with domestic currency debts.<sup>9</sup>

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<sup>9</sup> See [www.imf.org](http://www.imf.org)

## D. Structural Agenda

**17. Public financial management reforms are set to continue.** The authorities are preparing the public asset register, which should enhance accountability in the use of public resources (*SB, end-December 2015*). While most of the asset register is now complete, technical difficulties may delay completion of the public land registry to 2016. With five years having passed since the last Public Expenditure and Financial Accountability (PEFA) assessment, the authorities have made significant progress in addressing the issues identified by that report. A new PEFA will be carried out in H1 2016 to identify shortfalls from the evolving international best practice, on the basis of which the authorities will prepare a Public Financial Management Action Plan (*SB end-December 2016*). The authorities are also proceeding with Programme Performance-Based Budgeting (PPBB): the experience in the pilot ministries has been largely favorable, but implementation has been more labor intensive than anticipated. The authorities plan a partial extension of PPBB to a remaining 7 portfolio ministries by the end of 2017.

**18. Efforts are also underway to improve the governance and performance of the state-owned enterprises.** The World Bank is assisting the Public Enterprise Monitoring Commission to carry out governance reviews in three SOEs (*SB, end-June 2016*). Extending these governance reviews to a further three state-owned enterprises by the end of 2016 will constitute an SB for end-December 2016. Supported by lower fuel prices and improved routing, Air Seychelles is expected to achieve profitability this year and avoid further recourse to public funds over the medium term. SEYPEC has also achieved profitability and is expected to pay a dividend. The Seychelles Trading Company has opened a large hypermarket on Mahé, and staff stressed the need to manage costs carefully to minimize risks to the public balance sheet.

**19. The authorities are also keen to see a greater role for the private sector in the provision of infrastructure.** Seychelles faces significant investment needs over the medium term, most notably in the transport and fisheries sectors. While further private sector involvement would be important to closing the infrastructure gap, the authorities are cognizant of the potential risks to the public sector. In this context, based on TA from development partners, they are working on a new framework to govern Public-Private Partnerships (*SB, end-October 2016*) which should mitigate potential risks while encouraging sound investments.

**20. While the offshore sector has taken significant steps to improve governance, further progress will be needed to safeguard the sector's future.** The OECD's Global Forum on Transparency and the Exchange of Information for Tax purposes, having found Seychelles non-compliant with international standards in 2013, has issued a supplementary report based on the situation as of August 2015, which found that the country was now largely compliant. Legislation ensuring that data on beneficial ownership of International Business Corporations will be held in-country, and improving the regulation of trusts and International Corporate Service Providers is expected to be passed by the National Assembly by the end of the year. Seychelles will also be subject to a mutual evaluation of compliance with Financial Action Task Force (FATF) standards for Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) by the Eastern and Southern African Anti Money Laundering Group (ESAAMLG) in 2016. Preparing a comprehensive and



cohesive strategy drawing on the National Risk Assessment will set a framework for developing the offshore sector, while limiting risks to the sector and the broader economy (*SB, end-May*).

**21. Improving the investment climate and encouraging the growth of SMEs in particular, will be key to ensuring sustainable and inclusive growth.** In a context of relatively high inequality (as measured by the GINI coefficient) the authorities see encouraging entrepreneurship as a key way to ensure that the benefits of growth are shared more equitably. They are preparing a strategy which will seek to address constraints on SME growth over the medium term, including reducing red tape, enhancing the provision of services for start-ups, and improving access to finance and education (*SB, end-May 2016*). Further progress on enhance financial literacy will also address one of the key constraints to enhancing financial inclusion and support a deepening of financial markets (*SB, end-September 2016*).

## PROGRAM MONITORING AND RISKS

**22. The program will continue to be monitored on a semi-annual basis.** The end-December 2015 fiscal targets are maintained, while the NIR target is increased to reflect the improvement in the BOP, and the monetary target has been revised to reflect the change in the composition of broad money. The LOI proposes the establishment of quantitative PCs for end-June and end-December 2016 (Table 1) and structural benchmarks (Table 2b).

**23. With international reserves adequate and appropriate policies in place, Seychelles' capacity to repay the Fund remains strong** (Table 6). With planned budget support from the World Bank and African Development Bank, the program is fully financed for 2016. Downside risks to the program stem predominantly from external factors: a renewed recession in Europe or a down-turn in the growth markets of the Middle East/Asia could threaten the tourism sector. Higher commodity prices could also undermine the favorable balance of payments trends, and further Euro weakness could undermine yields in the tourism sector. Internal risk factors continue to center on potential losses in SOEs: the STC's recent expansion into a hypermarket, for example, increases the potential risks to the public sector. Staff have also shared their fears with the authorities that an overly-broad mandate for the Société Seychellois d'Investissement (SSI) could lead to further investments that put public resources at risk for uncertain benefits in projects that would be better pursued by the private sector, or not at all.

## STAFF APPRAISAL

**24. Staff welcomes the authorities' continued commitment to sound macroeconomic policies.** The balance of payments pressures experienced in the latter half of 2014 were successfully addressed through a combination of tight monetary and fiscal policy. With the restoration of external balance helped by favorable terms of trade and strong tourism arrivals, the authorities should now focus on laying the foundations for broad-based and sustainable economic growth.

**25. Given well-anchored inflation and slowing private sector credit growth, the authorities are appropriately normalizing monetary policy.** Although the pace of growth of private sector



credit is now moderating, it will be important to strengthen the micro-prudential tools to safeguard the soundness of the financial sector and mitigate emerging risks related to concentrated sectoral exposures, and foreign currency lending and unsecured credit products. Once the macro-prudential institutional framework becomes operational, some additional measures could be considered to address systemic risks. Moreover, continued progress is critical in strengthening the monetary policy framework, particularly by improving liquidity forecasting, and gradually modernizing liquidity management operations. More emphasis should be placed on interest rates to improve traditional channels of monetary policy transmission and on strengthening the functioning of the money market to help reduce market interventions, and contain a rapidly growing stock of monetary debt.

**26. While fiscal discipline has anchored stability, greater attention must be paid to the quality of expenditures.** The authorities' continued commitment to reducing the debt-to-GDP ratio over the medium term should ensure that fiscal policy enhances policy buffers and supports external stability. However, closer control over current expenditure, and wages in particular, is also necessary. Wages have been consistently increasing as a percent of GDP since the crisis, particularly when wages of independent government agencies are taken into account. While some increase may be necessary to support investment in human capital, continued broad-based wage increases that exceed the growth of the economy would undermine the government's ability to ensure sufficient room for investments in essential infrastructure, the foundation of long-term growth. In this context, improving the execution of planned investment spending is also a high priority, and shifting unused resources to current spending should be minimized.

**27. After considerable progress in building external buffers to adequate levels, interventions should be limited going forward.** Having fallen to a very low level during the crisis, international reserve coverage has now reached adequate levels, even after taking account of Seychelles' high import dependency and undiversified economy. While this rapid reserve accumulation has resulted in the issuance of a considerable amount of monetary debt for sterilization purposes, there is an inevitable cost to building this buffer, and the use of these treasury instruments has been an essential corollary to the improved coverage. Going forward, the fiscal authorities should continue to provide the CBS with all necessary instruments to conduct monetary policy. However, with the exchange rate in line with fundamentals, external buffers adequate, and the costs of sterilization high, foreign exchange intervention, beyond that needed to maintain current reserve levels, should be limited to stemming excessive exchange rate volatility.

**28. The authorities should refocus on the structural agenda.** While the role of the public sector in Seychelles may necessarily be different than in its larger peers, the primary role of the private sector in stimulating growth should nevertheless be recognized. The role of the public sector should be refocused on ensuring a level playing field and to instances where there is a clear market failure, and the temptation for public enterprises to invest in non-core activities should be resisted and rolled back. Regulation of the offshore sector needs to be continually reviewed to ensure that it is in line with international best practice, and that risks to the industry and the broader economy are appropriately contained.

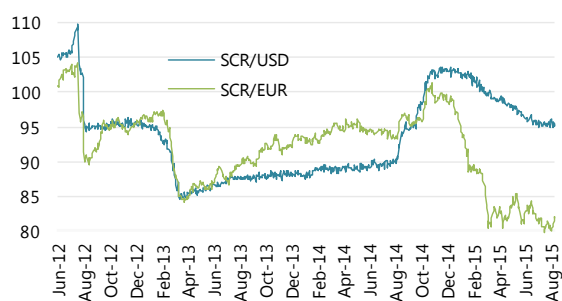
**29. In light of the authorities' continued strong program implementation and determined policy response to safeguard macroeconomic stability, staff supports the authorities' request**

**for the completion of the third review under the Extended Arrangement and the modification of the quantitative performance criteria for end-December 2015.**

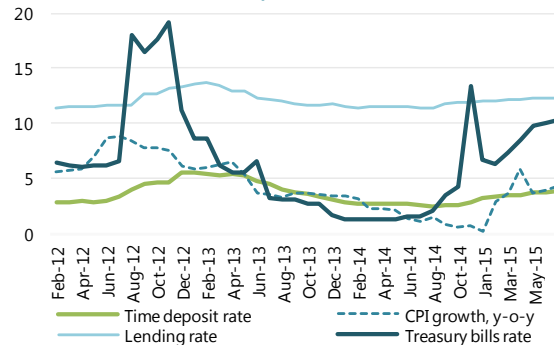
**Figure 1. Seychelles: Macroeconomic Development and Projections**

**Daily exchange rates index, 2012-15**

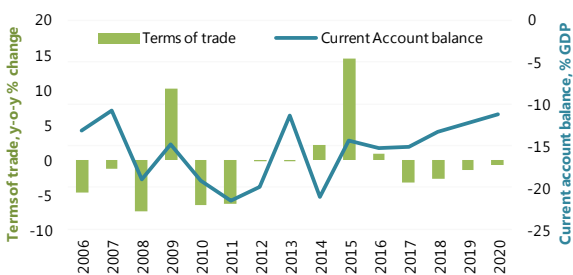
(December 31, 2011 = 100)



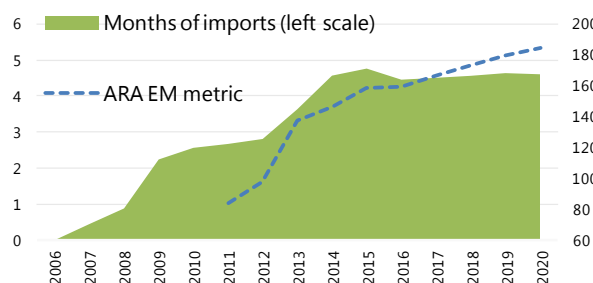
**Inflation and interest rates, 2012-15**



**External balance and the terms of trade, 2006-20**

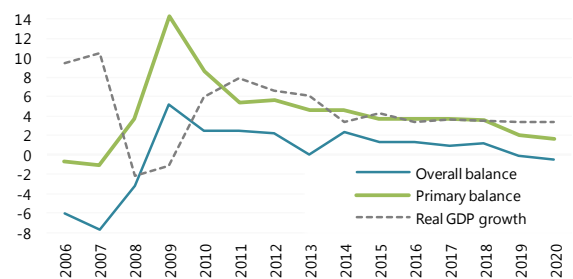


**Reserves Adequacy<sup>1</sup>**



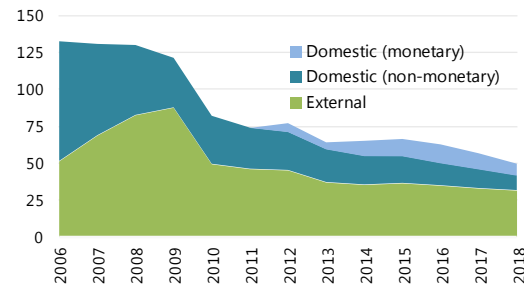
**Fiscal balances and growth, 2006-20**

(Percent of GDP)



**Stock of public debt, 2006-18**

(Percent of GDP)



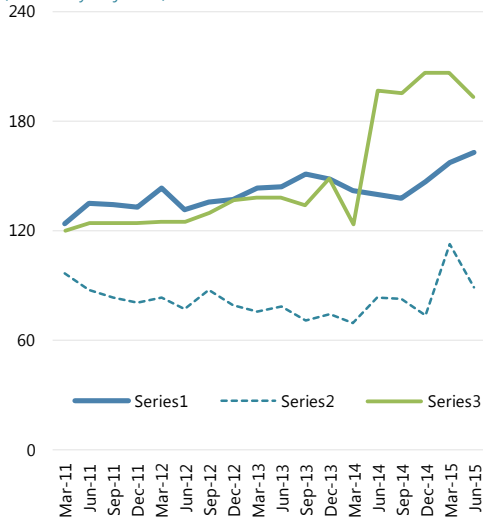
Source: Seychelles authorities and IMF staff estimates

<sup>1</sup>Data for the ARA EM metric are not available prior to 2011.

