IMF Country Report No. 17/160

# SEYCHELLES

June 2017

## 2017 ARTICLE IV CONSULTATION AND SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

In the context of the 2017 Article IV Consultation and sixth review under the extended arrangement the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 2, 2017 consideration of the staff report that concluded the consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 2, 2017, following discussions that ended on April 4, 2017, with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on May 18, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Seychelles.

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

Letter of Intent sent to the IMF by the authorities of Seychelles*
Technical Memorandum of Understanding*
Selected Issues
Climate Change Policy Assessment

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

Press Release No. 17/235
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June 20, 2017

International Monetary Fund
Washington, D.C. 20431 USA

# IMF Executive Board Concludes 2017 Article IV Consultation with Seychelles

On June 2, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Seychelles.

Macroeconomic performance continued to be strong in 2016. Economic growth reached 4½ percent, reflecting increased tourist arrivals, stronger output in the fishing industry, and expanding credit to the private sector. Helped by low commodity prices and a stable exchange rate, inflation (year-on-year) was negative throughout early 2017. The external current account deficit remained largely unchanged, while gross international reserves at end-2016 reached 4 months of prospective imports of goods and services. Supported by lower than budgeted capital outlays and strong tax revenue growth, the 2016 primary fiscal surplus reached 3.4 percent of GDP, exceeding the target by 0.4 percent.

With continued foreign investments and rising arrivals in the tourism sector, the growth outlook for 2017 remains positive. The rising trend in international fuel prices since late 2016, along with fiscal measures in the 2017 budget, could put pressure on inflation and on the balance of payments. International reserves are expected to remain at an adequate level, anchored by strong macroeconomic policies. Downside risks to the outlook stem largely from the external sector.

## Executive Board Assessment[2]

Executive Directors commended the authorities for making considerable progress toward macroeconomic stability under successive Fund-supported programs. While the growth outlook is favorable, the economy remains vulnerable to internal and external risks, including in the long run to climate change. Directors called for continued commitment to prudent

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.
[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

policies and structural reforms to safeguard the gains thus far and promote sustainable and inclusive growth. In this regard, they noted the authorities' intention for continued engagement with the Fund.

Directors encouraged the authorities to achieve their medium-term debt target to preserve the macroeconomic stability gained through bold reforms implemented since the 2008 crisis. They noted that additional, permanent measures will be needed to meet the authorities' target of bringing the public debt below 50 percent of GDP and to mitigate pressures on the country's external position. Directors welcomed the progress made toward improving public finance management and strengthening the state-owned-enterprise sector.

Directors highlighted the need to create further fiscal space over the medium term to accommodate priority investments to enhance resilience to climate change. In this regard, they called for efforts to boost revenue further and shift spending composition from current to capital expenditure over the medium term.

Directors supported the current monetary policy stance but advised the central bank to remain vigilant to inflationary pressures and further tighten policy if necessary. They noted that the flexible exchange rate policy has served the country well and advised the central bank to minimize intervention to keep reserve coverage broadly at the current level. They welcomed the progress made toward adopting a stronger monetary policy framework.

Directors supported continued efforts to reduce the financial sector risks and avoid further loss of corresponding banking relationships. They encouraged the authorities to move forward with a comprehensive strategy to strengthen the AML/CFT framework, aligning it with international standards.

Directors concurred that further structural reforms are important to promote economic diversification. They emphasized the need for measures to improve the business environment, including reducing cross-subsidies in electricity prices, using efficiently public-private-partnerships in infrastructure building, and addressing skills mismatch in the labor market.