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

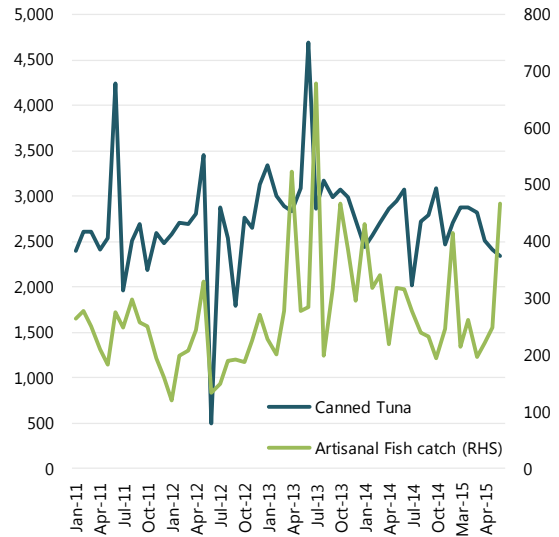
**Telecommunications Usage, Mar'11 - Jun'15**

(Seasonally adjusted)



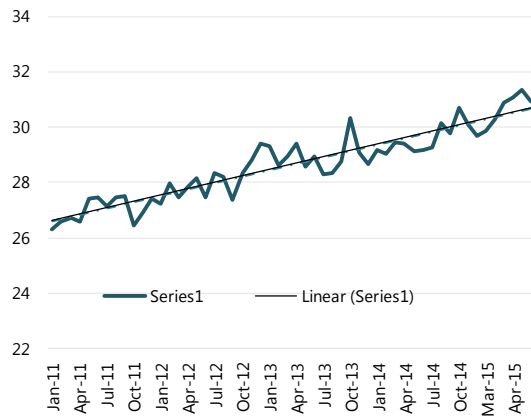
**Fishing Output, Jan'11 - Jun'15**

(Tons - seasonally adjusted)



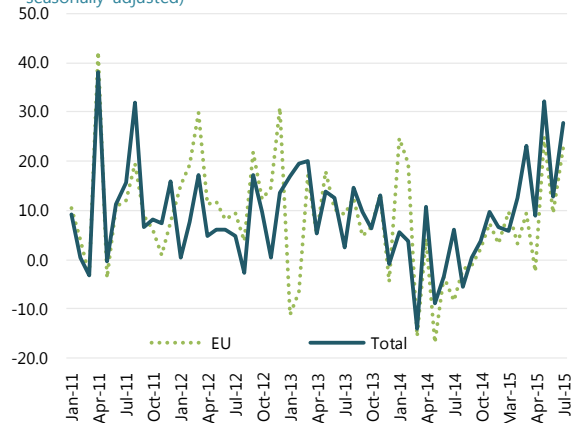
**Electricity Production, Jan'11 - Jun'15**

(Millions, KWh - seasonally adjusted)



**Tourist Arrivals, Jan'11 - Jul'15**

(Year-on-Year percent change on monthly basis seasonally adjusted)



Source: Seychelles authorities and IMF staff estimates

**Table 1. Seychelles: Selected Economic and Financial Indicators, 2013–20**

Nominal GDP (2014): US\$ 1,422 million

Per Capita GDP (2014): US\$15,887

Population, end-year (2012): 88,303

Literacy rate (2010): 94 percent

Main products and exports: Tourism, Canned Tuna

	2013	2014	2015		2016	2017	2018	2019	2020
	Est.	Est.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices									
(Percentage change, unless otherwise indicated)									
Nominal GDP (millions of Seychelles rupees)	17,015	18,133	19,168	19,348	20,456	21,697	23,087	24,582	26,186
Real GDP	6.0	3.3	3.5	4.3	3.3	3.6	3.5	3.4	3.4
CPI (annual average)	4.3	1.4	4.3	4.3	2.5	2.4	2.8	3.0	3.0
CPI (end-of-period)	3.4	0.5	4.9	4.4	3.0	2.6	3.3	2.9	3.1
GDP deflator average	3.2	3.1	2.1	2.3	2.3	2.4	2.8	3.0	3.0
Money and credit									
(Percentage change, unless otherwise indicated)									
Broad money	23.7	25.8	5.7	6.7	5.7	...	...	...	...
Reserve money (end of period)	15.4	13.9	8.0	13.1	6.5	...	...	...	...
Reserve money (average of last quarter)	...	-14.5	2.1	6.9	6.5	...	...	...	...
Velocity (GDP/broad money)	1.8	1.5	1.7	1.5	1.5	...	...	...	...
Money multiplier (broad money/reserve money)	4.5	4.9	4.5	4.6	4.6	...	...	...	...
Credit to the private sector	4.5	25.7	12.4	12.6	10.6	...	...	...	...
Savings-Investment balance									
(Percent of GDP)									
External savings	11.5	21.1	15.2	14.4	15.3	15.1	13.3	12.4	11.3
Gross national savings	26.4	16.2	18.6	18.4	19.8	18.4	19.0	19.7	20.8
<i>Of which</i> : government savings	5.2	6.6	5.4	6.4	7.1	7.7	8.6	8.9	7.6
private savings	21.2	9.7	13.3	12.0	12.7	10.8	10.4	10.8	13.2
Gross investment	37.9	37.3	33.7	32.7	35.1	33.5	32.3	32.1	32.1
<i>Of which</i> : public investment <sup>1</sup>	8.9	6.3	6.7	5.7	7.8	6.6	7.0	7.7	7.8
private investment	29.0	31.0	27.0	27.0	27.3	26.9	25.3	24.4	24.3
private consumption	42.9	52.3	50.0	49.6	49.5	51.1	51.1	50.4	47.3
Government budget									
Total revenue, excluding grants	31.9	32.4	31.6	31.7	32.6	32.8	32.9	32.8	32.5
Expenditure and net lending	36.0	32.7	33.6	31.5	34.3	33.0	33.0	33.5	33.7
Current expenditure	26.7	26.5	26.8	25.8	26.5	26.4	26.0	25.9	26.1
Capital expenditure <sup>1</sup>	9.3	6.3	6.7	5.7	7.8	6.6	7.0	7.6	7.8
Overall balance, including grants	0.3	2.0	0.3	1.2	1.3	1.0	1.2	-0.2	-0.5
Program primary balance	4.6	4.6	3.8	3.8	3.8	3.6	3.6	2.0	1.6
Total public debt <sup>2</sup>	64.1	65.1	63.7	66.2	62.7	56.7	49.7	46.1	43.3
Domestic (including debt issued for monetary purposes)	27.2	29.9	25.1	29.9	28.0	23.9	18.2	16.7	16.4
Domestic (excluding debt issued for monetary purposes)	22.4	19.5	18.0	18.8	15.2	12.9	10.1	9.0	9.2
External	36.9	35.3	38.6	36.3	34.7	32.8	31.4	29.4	26.9
External sector									
(Percent of GDP, unless otherwise indicated)									
Current account balance including official transfers	-11.5	-21.1	-15.2	-14.4	-15.3	-15.1	-13.3	-12.4	-11.3
Total external debt outstanding (millions of U.S. dollars) <sup>3</sup>	1,583	1,667	1,788	1,786	1,876	2,006	2,119	2,221	2,317
(percent of GDP)	11.2	11.7	13.0	12.3	12.2	12.4	12.4	12.3	12.3
Terms of trade (-=deterioration)	-0.1	2.0	12.0	14.4	0.9	-3.3	-2.7	-1.6	-0.8
Real effective exchange rate (average, percent change)	17.7	-3.2	...	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	425	463	463	521	517	541	568	593	607
Months of imports, c.i.f.	3.6	4.6	4.3	4.8	4.5	4.5	4.6	4.6	4.6
Exchange rate									
Seychelles rupees per US\$1 (end of period)	12.1	14.0	...	...	...	...	...	...	...
Seychelles rupees per US\$1 (period average)	12.1	12.7	...	...	...	...	...	...	...

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

<sup>1</sup>Includes onlending to the parastatals for investment purposes.<sup>2</sup>Includes debt issued by the Ministry of Finance for monetary purposes.<sup>3</sup>Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2013–20

	2013	2014	2015		2016	2017	2018	2019	2020
		Est.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of US Dollars)								
Current account balance (+ surplus; - deficit)	-162	-300	-209	-209	-235	-243	-227	-222	-214
(percent of GDP)	-11.5	-21.1	-15.2	-14.4	-15.3	-15.1	-13.3	-12.4	-11.3
Balance of goods and services (+ surplus; - deficit)	-104	-218	-138	-111	-154	-157	-131	-114	-82
Exports of goods	578	539	448	427	449	486	518	546	572
<i>Of which:</i> oil re-exports	202	193	140	127	129	143	158	168	175
<i>Of which:</i> tuna exports	351	318	279	270	289	310	325	342	359
Imports of goods	1,024	1,081	937	912	991	1,057	1,091	1,134	1,162
<i>Of which:</i> oil imports	269	282	216	185	187	209	230	245	256
FDI-related	71	133	93	83	117	148	124	128	132
grants- and loans-related	127	84	78	60	90	85	96	99	94
other	556	582	550	585	598	616	641	661	680
Exports of services	628	643	633	675	706	745	787	831	877
<i>Of which:</i> tourism earnings <sup>4</sup>	430	398	380	404	424	451	480	510	542
Imports of services	287	319	282	300	318	331	345	357	370
Balance on primary income (+ surplus; - deficit)	-72	-85	-74	-94	-79	-85	-97	-112	-134
<i>Of which:</i> interest due	32	42	35	56	37	38	40	43	45
transfers of profits and dividends	17	16	19	15	15	14	15	15	15
Balance on secondary income (+ surplus; - deficit)	15	3	3	-4	-1	-2	1	4	2
<i>Of which:</i> general government, net	52	57	38	33	34	38	41	45	50
Capital account	71	39	37	30	50	31	34	25	23
Financial account	-225	-255	-170	-234	-180	-239	-227	-230	-213
Direct investment, net <sup>1</sup>	-217	-201	-149	-127	-172	-207	-182	-187	-192
Abroad	-77	8	8	8	9	9	9	10	10
In Seychelles	133	201	149	127	171	206	179	184	188
<i>Of which:</i> offshore sector	7	8	8	8	10	11	12	13	14
Portfolio investment, net	18	2	0	-26	17	18	10	11	11
Other investment, net	-26	-56	-22	-81	-25	-49	-56	-53	-31
Government and government-guaranteed	9	-22	-25	-5	-24	-16	-24	-20	-3
Disbursements	24	21	45	15	43	43	50	51	42
Project loans	11	3	18	8	23	33	40	51	42
Program loans	20	27	27	7	20	10	10	0	0
Amortization	-34	-16	-20	-20	-29	-37	-35	-40	-47
Private sector <sup>2</sup>	-36	-34	4	-76	-2	-33	-32	-34	-28
Net errors and omissions	-18	42	0	0	0	0	0	0	0
Overall balance	116	36	-2	55	-5	27	34	32	21
Financing	-116	-36	2	-55	5	-27	-34	-32	-21
Change in net international reserves (increase: -)	-116	-36	2	-55	5	-27	-34	-32	-21
Change in gross official reserves (increase: -)	-118	-38	0	-58	4	-24	-28	-25	-14
Liabilities to IMF, net	2	1	2	3	1	-3	-6	-7	-8
Other net foreign assets (increase: -)	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>									
Exports G&S growth, percent	14.6	-2.0	-8.6	-6.8	4.8	6.6	6.0	5.6	5.3
Tourism growth, percent	10.8	-7.6	-4.4	1.5	5.1	6.3	6.3	6.3	6.3
Exports of goods volume growth, percent	25.6	-4.8	-6.8	-8.7	5.4	5.4	4.1	4.1	4.1
Imports G&S growth, percent	5.6	6.8	-12.7	-13.3	7.9	6.0	3.5	3.9	2.7
Imports of goods volume growth, percent	7.0	8.3	0.0	0.1	8.9	3.1	0.4	2.3	1.6
Exports G&S, percent of GDP	85	83	79	76	75	76	76	77	77
Imports G&S, percent of GDP	93	98	89	83	85	86	84	83	81
FDI, percent of GDP <sup>3</sup>	15.4	14.1	10.8	8.7	11.2	12.9	10.7	10.4	10.2
Gross official reserves (stock, e.o.p.)	425	463	463	521	517	541	568	593	607
<i>Of which:</i> program definition <sup>4</sup>	395	433	433	491	486	510	538	563	577
(Months of imports of goods & services)	3.6	4.6	4.3	4.8	4.5	4.5	4.6	4.6	4.6
Percentage of IMF reserve adequacy metric	137	147	128	159	159	167	173	179	185
Government and government-guaranteed external debt	521	502	531	528	533	529	536	529	507
(Percent of GDP)	36.9	35.3	38.6	36.3	34.7	32.8	31.4	29.4	26.9
GDP	1,411	1,423	1,375	1,455	1,534	1,611	1,707	1,800	1,890

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

<sup>1</sup> From 2015 onwards the data reflect the findings of the IIP survey, which indicated that the proportion of equity to debt in FDI flows was being significantly overestimated

<sup>2</sup> Includes parastatals for which data are available.