## Seychelles: Selected Economic and Financial Indicators, 2014-22

Main products and exports: Tourism, Canned Tuna

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| National income and prices | | | | | | | | | |
| Nominal GDP (millions of Seychelles rupees) | 17,119 | 18,336 | 19,033 | 20,022 | 21,259 | 22,539 | 23,969 | 25,498 | 27,123 |
| Real GDP | 4.5 | 5.0 | 4.5 | 4.1 | 3.4 | 3.3 | 3.3 | 3.3 | 3.3 |
| CPI (annual average) | 1.4 | 4.0 | -1.0 | 1.8 | 2.7 | 2.7 | 3.0 | 3.0 | 3.0 |
| CPI (end-of-period) | 0.5 | 3.2 | -0.2 | 2.8 | 2.3 | 3.0 | 3.1 | 3.0 | 3.0 |
| GDP deflator average | 2.3 | 2.0 | -0.7 | 1.1 | 2.7 | 2.7 | 3.0 | 3.0 | 3.0 |
| Money and credit | | | | | | | | | |
| Broad money | 26.6 | 2.9 | 12.1 | 5.2 | ... | ... | ... | ... | ... |
| Reserve money (end-of-period) | 13.9 | 9.5 | 14.5 | 3.9 | ... | ... | ... | ... | ... |
| Reserve money (average of last quarter) | -14.5 | 7.2 | 12.6 | 1.9 | ... | ... | ... | ... | ... |
| Velocity (GDP/broad money) | 1.4 | 1.5 | 1.4 | 1.4 | ... | ... | ... | ... | ... |
| Money multiplier (broad money/reserve money) | 5.0 | 4.7 | 4.6 | 4.6 | ... | ... | ... | ... | ... |
| Credit to the private sector | 26.2 | 7.8 | 10.3 | 10.4 | ... | ... | ... | ... | ... |
| Savings-Investment balance | | | | | | | | | |
| External savings | 23.1 | 18.6 | 18.4 | 16.4 | 15.9 | 16.8 | 17.4 | 18.3 | 17.8 |
| Gross national savings | 14.6 | 15.2 | 11.8 | 15.9 | 15.8 | 14.8 | 15.9 | 14.8 | 16.5 |
| *Of which*: government savings | 6.9 | 5.9 | 3.8 | 5.2 | 5.6 | 6.4 | 8.3 | 8.9 | 9.4 |
| private savings | 7.6 | 9.3 | 8.1 | 10.7 | 10.2 | 8.4 | 7.6 | 6.0 | 7.1 |
| Gross investment | 37.7 | 33.8 | 30.2 | 32.2 | 31.7 | 31.6 | 33.3 | 33.1 | 34.3 |
| *Of which*: public investment [1] | 6.7 | 4.8 | 5.0 | 8.3 | 7.7 | 7.4 | 8.2 | 7.6 | 7.8 |
| private investment | 31.0 | 29.0 | 25.2 | 23.9 | 24.0 | 24.2 | 25.1 | 25.5 | 26.5 |
| private consumption | 50.8 | 47.6 | 47.0 | 44.3 | 47.0 | 48.7 | 50.0 | 52.3 | 51.7 |
| Government budget | | | | | | | | | |
| Total revenue, excluding grants | 34.3 | 33.4 | 36.6 | 37.6 | 36.9 | 36.9 | 37.0 | 37.2 | 37.2 |
| Expenditure and net lending | 34.6 | 32.8 | 38.1 | 41.9 | 40.5 | 39.4 | 37.8 | 37.4 | 37.0 |
| Current expenditure | 28.0 | 28.0 | 33.1 | 33.5 | 32.8 | 32.0 | 31.1 | 30.2 | 29.5 |
| Capital expenditure [1] | 6.6 | 4.8 | 5.0 | 8.3 | 7.7 | 7.4 | 8.2 | 7.6 | 7.8 |
| Overall balance, including grants | 2.1 | 0.9 | -1.4 | -1.1 | -0.9 | -0.4 | -0.1 | 0.5 | 0.9 |
| Program primary balance | 4.9 | 4.3 | 3.4 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Total government and government-guaranteed debt [2] | 70.8 | 69.3 | 71.2 | 69.3 | 62.6 | 55.9 | 49.7 | 45.6 | 41.4 |
| Domestic (including debt issued for monetary purposes) | 33.5 | 34.8 | 40.2 | 38.9 | 33.5 | 28.7 | 23.4 | 20.9 | 18.0 |
| Domestic (excluding debt issued for monetary purposes) | 22.5 | 21.4 | 24.1 | 23.5 | 21.2 | 20.0 | 17.7 | 16.3 | 14.4 |
| External | 37.3 | 34.5 | 31.0 | 30.4 | 29.0 | 27.2 | 26.3 | 24.6 | 23.4 |
| External sector | | | | | | | | | |
| Current account balance including official transfers | -23.1 | -18.6 | -18.4 | -16.4 | -15.9 | -16.8 | -17.4 | -18.3 | -17.8 |
| Total external debt outstanding (millions of U.S. dollars) [3] | 1,588 | 1,361 | 1,393 | 1,485 | 1,544 | 1,591 | 1,657 | 1,725 | 1,790 |
| (percent of GDP) | 118.2 | 98.8 | 97.5 | 101.2 | 99.8 | 97.2 | 95.5 | 94.4 | 93.5 |
| Terms of trade (-=deterioration) | -0.3 | 1.9 | 2.7 | -1.4 | -0.1 | -0.1 | -0.1 | -0.2 | 0.0 |
| Real effective exchange rate (average, percent change) | -3.2 | 11.5 | ... | ... | ... | ... | ... | ... | ... |
| Gross official reserves (end of year, millions of U.S. dollars) | 463 | 537 | 523 | 492 | 491 | 512 | 534 | 541 | 556 |
| Months of imports, c.i.f. | 3.9 | 4.3 | 4.0 | 3.6 | 3.5 | 3.5 | 3.4 | 3.3 | 3.3 |
| Exchange rate | | | | | | | | | |
| Seychelles rupees per US$1 (end-of-period) | 14.0 | 13.2 | ... | ... | ... | ... | ... | ... | ... |
| Seychelles rupees per US$1 (period average) | 12.7 | 13.3 | ... | ... | ... | ... | ... | ... | ... |