<sup>3</sup> Per STA recommendations, renewals of off-shore licenses are excluded.

<sup>4</sup> Excludes foreign-currency denominated required reserves held by banks and project and blocked accounts at the CBS.

Table 3. Seychelles: Consolidated Government Operations, 2013–18<sup>1</sup>

	2013	2014		2015						2016	2017	2018		
		Act.	Act.	Q1		Q2		Q3					Q4	
				2nd	Act.	2nd	Prel.	2nd	Proj.				2nd Rev.	Proj.
(Millions of Seychelles rupees; cumulative from the start of the year)														
Total revenue and grants	6111	6413	1337	1359	3041	2966	4616	4612	6551	6422	7199	7394	7921	
Total revenue	5420	5870	1230	1339	2845	2908	4325	4514	6063	6133	6670	7110	7595	
Tax	4676	5294	1124	1260	2608	2695	3955	4098	5446	5508	5941	6344	6775	
Personal income tax	754	878	210	230	442	463	670	700	921	951	1047	1110	1182	
Trade tax	411	376	62	77	128	145	198	235	283	325	298	319	329	
Excise tax	652	858	182	224	431	470	658	702	907	980	1019	1118	1199	
Goods and services tax (GST) / VAT <sup>2</sup>	1623	1803	397	413	859	903	1316	1370	1808	1785	1939	2057	2195	
Business tax <sup>3</sup>	816	782	120	127	433	397	632	614	826	756	846	898	955	
Corporate Social Responsibility Tax (CSR) <sup>3</sup>	44	84	14	18	33	38	53	61	69	80	85	90	96	
Marketing Tourism Tax (MTT) <sup>3</sup>	22	40	12	12	25	24	38	34	54	47	64	68	72	
Other	354	472	128	157	256	256	390	382	578	584	643	685	746	
Nontax	744	576	106	79	238	213	370	415	617	625	729	766	820	
Fees and charges	297	347	83	73	160	157	247	246	332	339	364	379	408	
Dividends from parastatals	402	151	17	4	65	52	105	143	262	252	325	345	367	
Other	46	78	6	2	12	3	18	26	24	34	40	42	45	
External grants	691	543	107	20	196	58	291	98	488	289	528	284	326	
Expenditure and net lending	6111	5981	1469	1241	2993	2644	4550	4025	6489	6158	6937	7180	7650	
Current expenditure	4536	4798	1137	1090	2389	2273	3714	3511	5146	4990	5425	5729	6003	
Primary current expenditure	3746	4393	985	990	2095	2099	3188	3217	4488	4528	5071	5154	5441	
Wages and salaries	1129	1229	280	273	563	542	844	824	1137	1143	1255	1295	1331	
Goods and services	1218	1288	190	206	472	438	721	694	1059	1034	1007	1050	1130	
Transfers	1366	1855	509	503	1050	1097	1604	1670	2263	2322	2628	2778	2943	
Social program of central government	307	343	62	62	131	153	234	248	359	363	144	154	164	
Transfers to public sector from central government	663	1070	332	335	687	722	1024	1083	1443	1502	1902	2006	2122	
Benefits and programs of Social Security Fund	396	442	115	107	231	222	346	340	461	457	582	618	657	
Other	31	21	6	8	11	21	20	29	29	29	29	32	36	
Interest due	790	404	152	100	294	174	526	294	658	462	506	575	563	
Foreign interest	189	175	69	70	100	96	193	169	223	213	228	246	260	
Domestic interest	601	229	83	30	194	78	333	125	434	249	278	328	303	
Capital expenditure	1508	1011	254	136	494	275	698	407	1181	1028	1388	1156	1216	
Domestically financed	770	656	164	116	327	215	491	346	655	736	670	710	737	
Foreign financed	738	355	90	20	166	60	207	61	526	292	718	446	479	
Net lending	6	120	67	7	88	76	104	81	117	110	89	260	395	
Contingency	62	53	11	8	23	19	34	26	45	30	35	35	35	
Primary balance	790	836	21	218	342	496	592	881	720	726	767	789	834	
Overall balance, commitment basis <sup>4</sup>	0	431	-132	118	49	322	66	586	62	264	261	214	271	
Change in float	51	-70	0	69	0	-35	0	-35	0	-35	0	0	0	
Overall balance, cash basis (after grants)	51	361	-132	187	49	287	66	552	62	229	261	214	271	
Financing	22	-361	132	-187	-49	-287	-66	-552	-62	-229	-261	-214	-271	
Foreign financing	112	8	83	74	147	3	160	56	349	-62	181	81	205	
Disbursements	277	230	111	97	285	99	325	123	624	200	567	577	683	
Project loans	152	4	13	0	89	2	130	26	248	105	300	442	548	
Program/budget support	125	226	98	96	195	96	195	96	377	95	267	135	135	
Scheduled amortization	-165	-222	-28	-23	-138	-96	-165	-67	-275	-262	-386	-496	-478	
Domestic financing, net	-126	-414	39	-171	-214	-97	-254	-415	-448	17	-442	-295	-476	
Bank financing	334	-875	35	-344	-193	-524	-228	-671	-403	15	-748	-547	-595	
CBS	-56	-1076	10	-560	-53	-1169	-63	-994	-112	-390	-350	250	500	
Commercial banks	390	201	25	216	-139	645	-165	323	-291	405	-398	-797	-1095	
Nonbank financing	-460	461	4	173	-21	427	-25	256	-45	2	-44	-30	-48	
Privatization and long-term lease of fixed assets	53	77	9	10	18	28	27	36	36	36	0	0	0	
Transfer of SSF deposits to SPF				-83		-176		-176		-176				
Statistical discrepancy	-89	-32	0	-17	0	-44	0	-44	0	-44	0	0	0	
<i>Memorandum item:</i>														
Pension Fund contribution	145	180	48	48	97	96	145	145	194	194	202	212	223	
Pension Fund benefits payment	133	77	36	22	71	37	107	122	143	163	167	172	178	
Pension Fund operating expenses	0	21	7	7	15	16	22	23	29	31	30	31	33	
External debt service due	354	397	97	93	237	192	358	236	498	475	614	742	738	

Sources: Seychelles authorities and IMF staff estimates and projections.

<sup>1</sup> Includes the central government and the social security system.<sup>2</sup> VAT replaced GST in January 2013.<sup>3</sup> CSR and MTT were subsumed into Business Tax in CR 14/186.<sup>4</sup> Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

Table 3. Seychelles: Consolidated Government Operations, 2013–18<sup>1</sup> (concluded)

	2013	2014		2015					2016	2017	2018			
		Q4		Q1		Q2		Q3				Q4		
		Prel.		2nd	Act.	2nd	Prel.	2nd				Proj.	2nd Rev.	Proj.
				(Percent of GDP; cumulative from the start of the year)										
Total revenue and grants	35.9	35.4	7.0	7.0	15.9	15.3	24.1	23.8	34.2	33.2	35.2	34.1	34.3	
Total revenue	31.9	32.4	6.4	6.9	14.8	15.0	22.6	23.3	31.6	31.7	32.6	32.8	32.9	
Tax	27.5	29.2	5.9	6.5	13.6	13.9	20.6	21.2	28.4	28.5	29.0	29.2	29.3	
Personal income tax	4.4	4.8	1.1	1.2	2.3	2.4	3.5	3.6	4.8	4.9	5.1	5.1	5.1	
Trade tax	2.4	2.1	0.3	0.4	0.7	0.7	1.0	1.2	1.5	1.7	1.5	1.5	1.4	
Excise tax	3.8	4.7	0.9	1.2	2.3	2.4	3.4	3.6	4.7	5.1	5.0	5.2	5.2	
Goods and services tax (GST) / VAT <sup>2</sup>	9.5	9.9	2.1	2.1	4.5	4.7	6.9	7.1	9.4	9.2	9.5	9.5	9.5	
Business tax	4.8	4.3	0.6	0.7	2.3	2.1	3.3	3.2	4.3	3.9	4.1	4.1	4.1	
Corporate Social Responsibility Tax (CSR)	0.3	0.5	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	
Marketing Tourism Tax (MTT)	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.2	0.3	0.3	0.3	
Other	2.1	2.6	0.7	0.8	1.3	1.3	2.0	2.0	3.0	3.0	3.1	3.2	3.2	
Nontax	4.4	3.2	0.6	0.4	1.2	1.1	1.9	2.1	3.2	3.2	3.6	3.5	3.6	
Fees and charges	1.7	1.9	0.4	0.4	0.8	0.8	1.3	1.3	1.7	1.8	1.8	1.7	1.8	
Dividends from parastatals	2.4	0.8	0.1	0.0	0.3	0.3	0.5	0.7	1.4	1.3	1.6	1.6	1.6	
Other	0.3	0.4	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	
External grants	4.1	3.0	0.6	0.1	1.0	0.3	1.5	0.5	2.5	1.5	2.6	1.3	1.4	
Expenditure and net lending	35.9	33.0	7.7	6.4	15.6	13.7	23.7	20.8	33.9	31.8	33.9	33.1	33.1	
Current expenditure	26.7	26.5	5.9	5.6	12.5	11.7	19.4	18.1	26.8	25.8	26.5	26.4	26.0	
Primary current expenditure	22.0	24.2	5.1	5.1	10.9	10.8	16.6	16.6	23.4	23.4	24.8	23.8	23.6	
Wages and salaries	6.6	6.8	1.5	1.4	2.9	2.8	4.4	4.3	5.9	5.9	6.1	6.0	5.8	
Goods and services	7.2	7.1	1.0	1.1	2.5	2.3	3.8	3.6	5.5	5.3	4.9	4.8	4.9	
Transfers	8.0	10.2	2.7	2.6	5.5	5.7	8.4	8.6	11.8	12.0	12.8	12.8	12.7	
Social program of central government	1.8	1.9	0.3	0.3	0.7	0.8	1.2	1.3	1.9	1.9	0.7	0.7	0.7	
Transfers to public sector from central government	3.9	5.9	1.7	1.7	3.6	3.7	5.3	5.6	7.5	7.8	9.3	9.2	9.2	
Benefits and programs of Social Security Fund	2.3	2.4	0.6	0.6	1.2	1.1	1.8	1.8	2.4	2.4	2.8	2.8	2.8	
Other	0.2	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	
Interest due	4.6	2.2	0.8	0.5	1.5	0.9	2.7	1.5	3.4	2.4	2.5	2.6	2.4	
Foreign interest	1.1	1.0	0.4	0.4	0.5	0.5	1.0	0.9	1.2	1.1	1.1	1.1	1.1	
Domestic interest	3.5	1.3	0.4	0.2	1.0	0.4	1.7	0.6	2.3	1.3	1.4	1.5	1.3	
Capital expenditure	8.9	5.6	1.3	0.7	2.6	1.4	3.6	2.1	6.2	5.3	6.8	5.3	5.3	
Domestically financed	4.5	3.6	0.9	0.6	1.7	1.1	2.6	1.8	3.4	3.8	3.3	3.3	3.2	
Foreign financed	4.3	2.0	0.5	0.1	0.9	0.3	1.1	0.3	2.7	1.5	3.5	2.1	2.1	
Net lending	0.0	0.7	0.3	0.0	0.5	0.4	0.5	0.4	0.6	0.6	0.4	1.2	1.7	
Contingency	0.4	0.3	0.1	0.0	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	
Primary balance	4.6	4.6	0.1	1.1	1.8	2.6	3.1	4.6	3.8	3.8	3.8	3.6	3.6	
Overall balance, commitment basis <sup>3</sup>	0.0	2.4	-0.7	0.6	0.3	1.7	0.3	3.0	0.3	1.4	1.3	1.0	1.2	
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in float	0.3	-0.4	0.0	0.4	0.0	-0.2	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	
Overall balance, cash basis (after grants)	0.3	2.0	-0.7	1.0	0.3	1.5	0.3	2.9	0.3	1.2	1.3	1.0	1.2	
Financing	0.1	-2.0	0.7	-1.0	-0.3	-1.5	-0.3	-2.9	-0.3	-1.2	-1.3	-1.0	-1.2	
Foreign financing	0.7	0.0	0.4	0.4	0.8	0.0	0.8	0.3	1.8	-0.3	0.9	0.4	0.9	
Disbursements	1.6	1.3	0.6	0.5	1.5	0.5	1.7	0.6	3.3	1.0	2.8	2.7	3.0	
Project loans	0.9	0.0	0.1	0.0	0.5	0.0	0.7	0.1	1.3	0.5	1.5	2.0	2.4	
Program/budget support	0.7	1.2	0.5	0.5	1.0	0.5	1.0	0.5	2.0	0.5	1.3	0.6	0.6	
Scheduled amortization	-1.0	-1.2	-0.1	-0.1	-0.7	-0.5	-0.9	-0.3	-1.4	-1.4	-1.9	-2.3	-2.1	
Change in amortization arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic financing, net	-0.7	-2.3	0.2	-0.9	-1.1	-0.5	-1.3	-2.1	-2.3	0.1	-2.2	-1.4	-2.1	
Bank financing	2.0	-4.8	0.2	-1.8	-1.0	-2.7	-1.2	-3.5	-2.1	0.1	-3.7	-2.5	-2.6	
CBS	-0.3	-5.9	0.1	-2.9	-0.3	-6.0	-0.3	-5.1	-0.6	-2.0	-1.7	1.2	2.2	
Commercial banks	2.3	1.1	0.1	1.1	-0.7	3.3	-0.9	1.7	-1.5	2.1	-1.9	-3.7	-4.7	
Nonbank	-2.7	2.5	0.0	0.9	-0.1	2.2	-0.1	1.3	-0.2	0.0	-0.2	-0.1	-0.2	
Privatization and long-term lease of fixed assets	0.3	0.4	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.0	0.0	
Transfer of SSF deposits to SPF			...	-0.4	...	-0.9	...	-0.9	...	-0.9				
Statistical discrepancy	-0.5	-0.2	0.0	-0.1	0.0	-0.2	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	
<i>Memorandum items:</i>														
Nominal GDP (millions of Seychelles Rupees)	17,015	18,133	19,168	19,348	19,168	19,348	19,168	19,348	19,168	19,348	20,456	21,697.0	23,087.5	
Transfer of assets of SSF to SPF			2	1.7										
Pension Fund contribution	0.9	1.0	0.3	0.2	0.5	0.5	0.8	0.8	1.0	1.0	1.0	1.0	1.0	
Pension Fund benefits payment	0.8	0.4	0.2	0.1	0.4	0.2	0.6	0.6	0.7	0.8	0.8	0.8	0.8	
Pension Fund operating expenses	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	
Public domestic debt (% GDP) <sup>4</sup>	27.2	29.9	27.6	29.8	26.3	33.3	26.1	30.8	25.1	29.9	28.0	23.9	18.2	
Excluding t-bills issued for monetary purposes	22.4	19.5	18.0	16.9	16.6	18.2	16.4	16.6	15.4	18.8	15.2	12.9	10.1	
Publicly guaranteed domestic debt (% GDP)	0.8	0.5	1.0	0.4	1.0	0.4	1.0	0.4	1.0	0.4	0.0	0.0	0.0	

Sources: Seychelles authorities and IMF staff estimates and projections.

<sup>1</sup> Includes the central government and the social security system.<sup>2</sup> VAT replaced GST in January 2013.<sup>3</sup> Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.<sup>4</sup> Includes debt issued by the Ministry of Finance for monetary purposes.



Table 4. Seychelles: Monetary Survey and Central Bank Accounts, 2013–16

	2013	2014	2015								2016			
			Mar.		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
			2nd Rev.	Prel.	2nd Rev.	Prel.	2nd Rev.	Proj.	2nd Rev.	Proj.				
(Millions of Seychelles rupees)														
<b>Monetary survey</b>														
Net foreign assets	7,247	9,604	9,553	9,275	9,397	8,978	9,371	9,556	9,389	9,453	9,796	9,650	9,798	9,672
Central bank	4,580	5,906	6,092	5,897	5,895	6,039	5,829	6,321	5,806	6,231	6,549	6,379	6,503	6,351
Deposit money banks	2,667	3,698	3,461	3,377	3,502	2,939	3,542	3,236	3,582	3,222	3,247	3,271	3,296	3,320
Net domestic assets	2,093	2,150	1,851	2,388	1,888	2,535	2,036	2,316	2,210	3,089	2,926	3,252	3,283	3,589
Domestic credit	5,825	5,798	5,874	5,540	5,724	5,548	5,864	5,265	5,909	6,353	6,380	6,431	6,537	6,117
Net claims on the government	2,335	1,414	1,449	1,076	1,221	928	1,186	495	1,011	1,429	1,429	1,429	1,429	681
Credit to the economy	3,490	4,384	4,425	4,464	4,502	4,620	4,678	4,771	4,899	4,924	4,951	5,002	5,108	5,435
Of which : credit to the private sector	3,412	4,287	4,328	4,292	4,406	4,380	4,581	4,507	4,802	4,827	4,854	4,905	5,011	5,339
Other items, net	-3,732	-3,648	-4,023	-3,152	-3,836	-3,013	-3,828	-2,949	-3,700	-3,264	-3,453	-3,180	-3,254	-2,527
Broad money	9,340	11,755	11,404	11,663	11,285	11,513	11,407	11,872	11,598	12,542	12,722	12,902	13,081	13,261
Currency in circulation	757	875	817	837	824	846	842	853	925	933	891	895	901	987
Foreign currency deposits	2,948	4,893	4,350	4,924	4,377	4,726	4,404	5,042	4,430	4,465	4,542	4,620	4,699	4,778
Local currency deposits	5,635	5,987	6,237	5,902	6,084	5,942	6,161	5,977	6,244	7,144	7,289	7,386	7,482	7,496
<b>Central bank</b>														
Net foreign assets	4,580	5,906	6,092	5,897	5,895	6,039	5,829	6,321	5,806	6,231	6,549	6,379	6,503	6,351
Foreign assets	5,103	6,498	6,651	6,437	6,475	6,590	6,399	6,866	6,392	6,795	7,110	6,962	7,078	6,945
Foreign liabilities	524	592	559	540	580	551	570	545	586	564	561	583	576	593
Net domestic assets	-2,484	-3,519	-3,637	-3,519	-3,440	-3,661	-3,351	-3,807	-3,228	-3,531	-3,813	-3,604	-3,690	-3,476
Domestic credit	-2,082	-2,475	-2,644	-2,744	-2,494	-3,086	-2,450	-3,292	-2,371	-3,063	-3,346	-3,149	-3,234	-3,006
Government (net)	-414	-1,491	-1,481	-2,050	-1,544	-2,660	-1,554	-2,731	-1,603	-1,881	-1,881	-1,881	-1,881	-2,231
Commercial banks	-1,570	-885	-1,063	-622	-850	-353	-796	-477	-669	-1,099	-1,381	-1,185	-1,270	-692
Other (parastatals)	-98	-100	-100	-72	-100	-74	-100	-84	-100	-84	-84	-84	-84	-84
Other items, net	-401	-1,044	-993	-775	-946	-575	-901	-515	-857	-468	-467	-455	-455	-470
Reserve money	2,096	2,388	2,455	2,378	2,455	2,378	2,478	2,514	2,578	2,700	2,736	2,775	2,813	2,875
Currency in circulation	757	875	817	837	824	846	842	853	925	933	891	895	901	987
Commercial bank reserves (includes cash in vault)	1,339	1,513	1,638	1,541	1,631	1,532	1,636	1,661	1,653	1,767	1,845	1,880	1,912	1,888
Of which : vault cash	143	143	133	136	135	135	138	137	...	...	...	...	...	...
Of which : excess reserves (excl. bank vault cash)	-59	-71	0	-44	7	-48	-7	40	...	...	...	...	...	...
Of which : required reserves in foreign currency <sup>1,2</sup>	385	555	596	557	600	541	603	595	607	612	622	633	644	655
required reserves in domestic currency <sup>2</sup>	870	886	909	892	890	904	902	890	914	1,022	1,042	1,056	1,069	1,073
<b>Memorandum items:</b>														
Gross international reserves (millions of U.S. dollars) <sup>3</sup>	425	463	476	477	465	504	462	524	463	521	541	526	530	517
Foreign currency deposits (millions of U.S. dollars)	244	349	311	365	314	361	318	385	321	342	346	349	352	355
Broad money growth (12-month percent change)	23.7	25.8	12.5	6.3	10.3	3.7	7.6	4.5	5.7	6.7	9.1	12.1	10.2	5.7
Credit to the private sector (12-month percent change)	4.5	25.7	24.1	22.5	20.6	19.5	16.6	14.3	12.4	12.6	13.1	12.0	11.2	10.6
Reserve money (end of period; 12-month percent change)	15.4	13.9	1.6	-1.6	-3.1	-6.1	-0.2	1.3	8.0	13.1	15.0	16.7	11.9	6.5
Reserve money (daily average over quarter; 12-month percent change)	...	-14.5	-13.9	-12.5	-7.2	-5.9	-2.4	-0.7	2.1	6.9	9.7	11.4	11.6	6.5
Money multiplier (broad money/reserve money)	4.5	4.9	4.6	4.9	4.6	4.8	4.6	4.7	4.5	4.6	4.6	4.6	4.7	4.6
Velocity (GDP/broad money; end of period)	1.8	1.5	1.6	1.6	1.7	1.6	1.7	1.6	1.7	1.5	1.5	1.5	1.5	1.5

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

<sup>1</sup> Reserve requirements on foreign currency deposits were introduced in 2009.<sup>2</sup> Reserve requirements were lowered from 13% to 10% in 2009, but raised back to 13% in April 2011.<sup>3</sup> 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, 2012–15 <sup>1</sup>

	2012				2013				2014				2015	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	(Percent, end of period)													
<b>Capital adequacy</b>														
Regulatory capital to risk weighted assets	24.9	25.9	26.2	26.7	26.9	26.0	26.1	26.7	26.7	24.6	22.4	21.7	23.0	22.9
Regulatory tier 1 capital to risk weighted assets	18.1	21.6	19.9	19.3	18.6	22.0	20.8	21.0	19.5	21.0	17.5	16.3	15.8	18.3
Capital to assets (net worth)	9.1	9.5	9.8	10.3	10.4	9.8	9.4	9.7	9.5	9.2	8.6	8.5	9.6	10.3
Net tangible capitalization <sup>2</sup>	9.3	9.6	9.9	10.4	10.5	9.9	9.6	9.8	9.6	9.3	8.7	8.6	9.8	10.4
<b>Asset quality</b>														
Foreign exchange loans to total loans	20.9	20.0	17.9	18.7	17.8	17.1	18.6	18.7	17.9	18.5	19.9	23.8	24.2	24.7
Nonperforming loans to gross loans	8.3	9.2	8.3	9.3	9.6	9.5	12.5	9.4	10.3	6.2	8.3	8.2	7.3	7.4
Provisions as percentage of nonperforming loans	33.9	32.1	33.3	29.5	37.0	37.3	27.6	39.2	36.2	57.4	44.6	43.9	46.0	45.5
Provisions as percentage of total loans	2.8	3.0	2.7	2.7	3.5	3.5	3.4	3.7	3.7	3.6	3.7	3.6	3.4	3.4
<b>Earnings and profitability</b>														
Return on assets (annualized)	3.5	3.9	4.2	3.1	2.3	3.3	2.7	1.9	2.3	2.0	2.1	3.3	3.8	3.4
Return on equity (annualized)	38.3	40.8	41.3	29.8	22.2	33.7	28.3	19.6	23.6	22.3	23.7	38.2	40.7	33.3
Interest margin to gross income	52.8	57.5	64.6	62.7	84.7	61.1	56.9	56.6	54.7	57.3	51.0	57.5	56.6	61.3
Noninterest expense to gross income	44.0	40.7	39.0	56.6	56.6	45.4	46.3	65.1	52.7	55.2	57.1	50.3	41.0	42.3
Net interest margin (annualized) <sup>3</sup>	3.6	3.5	3.9	4.1	4.3	3.9	3.3	3.2	2.6	2.7	2.7	2.8	3.6	3.9
Net noninterest margin (annualized) <sup>4</sup>	0.3	0.2	0.1	0.0	-1.3	-0.6	-0.4	-0.4	0.1	-0.1	-0.1	0.0	0.0	-0.1
Expense to income	44.7	45.4	45.4	46.4	57.0	52.1	51.9	54.5	51.2	53.7	53.1	52.6	48.5	49.4
Interest expense to gross income	9.3	9.7	10.9	11.8	20.0	17.0	16.4	15.3	11.0	10.5	10.5	10.7	11.5	11.2
<b>Liquidity</b>														
Core liquid assets to total assets <sup>5</sup>	49.6	48.6	47.9	39.6	38.9	39.5	41.4	41.6	41.5	42.0	36.9	40.8	40.9	34.9
Broad liquid assets to total assets <sup>6</sup>	59.3	57.9	59.6	52.0	52.2	53.3	53.0	54.7	53.9	57.3	52.9	54.2	55.8	52.8
Liquid assets (broad) to short term liabilities	65.4	64.6	66.6	58.1	58.6	59.5	58.9	61.2	59.6	64.0	57.7	60.0	62.2	59.5
Liquid assets (broad) to total liabilities	65.3	64.0	66.1	58.0	58.2	59.1	58.5	60.6	59.6	63.2	57.9	59.2	61.7	58.9
Liquid assets to deposit liabilities	70.9	69.7	71.0	62.5	62.6	63.1	62.4	64.3	62.9	67.5	62.0	62.7	64.8	62.3
<b>Foreign exchange exposure</b>														
Net open foreign exchange position to capital	2.9	-3.9	-0.8	7.9	6.8	-0.6	3.7	8.9	-2.6	0.1	4.3	8.8	3.5	-4.0

Source: Central Bank of Seychelles.