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

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

[2] Includes debt issued by the Ministry of Finance for monetary purposes. The domestic debt has increased since the third review due to the Paris Club buy-back which replaces external with domestic debt, as well as a revision to the data to include domestic guarantees. In addition, the lower primary deficit and higher interest payments for 2016 and the statistical discrepancy in 2015 and H1 2016 have increased the debt.

[3] Includes private external debt.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/206
FOR IMMEDIATE RELEASE
June 2, 2017

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Sixth Review Under the Extended Fund Facility with Seychelles and Approves $2.3 Million Disbursement**

On June 2, 2017, the Executive Board of the International Monetary Fund (IMF) completed the sixth and final review of Seychelles economic program supported by an arrangement under the Extended Fund Facility (EFF).[1] The completion of the review enables the disbursement of an amount equivalent to SDR 1.635 million (about US$2.3 million) bringing the total disbursements under the arrangement to SDR 11.445 million (about US$15.8 million).

Seychelles' three-year, SDR 11.445 million arrangement (about US$17.6 million at the time of approval, the equivalent of 50 percent of Seychelles' current quota in the IMF) was approved by the IMF Executive Board on June 4, 2014 (see Press Release No. 14/262) to support authorities' efforts to reduce high debt levels, improve external buffers and sustainability in the face of balance of payments pressures, and to strengthen the economy through sustained and inclusive growth.

Following the Executive Board's discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, said:

"Seychelles has made noticeable progress toward economic stability and external sustainability through bold reforms since the crisis in 2008. While the growth outlook is positive, the economy remains vulnerable to external shocks, and over the long term, climate change.

"The authorities should give priority to achieving their medium-term debt target to preserve the hard-won economic stability and external sustainability. Without additional measures in the 2018 budget, the authorities' target of bringing public debt-to-GDP ratio below 50 percent would be significantly delayed while the country's external position could come under pressure. The authorities should also take steps to create further fiscal space over the

[1] The EFF was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position.

medium term to accommodate investments aimed at reducing vulnerability to climate change.

"The flexible exchange rate regime has served the country well and should be maintained with minimal intervention to preserve the international reserve buffers at around the current level. Meanwhile, the authorities should continue efforts to avoid further loss of correspondent banking relationships. Further strengthening the AML/CFT framework will be helpful in this regard.

"To support sustained and inclusive growth, structural reforms should aim at diversifying the economy through improvements in the business environment. Reducing cross-subsidization in electricity prices, efficient use of public-private-partnerships, and further accelerating investment in education would help improve the business environment, raise productivity, and go a long way toward promoting shared prosperity."

INTERNATIONAL MONETARY FUND

# SEYCHELLES

May 18, 2017

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT

## KEY ISSUES

**Context:** Seychelles has made noticeable progress toward economic stability and external sustainability through bold reforms since the crisis in 2008. Despite the impressive macroeconomic performance, social concerns came to surface in 2016 and temporary fiscal policy slippage led to a delay in completing the fourth review under the Extended arrangement (EFF). The authorities brought the fiscal position back to a sustainable path during 2016–17 largely through one-off revenue measures, which will expire in 2018. The country's banks lost some correspondent banking relations (CBRs) in recent years. Seychelles is the first pilot country for Climate Policy Change Assessment (CCPA) for small states.