<sup>1</sup> Excluding purely offshore banks.<sup>2</sup> Defined as: equity capital/(assets-interest in suspense-provisions).<sup>3</sup> Defined as: (Interest income - interest expense)/average assets.<sup>4</sup> Defined as: (Noninterest income - noninterest expense)/average assets.<sup>5</sup> Core liquid assets include cash, balances with CBS, and deposits with other banks.<sup>6</sup> Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Indicators of Fund Credit, 2013-21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
	(in millions of SDR)								
<b>Existing Fund credit</b>									
Stock <sup>1</sup>	28.3	29.2	29.0	26.5	23.0	18.4	13.4	8.5	5.1
Obligation	5.8	2.7	0.7	2.7	3.8	4.8	5.3	5.0	3.5
Principal (repayments/repurchases)	5.5	2.4	0.7	2.4	3.6	4.5	5.1	4.9	3.4
Charges and interest	0.3	0.3	0.0	0.3	0.3	0.2	0.2	0.1	0.1
Disbursements	6.6	3.3	1.6						
<b>Prospective Fund credit</b>									
Disbursement			1.6	3.3	1.6				
Stock <sup>1</sup>		9.9	11.5	14.8	16.4	16.4	16.4	16.0	15.1
Obligations <sup>2</sup>		0.0	0.0	0.0	0.1	0.1	0.1	0.5	1.0
Principal (repayments/repurchases)		0.0	0.0	0.0	0.0	0.0	0.0	0.4	1.0
Charges and interest		0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
<b>Stock of existing and prospective Fund credit <sup>1</sup></b>	28.3	29.2	30.6	31.4	29.5	25.0	19.9	14.6	10.3
In percent of quota	259.4	267.5	280.7	288.5	270.7	229.1	182.4	133.9	94.1
In percent of GDP	3.0	3.1	2.9	2.9	2.6	2.1	1.6	1.1	0.7
In percent of exports of goods and services	3.6	3.6	3.9	3.8	3.4	2.7	2.1	1.4	1.0
In percent of gross reserves	10.2	9.2	8.2	8.6	7.8	6.3	4.8	3.4	2.4
<b>Obligations to the Fund from existing and prospective Fund arrangements</b>									
Disbursements	6.6	3.3	3.3	3.3	1.6	0.0	0.0	0.0	0.0
Obligations	5.8	2.7	0.7	2.8	3.9	4.8	5.3	5.5	4.5
Principal (repayments/repurchases)	5.5	2.4	0.70	2.42	3.57	4.54	5.08	5.30	4.33
Charges and interest	0.3	0.3	0.00	0.33	0.33	0.30	0.25	0.20	0.14
In percent of quota	52.8	25.1	8.9	27.0	35.9	44.4	48.9	50.4	41.1
In percent of GDP	0.6	0.3	0.1	0.3	0.3	0.4	0.4	0.4	0.3
In percent of exports of goods and services	0.7	0.3	0.1	0.3	0.5	0.5	0.6	0.5	0.4
In percent of gross reserves	2.1	0.9	0.2	0.8	1.0	1.2	1.3	1.3	1.0

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

<sup>1</sup> End of Period.

<sup>2</sup> Repayment schedule based on repurchase obligations. Obligations to the Fund from Existing and Prospective Fund Arrangements includes charges.

**Table 7. Seychelles: Schedule of Reviews and Purchases Under the Extended Arrangement, 2014–17**

Program Review	Date of availability	Conditions	Amount	
			(Millions of SDR)	(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
<b>Total</b>			<b>11.445</b>	<b>105</b>

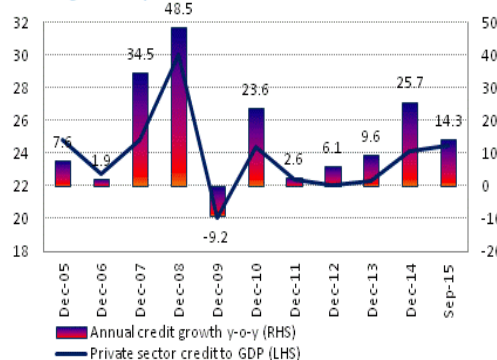
Source: IMF

## Annex 1. Private Sector Credit Growth: What are the Policy Options?

Assessing credit growth in Seychelles is not straightforward. The level of credit-to-GDP is low when compared to its peers and even regionally, where median per capita income is well below that of Seychelles. Moreover, the level of intermediation, measured by credit to deposits, appears to be low suggesting banks have substantial room in their portfolio to lend. Vulnerabilities appear to arise more from micro-prudential considerations, and they are related to concentrated sectoral distribution of credit, rapidly growing lending in foreign currency and proliferation of unsecured credit products, rather than the overall size of credit.

**Private sector credit has been increasing rapidly in 2014/2015, but in the past its growth has been very volatile.** Preceding the crisis, private sector credit growth was particularly high, reaching unsustainable levels of 48 percent by end-2008, and exerting pressure on the country's foreign reserves to levels that were unable to support the then fixed exchange rate regime and strained the balance of payments. Credit growth plummeted during the global economic downturn in 2009, but quickly recovered and peaked at above 20 percent in 2010. In 2011, credit stagnated at low single digits, well below the growth rate of the economy. Since then, it has accelerated -- a welcome development for an economy that only recently opened up to international capital inflows and undertook structural reforms aimed at improving the role of the private sector. In 2014, spurred by wage increases and enhancement of selected government lending schemes, credit growth rose again to over 25 percent, boosting the credit-to-GDP ratio by almost 4 percent in one year. In the second half of 2015, credit decelerated to more sustainable levels, and is expected to decline further by end-year.

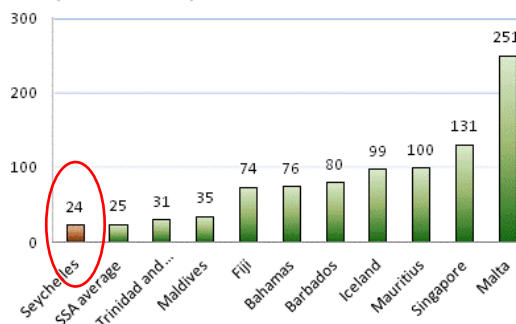
Credit growth dynamics in 2005-2015



**Despite episodes of rapid credit growth, the level of financial intermediation (as measured by the credit-to-GDP ratio) remains low.**

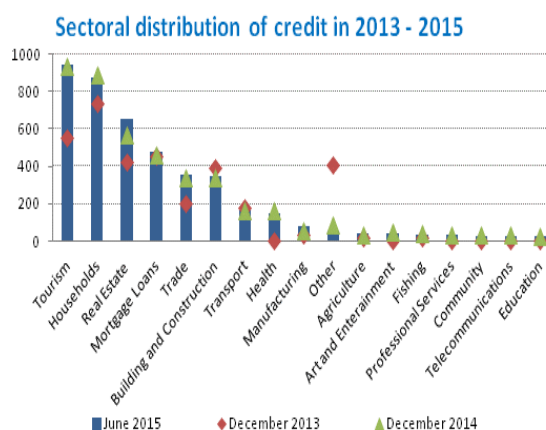
Traditionally, self-financed foreign business groups played a dominant role in meeting investments demand in the country's main economic sector – tourism, while the public sector played a major role in much of the rest of the country's economic activity. Therefore, among small open economies and countries with a similar level of GDP per capita, Seychelles, with the credit ratio at 24 percent, still lags behind its peers. Access to bank credit also remains slightly below the regional average for sub-Saharan African countries (where the median income per capita is much lower). This raises concerns about commercial banks' role in facilitating financial intermediation, and the overall

Credit to the private sector in 2014  
(Percent of GDP)



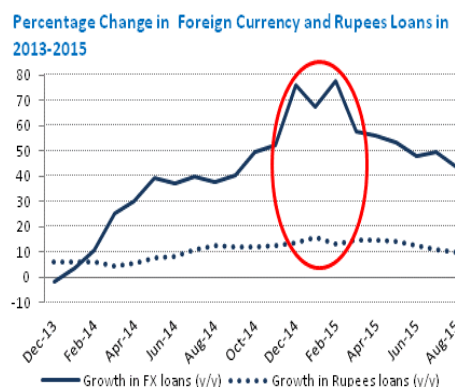
competitiveness of the system. In fact, private sector loans constitute a fairly small portion of the banks' balance sheet, and they account for less than half of customer deposits. As of August 2015, banks invested about 17 percent of assets in government securities, while almost 32 percent in non-resident securities, including placements within foreign banking groups abroad.

**The sectoral distribution of credit reflects the undiversified structure of the economy.** Credit is highly concentrated in a few sectors, including tourism, households, and real estate. Together with mortgage loans, these account for about 70 percent of commercial banks' lending portfolio. In 2015, the key sectors including tourism, households and mortgages received the largest portion of credit. Among Rupees-denominated loans, building and construction benefited considerably from the new lines of credit in 2015, although this has been offset to some extent by declining foreign-currency loans to this sector. In addition, credit to SOEs picked up in 2015, although from a very low base, and now accounts for slightly over 5 percent of total credit to the economy.



### Lending in foreign-currency poses some potential risks.

Recent credit growth appears to be fueled by foreign-currency loans, which grew sharply in the last months of 2014 and at the beginning of 2015 (by 75 percent) in Rupee terms, reaching  $\frac{1}{4}$  of total bank credit. Although most of the banks' exposure in foreign currency is to tourism and real estate (both naturally hedged by foreign currency receipts), if rapidly growing credit to manufacturing and health sectors continued over time, it would raise some concerns to the extent that borrowers may not be hedged.<sup>1</sup> To avoid a potential build-up of vulnerabilities, particularly in the context of a flexible exchange rate, foreign currency lending to sectors that are not hedged by foreign currency receipts requires close monitoring. In the absence of a macro-prudential framework, consideration should be given to implementing specific micro-prudential measures to help control potential risk.



<sup>1</sup>The real estate investment is related to the tourism sector and aimed largely at foreign markets; it involves constructing luxury houses and apartments for rent, or sale (e.g.: Eden Island).

**Similarly, unsecured consumer loans may become a source of vulnerability.**

These unsecured loans (with no collateral requirements) are attractive to consumers because simplified procedures shorten the time needed for review of a credit application to one day.

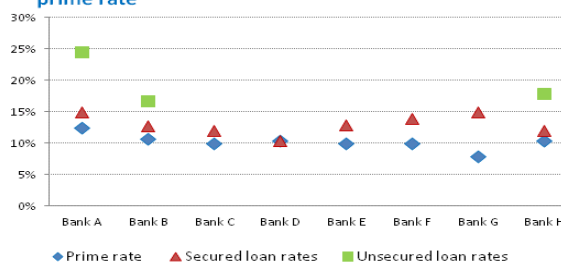
Customers are not required to present collateral or disclose the purpose of a loan; however the amount of credit is limited by the income level.

The average maturity of the unsecured credit is 5 years, a considerably long period, during which the credit conditions and income (of the household) may change significantly. The loans are offered at high interest rates (between 18-25 percent depending on the bank), reflecting higher risks due to lack of collateral and fast access to credit. Unsecured lending accounts for half of commercial banks' total exposure to households and individuals, and in nominal terms it exceeds lending to such sectors like transport, or manufacturing. Although there are no signs of deterioration in asset quality related to these loans, the unsecured lending appears to be growing fast, with three banks currently offering this product.