**Focus:** With the 2017 budget relying largely on one-off measures, macroeconomic discussions concentrated on possible permanent fiscal measures to be implemented in 2018 and how to accommodate the authorities' ambitious plans to address climate change over the medium term, as well as the supporting role of monetary and exchange rate policies. On the structural agenda, the discussions focused on policies to promote inclusive growth, to secure financial stability, and to further enhance public finance management.

**Review:** The program is on track to conclude the sixth and final review under the EFF. The authorities met the end-2016 quantitative criteria except for narrowly exceeding the ceiling on reserve money, for which the Board granted a waiver at the time of the previous review. The structural agenda remains broadly on track despite some technical delays. Staff recommends completion of the final review.

**Outlook and risks:** While the outlook is benign, the economy remains highly vulnerable to external shocks, including weakness in the key tourism markets, global banks' withdrawal of CBRs, and, over the long term, climate change. Domestic risks center on potential fiscal slippages in 2018 and thereafter.

**Recommendations:** The authorities need to secure the medium-term debt reduction target through permanent fiscal measures in 2018 and create further fiscal space over the medium term, beyond the debt reduction target, to accommodate priority investments to enhance resilience to climate change. The authorities should continue to maintain a flexible exchange rate and minimize intervention to keep reserve coverage broadly at the current level. Structural reforms should focus on raising economic efficiency and promoting inclusive growth, including by improving the business climate and strengthening the SOE sector and regulation of the offshore financial sector.

**Data:** Data provision is broadly adequate for surveillance. A priority area is to improve the quality of national account and price statistics.

Approved by
**David Owen and Bob Traa**

Discussions were held in Victoria during March 22-April 4, 2017. The staff team comprised Mr. Samuel (head), Messrs. Abdychev and Konuki and Ms. Viseth (all AFR). The mission met the 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 (50 percent of quota) expires on June 3, 2017. The program aims to bolster the foundations for sustained and inclusive growth, while addressing remaining vulnerabilities.

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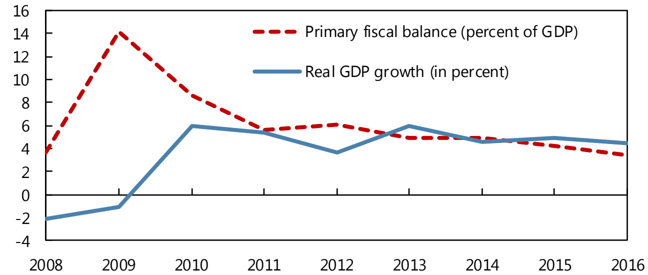
## APPENDICES

# CONTEXT

1. **Seychelles has made considerable progress toward economic stability under successive Fund arrangements, and it was recently designated as a high-income economy.** Since the 2008 balance of payments and debt crisis, the authorities enacted an extensive set of reforms that quickly restored fiscal and monetary credibility, with external support and Paris Club debt restructuring, and reduced the role of the state in the economy. Underpinned by the authorities' prudent macroeconomic policies, the country enjoyed strong economic growth while running significant primary fiscal surpluses since 2009. As a result, the public-debt-to-GDP ratio was reduced by almost two thirds by end-2015, and prospective import coverage improved significantly to over 4 months from less than 1 month at end-2008. With economic and social indicators among the highest in small states,[1] Seychelles was recently designated a high-income economy by the World Bank: it is the only high-income country in Sub-Saharan Africa.

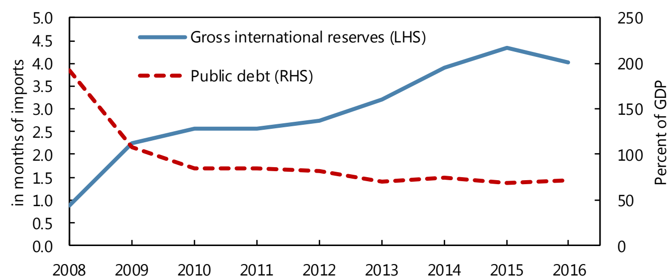
**Growth and Fiscal Balance**

(2008-2016)




**Gross International Reserves and Public Debt**

(2008-2016)




Sources: Seychelles authorities; and IMF staff estimates.

**Selected Indicators in Small States**

(2016 or latest available)

| | Bahamas | Barbados | Fiji | Maldives | Mauritius | Singapore | Sechelles |
|---|---|---|---|---|---|---|---|
| GDP per capita (USD) | 24,272 | 15,955 | 5,182 | 9,554 | 9,424 | 51,849 | 14,938 |
| Real GDP growth (percent, average 2012-16) | 0.2 | 0.6 | 3.5 | 4.0 | 3.4 | 3.1 | 5.0 |
| Public debt (percentage of GDP) | 67 | 105 | 50 | 80 | 63 | 107 | 68 |
| External current account balance (% of GDP; average 2012-16 | -17.0 | -8.2 | -4.6 | -8.8 | -5.7 | 18.9 | -18.5 |
| Adult literacy rate (percent) | 96 | 100 | 94 | 99 | 91 | 97 | 95 |
| Life expectancy at birth, total (years) | 75 | 75 | 70 | 77 | 74 | 83 | 73 |
| Infant mortality rate (per 1,000 live births) | 10 | 12 | 19 | 7 | 12 | 2 | 12 |

Sources: WEO, *World Economic Outlook*; World Bank, *World Development Indicators*.

2. **Despite this impressive macroeconomic performance, social concerns came to surface in 2016 and temporary fiscal slippage led to a delay in completing the fourth review under the**

[1] Seychelles is a micro-state (i.e., population less than 200,000). While the overall area is 455 km$^2$, the population and economic activity are concentrated on three mostly mountainous islands totaling 203 km$^2$, comparable to the size of Washington, DC (177 km$^2$).

**Extended Arrangement (EFF).** The Household Budget Survey (HBS) published in December 2015 implied that 39 percent of the population were living below the authorities' poverty line. Although other broader measures of poverty widely used for international comparison indicate that Seychelles performs significantly better,[2] the 2015 HBS led to increasing social concerns about poverty and inequality. Following his narrow victory in the Presidential Elections in December 2015, then-President Michel responded to the social concerns with a series of fiscal commitments, entailing permanent costs of 3 percent of GDP on an annual basis, in his 2016 State of the Nation address (SONA).[3] This effectively put the EFF-supported program off track and led to a delay in completing the fourth review. After the authorities submitted the 2017 budget to the National Assembly in line with the agreement with the staff, the fourth and fifth reviews under the EFF were concluded by the Board in mid-January 2017. This sixth review is the final review under the current EFF. The authorities' policies for the next five years would be anchored by their medium-term debt reduction goal—bringing the public debt to GDP ratio below 50 percent by 2020. Raising potential growth and reducing inequality while building resilience to climate change are also key challenges going forward. The authorities recently expressed their interests in a possible successor arrangement after the EFF expires in early June; this will be discussed further later in the year.

3. **The government and the legislature are controlled by different parties.** In September 2016, the opposition alliance won a majority in the National Assembly for the first time in 40 years. While the President's party continues in government, it is weakened by its loss of control of the legislature. President Michel stepped down in mid-October 2016 handing over executive power to the then-Vice President Faure.

4. **The authorities' policies have been largely aligned with the advice from the previous Article IV consultation, albeit with a slight loosening of fiscal stance (Box 1).** Following the fiscal commitments announced in the 2016 SONA, the authorities revised down the primary surplus target to 3 percent of GDP from 2016 onwards, compared with 3¾ percent of GDP envisaged at the time of the 2015 Article IV consultation. Staff estimates that this revised primary surplus would lead to a steady reduction of public-debt-to-GDP ratio to below 50 percent by 2020, two years later than the authorities' original medium-term debt reduction goal. This revised goal, in the view of the staff and the authorities, strikes an adequate balance between attaining social objectives and preserving economic stability. The monetary policy stance has been appropriate to achieve inflation targets and curb private sector credit growth. The flexible exchange rate has allowed for a build-up of foreign reserves, and the Central Bank of Seychelles (CBS) has made progress toward a more forward-looking monetary policy framework. Structural reforms have also been implemented to improve public financial management (PFM) and strengthen the state-owned enterprises (SOEs), resulting in new PFM and SOE action plans (see ¶23). Significant progress has been made in strengthening macroprudential surveillance and advancing transparency of the offshore financial sector. However, considering global trends toward withdrawal of correspondent banking relations (CBRs), the authorities would need to step up efforts to strengthen the financial regulatory framework (including

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[2] See Annex I, Country Report No. 17/51.