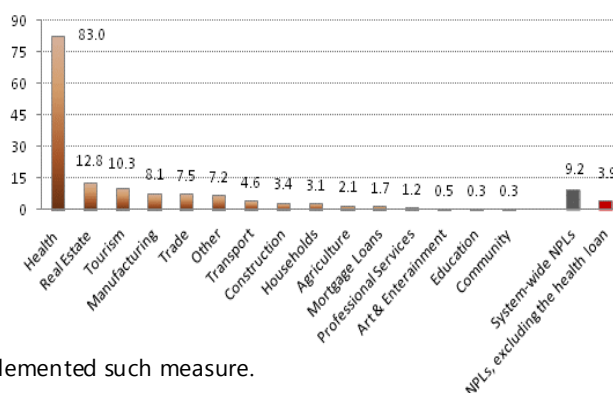
**Such increasing risks require close monitoring, regular supervisory assessment, and strengthening micro-prudential tools.** The risks stemming from rapidly growing foreign currency exposures to sectors that are not naturally hedged can be addressed by raising risk weights when estimating risk-weighted assets. This would allow banks to build buffers in terms of additional capital needed to meet the prudential requirements, and perhaps discourage foreign currency lending to unhedged borrowers. Similarly, risk stemming from the unsecured consumer lending can be mitigated by changing risk weights. In addition, given prohibitively high interest rates at which banks provide such credit, consideration should be given to formally introducing limits on debt service-to-income ratio (such limits would restrict monthly payments of debt service as a fixed share of income).<sup>2</sup> To ensure that over the duration of the credit line, changing income level, as well as the adjustments in interest rates are correctly factored in, the limits on debt service-to-income ratio should be subject to systematic reviews and updates. In the context of transitioning from Basel I to Basel II framework, the CBS is considering taking on board these measures.

**The banking sector remains adequately capitalized and liquid.** System-wide capital adequacy ratios remain comfortably above the required prudential minima, and banks are on average profitable and highly liquid. However, asset quality should be monitored carefully, particularly when credit is still increasing at double digit rates. It is also important to note that half of the non-performing portfolio is due to one large loan in the health sector secured by

Interest rates on unsecured vs. secured loans and prime rate



NPLs by sector in 2015  
(as percentage of total credit to the sector)



<sup>2</sup>One of the banks offering unsecured loans has already implemented such measure.

land and fully provisioned. Excluding this loan from calculations brings the non-performing ratio to 3.9 percent.

**The authorities are keen to develop a macroprudential policy framework to contain systemic risks.** A macro-prudential framework is expected to become operational in early 2016 and remains a structural benchmark under the Fund's Extended Arrangement. Once the institutional and legal frameworks are in place, other measures could be considered (including special or dynamic provisions). To support macro-prudential surveillance in the future, the CBS is also making progress in closing data and information gaps. This requires collecting detailed information on default ratios with breakdown by currency exposures, and developing a house price index to track changes in the real estate market. The CBS is following closely the developments in credit growth by conducting a regular survey among the banks, where specific qualitative information on lending is gathered.



## Annex II. Monetary Policy Framework – A Way Forward?

*The authorities have successfully mopped up the structural liquidity that had characterized the banking system. While in the near term, the T-bills will remain the critical instrument for absorbing systemic liquidity, over the medium to long term, the central bank could consider supplementing treasury instruments with additional instruments. A gradual modernizing of the monetary policy framework may also allow for the unwinding of a portion of the government's monetary debt, although this would have to proceed in a cautious manner to ensure that the solvency of the CBS is never endangered. The CBS could also consider steps towards improving the traditional channels of monetary transmission, by introducing a policy rate, and encouraging money market development. Such new arrangements can be adopted under the current program with the Fund.*

**1.** The economy of Seychelles has been characterized by structural excess liquidity in the banking system for many years, recently as a result of purchases of foreign exchange. In early 2014, the CBS and the Ministry of Finance agreed on an ambitious sterilization program, comprising the issuance of over SR800 million of Treasury bonds (with maturities of 2, 3 and 5 years) and the introduction of a reserve money objective that targeted the average of daily reserve money over the quarter. The former measure was able to drain much of the structural excess liquidity, while the latter was able to reduce the volatility of reserve money.

**2.** Monetary policy in Seychelles is geared towards keeping end-year inflation below 5 percent.<sup>1</sup> At present, monetary aggregates serve as the anchor for day-to-day monetary policy implementation. As such, the framework is based on the premise that money demand and velocity remain stable, or at least move together in a predictable manner. The operational framework hinges on the quarterly targets for daily averages of reserve money, surrounded by a symmetrical band of three percent in both directions. To reflect the changes in the economy and the financial environment, and to ensure that the monetary program is consistent with broader policy objectives, the quarterly targets are subject to semi-annual reviews.

**3.** CBS has developed a wide range of monetary instruments to conduct monetary policy. The main instruments of monetary policy implementation are deposit auction arrangements, which are conducted as much as 3 times a day. The CBS uses a range of maturities, although predominantly 7-day instruments and all auctions are quantity-based (rather than interest rate-based). Focus on quantities reflects the current monetary framework arrangements, but gradually increased emphasis is placed also on interest rates, to the extent that this does not compromise the reserve money path. Over the medium-term, however, more focus should be on prices rather than on quantities, as to

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<sup>1</sup>Several components of the consumer price index are not regularly surveyed. As a result, in the past inflation has occasionally climbed above the 5 percent target, which however does not reflect changes in the underlying price trends, but rather is the result of the irregular collection and compilation of information on prices. This, coupled with the irregular nature of the price updates, hinders the understanding of inflationary developments. The authorities should place a high priority on improving compilation methods, and enhancing the reliability of the index, in order to be better informed and guide the monetary policy decision-making process.

facilitate the development of an active money market and strengthen the policy transmission through the traditional interest rate channel.

**4.** To manage domestic liquidity conditions, the CBS additionally offers overnight standing facilities which are available at commercial banks' discretion. Interest rates on these facilities are intended to provide a floor and a ceiling for movements of interbank rates. In practice, however, interbank trades remain scarce, and banks' bid and offer rates are treated as indicative quotes, rather than firm commitment to transact. As a result, short-term market rates are not well-aligned with interest rates on overnight standing facilities.

**5.** In anticipation of growing external debt repayments in early 2016, including from the USD 168 million Eurobond, the CBS uses every market opportunity to strengthen accumulation of its external reserves. This strong commitment of the CBS to build the foreign currency buffers has led to a doubling of the level of reserves since 2011 in nominal terms and bringing the reserve coverage to more than 4.5 months of imports. However, sizable liquidity operations aimed at sterilizing domestic liquidity from foreign currency purchases led to scaling up the monetary debt to around 15 percent of GDP in mid-2015.

**6.** Fiscal support in the form of issuance of government securities will continue to be needed for liquidity operations. Over the medium term, undertaking steps towards the development of an active money market could also help to reduce the frequency of the CBS interventions to manage domestic liquidity and thus limit the need for issuing monetary debt. The inactive money market presents also a challenge in signaling the monetary policy stance, and results in misalignment of commercial banks' rates with those resulting from the CBS' operations. The monetary policy framework should therefore be modernized, to place more emphasis on the interest rates. This could be achieved by introducing a policy rate, which would be a better indicator of the current monetary policy stance and guide movements in the short-term market rates. The new arrangements would require proactive communication with the market participants.

**7.** The low level of activity in the money market raises, however, uncertainty regarding the optimal level of the policy rate. Using the CBS inflation forecast, the policy rate could be set at a level that is positive in real terms relative to forward looking inflation rate. The introduction of the policy rate, apart from being an important step in a process of fostering the interest rate channel in the transmission mechanism, would also help to increase transparency and efficiency of monetary policy.

**8.** From the operational point of view, the policy rate would serve a number of purposes. It would constitute a base for determining interest rates for standing facilities, and help to bring them more in line with other short-term rates. Consequently, this should facilitate establishing a reliable interest rate corridor around the policy rates for short-term market rates movements. It would also provide formal guidance on the deposit auction arrangements, facilitating the price discovery process. The new framework should help to encourage banks to manage their liquidity in a more active way, and support the development of the interbank market, and reducing the need for the CBS to frequently intervene in the market to manage liquidity conditions.

9. Over the medium term, the normalization of U.S. monetary policy should improve the return on the stock of foreign reserves and strengthen the CBS balance sheet. This may allow for some possibility of gradually unwinding a portion of the monetary debt without threatening the CBS' income position. In this context, the CBS could explore the possibility of using the existing stock of debt instruments on its balance sheet for conducting sterilization operations. The CBS' holdings of government securities are estimated at 6.2 percent of GDP and could serve as collateral in reverse repurchase operations with commercial banks. As employing these instruments for liquidity management operations seems to be a viable addition to issuing a new debt, the process of clarifying the legal aspects related to the repurchase operations could be expedited.

## Appendix I. Letter of Intent

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
December 4, 2015

Dear Ms. Lagarde:

1. Following is a Letter of Intent that updates our Memorandum of Economic and Financial Policies (MEFP) for 2015–16 and provides a description of Seychelles' recent performance and policies for rest of 2015, and the period 2016.
2. The IMF board on June 4, 2014 approved our request for a 3-year arrangement under the Extended Fund Facility (EFF) for an amount of SDR 11.445 million (105 percent of quota). Seychelles has met all the quantitative Performance Criteria for end-June 2015 in the EFF-supported program and is on track albeit with some small delays to complete all the measures envisioned in the structural benchmarks (SBs) for the third review (Table 1). Based on our performance under the program and the sustainability of our planned policies, we are requesting through this letter that the IMF Executive Board complete the third review of the EFF-supported program and approve the associated disbursement.
3. With the support of the Fund and other development partners the Seychelles authorities have been able to maintain strong fiscal performances, as witnessed by an annual average fiscal primary surplus. This has allowed us to continue to bring down public debt to more sustainable levels, following debt restructuring agreed by our creditors in 2009 with a goal of reducing over the medium term our debt to 50% of GDP. During that period we have also maintained a prudent monetary policy that has helped bring inflation down to low single digits. The Central Bank has also continued to accumulate gross official reserves to above 4 and a half months of imports.
4. Despite uneven global growth, the Seychelles economy has remained buoyant. Economic activity for the first half of 2015 has picked up and this is expected to continue for the rest of the year. It is estimated that the economy will grow by 4.3 per cent compared to the initial 3.0 per cent forecast at budget. The upward revision is attributed to more favorable outcome from tourism activity as well as continued growth in the 'Information and Communication' sector. Despite more favorable real growth, the nominal growth has been revised slightly downward. This is attributed to a lower GDP deflator following the depreciation in the Euro against the Rupee so far this year. By the end of July the Euro had depreciated by 16.5 per cent against the Rupee compared to December 2014.
5. Tourism activities have picked up this year with visitor arrivals growing by double digits since the start of the year. By the end of July, visitor arrivals increased by 17 per cent compared to the same period last year. The growth is being strongly supported by the traditional European market as well as the new emerging Asian market showing growth of 10 per cent and 33 per cent respectively. For the next half of the year, growth in arrivals is expected to be sustained at current levels.

6. For the revised Budget 2015, Government revenue excluding grants is expected to remain at similar levels at SR 6.23bn, which is SR 43.2 million higher than the original 2015 budget with only a very slight upward revision of SR 8m forecasted, compared to the initial Budget of SR 6.18bn. This positive adjustment is equivalent to only a 0.7 per cent increase. Despite the higher outlook for 2015 Tax and Non-Tax revenue at the end of 2015, there have been large and unexpected refund payments (relating to Business tax and VAT). However grant income is now expected at SR 148m less in 2015, which, as a consequence shows an overall decrease of total revenue and grants by SR 104.7 million in the revised 2015 budget.

7. The strong economic performance has contributed to an increased fiscal surplus at midyear revisions. Primary expenditure has been revised downwards by R46 m from R5, 889 m to R5, 843 million as a result of savings within a few expenditure lines. Wages to GDP ratio is still projected to remain at 5.8% as a result of the Manpower Budgeting Exercise which ensures provision of critical positions only.

8. Government remains committed to ensure that it achieves a sustainable level of fiscal surplus in the medium term that accommodates the debt reduction target to below 50% by 2018. For 2016, primary surplus has been projected at 3.8% of GDP which will allow the government to implement several new spending policies. This will represent a surplus of R767 million rupees. To achieve this objective, several spending measures will also be introduced. This will allow government to maintain a capital budget to allow a sustainable level of Investment in the economy.

9. It is expected that Trades Tax, Vat and TMT will increase substantially in line with GDP growth. Business tax collected is also expected to be above the 2015 level as a result of the major exercise of the SRC Audits, while Income tax will also rise due to implementation of the 13th month salary. A freeze on the allocation of non-essential items within the goods and services will be executed while maintaining most goods and services budget line items at the 2015 levels. In addition, an approximate 1% targeted cut in most MDAs budget will be applied mostly so as to reduce spending on stationary, hospitality and consumables items.

10. A 13th month salary scheme is being implemented based on performance aimed at improving productivity in the civil service. Provision will also be made for an increase in Pension and for the implementation of a Youth Employment Scheme geared at increasing employment opportunities for school leavers and cultivate a culture of career development. Priority in budget allocation will be given to funding recruitment that was already planned during the 2015 MBE, promotions, returning graduates, implementation of salary increments according to existing schemes of service and catering for the full year allocation of schemes of service that have been introduced in mid 2015.