[3] See Box 1, Country Report No. 17/51.

for anti-money laundering and counter financing terrorism (AML/CFT) and the offshore sector), and to build confidence with the effective enforcement of the laws (see ¶32).

**Box 1. Seychelles: Main Recommendations of the 2015 Article IV Consultation**

| Recommendations | Status |
|---|---|
| **Fiscal Policy and Public Financial Management** | |
| 1. Target primary surplus of 3¾ percent of GDP from 2016 onwards to buttress the medium-term debt reduction target of bringing public-debt-to-GDP ratio below 50 percent by 2018. | 1. The authorities revised down the primary surplus target to 3 percent of GDP in 2016 in an effort to address social concerns on poverty. The medium-term target of bringing public debt-to-GDP ratio below 50 percent has been postponed by two years to 2020. |
| 2. Improve execution and efficiency of planned investment spending. | 2. While the authorities made significant progress, including articulating public investment manual (PIM). However, the recent public expenditure financial accountability (PEFA) assessment identifies remaining weakness in public investment management. The PFM Action Plan recently submitted to Cabinet specifies measures to address weakness identified by the PEFA. |
| 3. Continue the progress to strengthen the SEO sector | 3. The financial performance of the SOE has improved over the past two years. The SOE Action Plan recently submitted to Cabinet specifies measures to address weakness identified by TA from AFRITAC and the World Bank. |
| **Monetary and foreign exchange policy** | |
| 4. Maintain appropriately tight monetary policy stance. | 4. The CBS has kept appropriately tight monetary policy stance, which contributed to contain inflation at a very low level. |
| 5. Continue the progress toward a stronger monetary policy framework in which interest rate plays a prominent role. | 5. The CBS made significant progress with the help of Fund TA. It intends to reintroduce an interest rate corridor around an appropriate policy rate starting in the third quarter of 2017. |
| 6. Maintain the flexible exchange rate policy. | 6. The CBS has maintained flexible exchange rate policy while kept the international reserves buffer at an adequate level. |
| **Financial sector policy and structural reform** | |
| 7. Continue efforts to upgrade macroprudential policies and strengthen regulations on offshore sector. | 7. Seychelles has made significant progress toward enhanced macroprudential policies and more transparent offshore financial sector. However, considering global trends toward withdrawal of correspondent banking relations, efforts on the offshore sector would need to be stepped up. |
| 8. Improve the business environment, including reducing cross-subsidization in electricity prices. | 8. Progress has been limited in improving business environment. Adjustment in electricity tariffs to reduce cross subsidization has not been implemented. |

Source: IMF Staff

5. **Seychelles is the first pilot country for Climate Policy Change Assessment (CCPA) for small states.** In this context, this Article IV mission discussed macro-critical aspects of CCPA, following on the joint FAD and World Bank TA mission held in early March.

# RECENT DEVELOPMENTS, OUTLOOK AND RISKS

6. **Economic conditions have been favorable recently** (Tables 1-5). Tourist arrivals grew by 9¾ percent in 2016 with strong growth from the major European markets and the UAE, though nominal receipts did not grow as fast because the euro, in which most of the receipts are denominated, depreciated against the US dollar during the period. This, coupled with strong investment, resulted in real GDP growth estimated at around 4½ percent in 2016. The nominal exchange rate has been stable in recent months while gross international reserves (GIR) have been in line with the staff's projection at the time of the 4th and 5th reviews. Supported by tight monetary policy, as well as by low international fuel prices, year-on-year CPI inflation has been negative for the past 14 months.[4] Private sector credit growth has been moderate while financial soundness indicators suggest that banks are adequately capitalized and liquid.

7. **While potential recovery in international commodity prices could push up inflation and adversely affect the external balance in 2017, the near and medium term growth outlook is benign**. The rising trend in international fuel prices since late 2016, combined with the implementation of the expansionary fiscal initiatives contained in the 2016 SONA, would put pressure on inflation in 2017, as well as the external current account balance. Nonetheless, the strong growth momentum is expected to be carried over to 2017 before easing to the potential rate of around 3–3½ percent after 2018, as long as the authorities stick to prudent macroeconomic policies. Tourism, supported by new flights, will continue to be the main drivers of growth over the medium term.