11. The Ministry of Finance, Trade and the Blue Economy will continue to pursue its reforms in the area of public financial management. In the implementation of program performance based budgeting the second pilot MDAs are currently preparing their PPBB statements after having submitted their PPBB request for the 2016 budget. In total in 2016, there will be 5 portfolio ministries operating on a program-performance based budget. Partial roll out is expected in 2017 for the

remaining 7 portfolio ministries. The authorities are currently discussing with the World Bank for the way forward with a view that this would be the largest number of pilot MDAs taken onboard for piloting. For a smooth transition partial roll out is expected, without the performance information being developed at this stage for a few of the remaining MDAs that will be on the final roll out.

12. The 2015 – 2018 PFM action plan is being implemented with considerable progress in the asset and capital project management. Discussion is underway for a Medium Term Budget Framework (MTBF) mission with AFRITAC South. To further assess the progress made and identify remaining challenges we will seek to undertake a new assessment of the government's financial operations under the Public Expenditure and Financial Accountability Framework (PEFA) standards in 2016, following which the PFM action plan will be revised and submitted to Cabinet for approval (proposed new SB).

13. We have developed the Public Investment Management (PIM) guidelines, which was recently approved by Government in June 2015. A Project Manager has now been recruited to see to the coordination of the PIM processes. With the assistance of the World Bank project officers in government are currently being trained so that they become versed with the appraisal requirement under the adopted PIM guideline.

14. The Government Annual Financial Statement (AFS) for 2014 is currently being finalized with the Office of the Auditor General. The State Owned Enterprise (SOEs) accounts have been consolidated with central government with the exception of two SOE's which at the time of producing the accounts had not yet submitted their accounts. We will work with the two remaining entities to ensure full consolidation of government accounts in 2016.

15. The government will balance progressive expansion of the country's infrastructure network within a framework of continued fiscal consolidation and financial risk management. In recognizing the potential value of Public Private Partnerships (PPPs) in furthering the expansion of infrastructure, the first component of the PPP framework which was the development of the national PPP policy have been completed and the policy was approved by cabinet on the 1st July 2015.

16. We are currently in the process of procuring the necessary services for the development of the PPP regulatory and operational framework being funded by the AfDB. A consulting firm is being sourced out to i) draft the PPP regulations for submission to the cabinet (proposed new SB), (ii) develop a PPP implementation manual to guide the operational aspects of PPP.

17. A public and private forum is being organized in the first quarter of 2016 to be funded by ICF. The aim of the forum will be to present the PPP policy to the various stakeholders, to sensitize the public and private sector on key principles for successful PPP projects, share experiences of PPP projects in focus sectors identified in the policy and provide a platform for the public and private sector to discuss potential PPP projects in key sector areas. We are also working on the communications strategy to promote the concept of PPP in Seychelles.

18. The promotion of competition and increased private sector involvement in key sectors remain one of our key priorities, in line with the government's commitment to sustain inclusive growth and improvement in the investment climate. Going forward the government recognizes the contribution of the Micro, Small and Medium Enterprises (MSME) in the economy and the need to strengthen the existing framework. In line with that a revised MSME policy will be submitted to cabinet for approval (proposed new SB).
19. On SOE's we continue to intensify our efforts to strengthen the overall corporate governance. The Public Enterprise Monitoring Commission (PEMC) recently received the approved OECD Code of Governance. The Commission intends to adopt this code as a basis for developing a Code of Governance to be adopted by Public Enterprises upon approval of the Cabinet. To facilitate Board nomination process on PE boards, the Commission shall initiate the creation of an Institute of Directors as well as providing training for Board appointees. The Commission with the assistance of the World Bank shall also conduct governance reviews and operational/business assessments on the Public Enterprises (three by end-June, 2016, revised SB and a further 3 by end-December 2016 proposed new SB)
20. For effective government oversight and to enhance accountability a State Ownership Policy separating the state's ownership function from its policy and regulatory functions will be developed which would further enhance the Commission's monitoring role.
21. Asset registers for state owned enterprises were published via the PEMC website with the exception of L'Union Estate and the Seychelles Ports Authority (*AFS 2014 not yet received*)
22. The operational performance of SEYPEC is showing positive movement in operational performance compared to 2014 with a provisional profit as of September 2015. Due to the decline in the cost of fuel oil, PUC has been performing very well at end-September 2015, with a marginal increase of 3% in profit above December 2014. Air Seychelles is on track to achieving profitability in 2016.
23. Recognizing the need to further clarify and reinforce SOE supervision the mandate of the Société Seychellois d'investissement (SSI) has now been clarified through its mission statement. With a revised mandate SSI will now be able to better manage fiscal risks by close monitoring and undertaking independent analysis of companies in their portfolio. Moving forward, in cooperation with the World Bank the government will further focus SSI's mandate through a shareholder policy for SSI, developing an investment strategy and operating guidelines.
24. In the area of taxation, SRC will continue its efforts to address remaining challenges such as improving the methods for collection of total tax arrears and improving filing rate. SRC will be working towards increasing collection of total arrears; this will involve a development of a Collection Enforcement Strategy to improve the methods for collection of total tax arrears. The strategy will aim to modify the approach used by tax officers based on age of debt and level of compliance by the taxpayers. The strategy will be completed by March 2016 followed by implementation with the purpose of strengthening compliance and enhancing revenue collections.
25. Going forward efforts will continuously be placed on the auditing of tax cases. The SRC has completed 66 tax audits by September (SB) and will conduct a further 60 business tax audits by



November 2016. This will strengthen compliance and enhance revenue collections, especially in business taxes.

26. The Central Bank will maintain emphasis on a forward-looking approach to monetary policy implementation and the quarterly average reserve money will remain as the nominal anchor. Importance will continue to be placed on promoting better liquidity management with the aim to improve the effectiveness of monetary policy through enhancing the transmission of interest rates. When the condition permits, the Bank aims to eventually shift from the current quantitative target to an interest-rate based target. In that respect, the Central Bank is receiving Technical Assistance (TA) from the MCM department of the IMF to enhance its forecasting and modeling capacity.

27. Coordination between fiscal and monetary policies will continue. As per the Memorandum of Understanding between the Ministry responsible for Finance and the Central Bank of Seychelles, the Ministry will issue government securities for monetary policy purposes as needed in line with monetary policy objectives and being conscious of the debt target.

28. Mindful of the current inflation outlook and developments in the external sector, the Bank will consider a gradual and cautious loosening of monetary policy as from the fourth quarter of 2015. The policy mix implemented since the second half of 2014, combined with the decline in global energy and commodity prices, had a dampening effect on potential inflationary pressures. In addition, credit growth, particularly for the financing of consumer goods, has slowed down since the beginning of the year. However, private sector credit growth will be monitored closely to ensure that vulnerabilities do not emerge.

29. The Bank remains committed to a floating exchange rate regime. Following the depreciation observed in the second half of 2014 due to strong demand, the Seychelles rupee appreciated against the USD in the first half of the year and remains stable against its main counterparts. Despite the weaker euro and downside risks emanating from emerging markets, the lower international energy and commodity prices are expected to continue support the external value of the domestic currency.

30. In order to build further resilience against external shocks, the authorities will continue to pursue its reserves accumulation strategy. When the opportunity arises, CBS will purchase foreign exchange from the market to build reserves without influencing the exchange rate. Depending on market conditions, we hope to exceed our reserves targets.

31. The Bank remains committed to improve its reserves management capacity. Following approval by the CBS Board in late 2014, CBS started its engagement on the Reserves Advisory and Management Programme (RAMP) with the World Bank. To date, several staff have benefited from a number of workshops and TA's offered by RAMP. As part of the external investment management agreement, staff directly involved with reserves management started the second part of a training provided by Crown Agents Investment Management (CAIM) in the third quarter of 2015.

32. A Financial Stability Committee (FSC) is to be set up and will be chaired by the Governor of the Central Bank of Seychelles. The FSC will provide a platform for discussion on pertinent local and



international developments that may impact the financial stability of Seychelles. The FSC shall serve as an interim committee until the required legal framework is established. The FSC shall comprise of the following members: the Ministry of Finance, Trade and the Blue Economy, the Central Bank of Seychelles, the Financial Services Authority and the Financial Intelligence Unit. In addition, CBS is in the process of setting up a Financial Stability Unit (FSU) which will, amongst other activities, monitor and carry out research on macro-financial matters to support the work of the FSC. It is intended that both the FSC and FSU will be operational by end-March 2016.

33. With the aim of ensuring that financial services are used more effectively and in a responsible and sustainable manner, CBS will enhance its mandate for consumer protection and develop a strategy for financial literacy. The government has signed a Reimbursable Advisory Services (RAS) agreement with the World Bank that will allow CBS to access TA to amongst other things, establish a comprehensive consumer protection framework for financial institutions. The options for establishing a financial ombudsman function in Seychelles with adequate enforcement powers will be explored. CBS will also coordinate work on enhancing financial literacy in Seychelles with a view to improve financial inclusion. As a first step, a financial literacy baseline study will be commissioned to identify the target groups and design a comprehensive and cost effective strategy and implementation plan for reaching them. Funding has already been sought from the Investment Climate Fund for the baseline strategy and the AfDB for the design of the financial literacy strategy.

34. CBS will continue to pursue its effort to upgrade banking regulations. A complete review of the Financial Institutions Act is underway, which will *inter alia* cater for implementation of Basel 2 and 3 in 2017 as per the revised road map prepared with assistance of the IMF. TA is anticipated from the IMF regarding the implementation of the pillar 2 component of Basel II in the first half of 2016. Moreover, drawing on recent experiences with CBS' bank intervention, an enhanced resolution framework for banks will be developed to ensure that it is in line with new domestic and international developments.

35. In line with the aim of achieving best practices in the international financial services sector, CBS and other authorities such as the Financial Intelligence Unit (FIU) and Financial Services Authority (FSA) will strengthen the regulation of the offshore sector. Initiatives in this direction include the country's commitment to sign the Model 1 B Intergovernmental Agreement for FATCA with the US and signing of the Multilateral Competent Authorities Agreement in relation to the Automatic Exchange of Information (AEOI) with Seychelles' commitment for first automatic exchange by 2017. Additionally, the authorities will be receiving TA from the World Bank in the fourth quarter of 2015 regarding the National Risk Assessment as preparation for the Mutual evaluation against the Financial Action Task Force (FATF) principles which is scheduled for the second half of 2016. Consistent with new developments in AML regulatory framework internationally, Seychelles authorities have taken necessary steps to modernize the industry and local regulatory standards. In that regards a tripartite MoU between the CBS, FIU and FSA has been signed. This will ensure greater coordination between the authorities in their efforts to safeguard the financial sector from any risks emanating from the offshore sector. The regulation of the 'offshore banking' sector will be enhanced

to ensure that any contagion effect emanating from the offshore sector is mitigated. In this regards CBS has been receiving TA from the IMF. An action plan to implement the recommendations from the TA mission has been finalized. Moreover, CBS and FIU are undertaking joint inspections regarding AML matters.

36. Significant reforms of the Credit Information System (CIS) will be undertaken by the Bank to increase its usefulness for lenders. CBS will enhance the overall scope of the CIS by including credit data from all relevant lenders, including those that do not fall under its regulatory purview, and eventually other types of data providers such as utilities companies. The frequency and type of data that is collected by the CIS and the information that is distributed back to lenders will be improved. In the medium term, another structural improvement will be a more comprehensive legal and regulatory framework for credit reporting activities in Seychelles, which is an area that will be addressed through the RAS.

37. Work on a modern payment system continues. Following the successful implementation of the first phase of the Seychelles Electronic Funds Transfer (SEFT) project across all banks in mid-August 2013, the second phase of the project currently under implementation since July 2014 is progressing well, with a new scheduled date of completion set for third quarter 2016. Since the launch of phase one, the majority of participants have now integrated their CORE banking systems to SEFT to allow for straight-through processing of incoming and outgoing payments and CBS is continuing its efforts to encourage other participants to follow suit prior to the launch of the second phase. This second phase of the SEFT project will further modernize and increase the efficiency of the country's payments systems by extending the new internet-based online platform from the banks domain to the general public.

38. CBS remains committed in its endeavor to modernize the country's national payment system. Work is ongoing to formalize the Terms of Reference for the National Payments Task Force and the National Payments Council which amongst others provides for a regular schedule of meetings and sets out the objectives of the two forums which are key drivers in the modernization process. Moreover, the Bank in collaboration with other stakeholders, is working on a new vision and strategy for modernization of the national payment system covering the period from 2016 to 2020.

39. CBS is engaging the assistance of AfDB/ICF for external consultants to undertake a feasibility study for implementing modern settlement systems in 2015. The outcome from the study will be used to assist with the introduction of a Central Securities Depository (CSD) as well as a Real Time Gross Settlement System (RTGS). The Bank is also receiving TA from AfDB/ICF for the conduct of diagnostic studies for government payments and assessment of the international remittance market. The assessment will focus on improving remittance services. This will include the setting up the relevant regulatory and governance framework, and provide greater transparency and consumer protection in remittance services. The infrastructure for government payments and public financial resources payments will also be assessed with the aim to provide recommendations to ensure that these are managed and effected in a sound, efficient, reliable and transparent manner.

40. The regulatory framework for oversight of payment systems in Seychelles is being enhanced. With the initial regulatory platform through the enactment of the new National Payment Systems Act and the Licensing and Authorization Regulations in the second half of 2014, further work in that regards is expected in 2016. Regulations on the continuous oversight of payment systems will be issued by June 2016 with the help of TA from the World Bank. In that regard, CBS intends to issue regulations setting out minimum standards in relation to payment services in Seychelles and the protection of users of payment services. TA received from the IMF in April 2015 has commenced the process for assessment of the National Payment System's compliance with the Principles for Financial Market Infrastructures and further capacity building in this area is expected in 2016 which will achieve alignment with international standards.

41. Following IMF Safeguard Assessment, Internal Audit Division (IAD) will undergo an external Quality Assurance review by an independent quality assurance provider by mid-2017. This review will evaluate the quality and practices of the internal audit function and compare the results against the IIA Standards, provide examples of best practice, and verify IAD's overall efficiency and effectiveness. With an eye on the External Quality Assessment, IAD will be building capacity with the assistance of consultants whereby it will be focusing on its quality; developing its ability to conform to IIA Standards; mentoring and advising the staff in audit supervision, and project monitoring.

42. In the first quarter of 2015, the CBS commenced its review of the Central Bank of Seychelles Act, 2004 (CBS Act) consistent with its desire to further strengthen the corporate governance framework currently stipulated in the CBS Act. The proposed amendments will allow the Bank to meet established best practice standards regarding its corporate governance arrangements, enabling CBS to fulfill its objectives and mandate more efficiently and effectively.

43. We continue to work to safeguard the international financial services sector by ensuring compliance with best practices on transparency and exchange of information in tax matters. In line with international best practices an international financial services industry strategy will be developed and submitted for cabinet approval by end-June 2016 (proposed new SB). In the immediate, new obligations have been imposed on International Corporate Service Providers (ICSPs) such as (i) strengthened sanctions for non-compliance with legal requirements including broadening of possibility to strike off a company where the requested information is not provided; (ii) prohibited bearer shares; (iii) introduced the requirement for International Business Companies to provide declaration of compliance with its ownership and accounting obligations; (iv) introduced an obligation to maintain the share register at the ICSP's office in Seychelles; (v) restructured the supervisory authority of the offshore sector and strengthened its supervisory powers; (vi) increased the number of inspections and the proportion of inspected IBCs; and (vii) applied penalty upon detection of non-compliance and strike off companies where the noncompliance persists.

44. The Financial Services Authority completed its focused onsite inspections on all ICSPs in April 2015 and is currently using a risk-based approach to rank the ICSPs accordingly in terms of risk levels. As a result of the measures applied, Seychelles has now obtained a new rating of "Largely Compliant" by the Global Forum.

45. The new IBC Bill is in its final stages of industry consultation and is expected to be submitted to the National Assembly by December 2015 (SB). A new International Corporate Service Providers Bill which includes a provision for a register of beneficial ownership data and Trusts Bill are expected to be submitted to the National Assembly by December 2015 (SB).
46. A new piece of legislation, Global Corporations Bill, which will replace the Companies (Special) License Act, 2003 is in the process of undergoing industry consultation and is expected to be enacted by April 2016.
47. The Seychelles Gambling Act was enacted in December 2014 with the FSA being given the responsibility to administer this piece of legislation which includes regulating and supervising of casinos, slot machines and interactive gaming. However, this Act is expected to become operational as of 1<sup>st</sup> November, 2015 which in the interim period has allowed the FSA to build capacity and meet with existing licensees to ensure a smooth transfer of powers from the SLA to the FSA.
48. In order to strengthen the regulation of insurance and pensions sector, technical assistance has been sought for the AfDB and ICF. Projects to amend the Securities Act, 2007 and Mutual Fund and Hedge Fund Act, 2008 will also be carried out in order to rectify gaps or weakness in these laws and bring them in line with international standards and best practices.
49. Following its accession to the WTO in April government continues its effort to work on the WTO implementation. The Government has just set up a National Trade Facilitation Committee which will analyze and advice on measures, provisions and procedures related to the movement of goods in and out of Seychelles, so as to achieve the optimal level of efficiency in expediting the movement, release and clearance of goods. The Committee will also provide inputs towards international agreements dealing with Trade Facilitation.
50. The National Trade Facilitation Committee comprises of personnel from Government entities and private sector addresses issues such as domestic coordination amongst relevant stakeholders on issues relating to trade facilitation, coordination with other standing committees which deal with trade related issues, assist and monitor the implementation of measures, provisions and procedures in accordance with trade agreements that Seychelles' is party to e.g. WTO, WCO, COMESA, SADC, assist and monitor the elimination of unnecessary Non-tariff measures. The National Trade Facilitation Committee will, at the best of its capacity, resolve issues relating to Trade Facilitation, Develop and review an action plan for the activities discussed and agreed by the National Trade Facilitation Committee, and adopt a work program for Trade Facilitation reforms.
51. Work on the establishment of a poverty line and the incidence of poverty is still ongoing with technical assistance from the World Bank. Two approaches have been explored (consumption and income) with results expected to be released at the end of 2015.
52. In addition data from the 2013 HBS will be used to compile GDP by expenditure (GDP (E)). This is being done with assistance from the IMF-AFRITAC South institute. All data sources for using

the GDP (E) approach, and methodology, are being reviewed by the new IMF AFRITAC advisor on Real Sector statistics.

/s/

Jean-Paul Adam  
Minister of Finance, Trade and the Blue  
Economy  
Republic of Seychelles

/s/

Caroline Abel  
Governor  
Central Bank of Seychelles

Attachment: Technical Memorandum of Understanding

**Table 1. Seychelles: Quantitative Performance Criteria Under the Extended Arrangement, 2014–2015**

	2015						2016			
	End-June		End-Sep.		End-Dec.		End-March	End-June	End-Sep.	End-Dec.
	Performance Criteria Second Review	Est.	Indicative Targets Second Review	Proj.	Performance Criteria Second Review	Proposed	Proposed Indicative Targets	Proposed Performance Criteria	Proposed Indicative Targets	Proposed Performance Criteria
	(Millions of Seychelles rupees; end-of-period)									
<b>Performance criteria</b>										
Net international reserves of the CBS, millions of U.S. dollars (floor) <sup>1</sup>	367	398	364	417	363	409	429	412	418	401
Net international reserves (adjusted targets; outcomes)	...	...	...	...	...	...				
Reserve money (ceiling on daily average) <sup>2</sup>	2,529	2,529	2,552	2,552	2,655	2,781	2,818	2,858	2,897	2,961
Primary balance of the consolidated government (cumulative floor)	311	311	539	539	720	720	85	288	470	767
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling from start of 2015)	70	63	70	63	90	90	110	110	110	130
Contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears by the public sector (ceiling) <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payment arrears by the government (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>										
Net external non-project financing (millions of U.S. dollars; cumulative) <sup>4</sup>	-2.6	-6.0	-4.8	-8.3	-3.9	-22.4	12.3	-11.7	-14.4	-33.2
External budget loans	10.0	7.0	10.0	7.0	27.0	7.0	15.0	15.0	15.0	20.0
Cash payments on foreign debt service	17.4	16.0	19.6	18.3	35.7	34.3	2.7	26.7	29.4	53.2
External budget grants	4.8	3.1	4.8	3.1	4.8	4.9	0.0	0.0	0.0	0.0
Reserve money target (daily average)	2,455	2,490	2,478	2,520	2,578	2,700	2,736	2,775	2,813	2,875
<b>Program accounting exchange rates</b> <sup>5</sup>										
SR/US\$ (end-of-quarter)	13.74	13.74	13.74	13.74	13.74	13.01	13.01	13.01	13.01	13.01
US\$/Euro (end-of-quarter)	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12
US\$/UK pound (end-of-quarter)	1.54	1.54	1.54	1.54	1.54	1.51	1.51	1.51	1.51	1.51
US\$/AUD (end-of-quarter)	0.78	0.78	0.78	0.78	0.78	0.70	0.70	0.70	0.70	0.70
US\$/CAD (end-of-quarter)	0.80	0.80	0.80	0.80	0.80	0.75	0.75	0.75	0.75	0.75
US\$/SDR (end-of-quarter)	1.41	1.41	1.41	1.41	1.41	1.40	1.40	1.40	1.40	1.40

Sources: Seychelles authorities and IMF staff estimates and projections.

<sup>1</sup> The NIR floor is adjusted as defined in the TMU.

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

<sup>3</sup> The nonaccumulation of new external payment arrears constitutes a continuous performance criterion. Excludes arrears for which a rescheduling agreement is sought.

<sup>4</sup> Cumulative net flows from the beginning of the calendar year; includes external non-project loans and cash grants net of external debt service payments.

<sup>5</sup> Program exchange rates have been set according to prevailing market rates at the last available update on projected external public financing flows.

**Table 2a. Seychelles: Structural Benchmarks Under the Extended Arrangement, 2015**

<b>Actions</b>	<b>Timing</b>	<b>Objectives and Status</b>
<b>Fiscal and Public Financial Mgmt. Policy</b>		
Enhance collection of business tax by conducting at least 60 tax audits of businesses from January 2015 to end-September 2015.	End September, 2015	Met. The SRC conducted 66 business tax audits by end-September, and identified over SR 120 million in potential assessments.
Update and publish on-line a government asset register, including state land.	End December, 2015	On track. Safeguard public finances and enhance economic governance through better management of state assets.
<b>State-Owned Enterprises (SOEs)</b>		
Approval by Cabinet of a policy to further strengthen supervision of SOEs that operate on commercial terms, including independent review of large investment plans.	End March, 2015	Met with a delay. Cabinet approved measures in May 2015.
<b>Real Sector and Private Sector Development</b>		
Cabinet approval of a strategy to reduce restrictive practices at the Port of Victoria.	End May, 2015	Met.
<b>Financial Sector Development</b>		
Approval by the Board of CBS of a framework for macro prudential surveillance.	End October, 2015	Not met. Work ongoing to finalize the institutional arrangements. Reprogrammed to March 2016.
<b>International Financial Services Sector</b>		
Submission to National Assembly of new legislation on International Business Companies consistent with international standards.	End June, 2015	Not met. Reprogrammed to December 2015.
Submission to National Assembly of new legislation on International Corporate Service Providers and Trusts consistent with international standards.	End December, 2015	On track. Safeguard the global business sector, following the OECD finding, and lay the foundation for sustained growth through best practice regulation.

**Table 2b. Seychelles: Structural Benchmarks Under the Extended Arrangement, 2016**

<b>Actions</b>	<b>Timing</b>	<b>Objective</b>
<b>Fiscal and Public Financial Mgmt. Policy</b>		
Cabinet approval of Public Financial Management Action Plan	End-December 2016	Ensure timely implementation of recommendations of PEFA assessment (to be carried out in H1 2016).
Cabinet approval of new Public Private Partnership Regulation	End-October, 2016	Strengthen the legal framework of the Public Private Partnership framework
<b>State-Owned Enterprises (SOEs)</b>		
Conduct governance reviews and operational/business assessments of initial three SOEs.	End June, 2016	Reinforce the monitoring and oversight of SOEs.
Conduct governance reviews and operational/business assessments of a further three SOEs	End December, 2016	Reinforce the monitoring and oversight of SOEs.
<b>Real Sector and Private Sector Development</b>		
Approval by cabinet of a revised Micro, Small and Medium Enterprise Policy	End-March, 2016	Support inclusive growth through a strengthened framework for SME support.
<b>Financial Sector Development</b>		
Development of a CBS strategy to improve financial literacy	End-September, 2016	Improve financial inclusion.
<b>International Financial Services Sector</b>		
Cabinet approval of a strategy to tackle AML/CFT risks, drawing on the National Risk Assessment.	End-September, 2016	Reduce AML/CFT risks in financial and off-shore sectors.



## Attachment 1. 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 2015 and 2016 are listed in Tables 1 and 2 attached to the MEFP, respectively.

### I. QUANTITATIVE PERFORMANCE CRITERIA

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

##### DEFINITION

2. Net international reserves (NIR) of the CBS are defined for program monitoring purposes as reserve assets of the CBS, minus reserve liabilities of the CBS (including liabilities to the IMF). Reserve assets of the CBS are claims on nonresidents that are readily available (i.e., liquid and marketable assets, free of any pledges or encumbrances 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. Semiannually, at each test date for program performance criteria, the 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. For program purposes the transfer of assets from the Social Security Fund to the Seychelles Pension Fund planned for 2015 will be excluded from expenditures.

## 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. External debt is defined on a residency basis.

10. For the purposes of this performance criterion, the definition of debt is set out in Point 8 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 lessor 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.