8. **Risks to the outlook presented above are broadly balanced** (RAM, Box 2). In the short term, the external balance could be negatively affected by external shocks, including weakness of the euro against the US dollar as the country's tourism receipts are mostly in euros, while the import bill is mostly in US dollars. In the medium term, structurally weak growth in advanced and emerging economies could dampen tourism performance. Seychelles' financial sector could potentially be affected by international banks' withdrawal of correspondent relationships. In the absence of additional permanent measures, fiscal policy beyond 2018 could slip with serious consequences for macroeconomic stability. Furthermore, as a small archipelagic country, Seychelles is vulnerable to natural disasters and to climate change over the long run: severe natural disasters could push the public debt to an unsustainable path.[5] On the upside, tourism sector growth could be significantly higher than projected in the next couple of years buoyed by the new flights. Meanwhile, lower-than-

[4] There is some concern on the quality of CPI data as some CPI sub-components are not collected every month and estimated, instead. The CBS plans to request a TA from STA on this issue.

[5] A natural disaster causing economic damage of 10 percent of GDP could put the public debt to an unsustainable path. See Chapter II of the Selected Issues paper.

projected international energy prices would help strengthen Seychelles' external position, suppress inflation, and enhance growth.

## Box 2. Seychelles: Risk Assessment Matrix (2017)[1]

| Source of threat | Likelihood | Severity | Impact | Policy response |
|---|---|---|---|---|
| | | | ***Domestic risks*** | |
| Relaxation of fiscal discipline | M | H | Relaxation of fiscal discipline could quickly feed through to the balance of payments and threaten targets for debt reduction and reserves adequacy. | Ensure the primary surplus target. Articulate permanent fiscal saving measures to be implemented in 2018 to buttress the medium-term debt reduction target. |
| Natural disaster and climate change | L-M[2] | H | Catastrophic weather event could lead to an exploding public debt dynamics and jeopardize financial stability. Rising sea level over the long run could have devastating impacts. | Create further fiscal space, beyond ensuring the medium-term debt target, to accommodate key public investments to address vulnerability to climate change. Seek natural disaster insurance and promote further development of the insurance market. |
| | | | ***External risks*** | |
| Structurally weak growth in key advanced and emerging economies | M-H | M | If slow growth in Europe and the previously fast-growing Asian and Middle Eastern markets led to a drop in tourism receipts, the result would be lower growth and weaker balance of payments. | Ensure exchange rate flexibility to act as shock absorber. Encourage continued diversification of tourism markets. |
| Significant further strengthening of the US dollar | H | M | Continued strength of the dollar vs. the Euro would have a negative impact on the profitability of the tourism sector, which prices in Euros and faces costs largely in dollars. | Avoid ad-hoc measures to support the tourism sector which could undermine long-term revenue potential. |
| Intensification of fragmentation/security dislocation in part of Middle East, Africa, and Europe | H | M | Tourist arrivals could be adversely affected by geopolitical tensions disrupting the Middle East, Africa, and Europe. | Support an open, competitive air transport policy which encourages diversification in the source of tourists and travel connections. |
| Reduced financial services by correspondent banks | H | H | In case Seychelles' banks lose significant number of CBRs, the country's financial stability and growth prospects would be adversely affected. | Ensure that the legal and regulatory framework regarding AML/CFT risk management framework of banks is in line with international standards, enhance the transparency of the offshore sector, and strengthen cooperation with relevant jurisdictions. |

/1 The risk assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of ricks an overall level of concern as of the time of discussions with the authorities. Non-Mutually exclusive risks may interact and materialize jointly.

/2 While probability of a severe natural disaster would be very low in the near-term, it could be medium in the long term in case Seychelles' vulnerability to climate change would not be addressed.

**Authorities' view**

**9.** The authorities broadly agreed with the staff's assessment of the economic outlook and risks. They pointed out that, while the probability would be low, an increase in international fuel prices significantly faster than expected in the latest World Economic Outlook would be a major risk to the Seychelles regarding the outlook for inflation and external position. It would worsen the financial performance of SOEs, particularly Air Seychelles and Seychelles Petroleum Company (SEYPEC), which could potentially trigger fiscal risks arising from contingent liabilities.

# PROGRAM PERFORMANCE

**10. All end-December 2016 quantitative performance criteria, the test data for the sixth and final EFF review were met, except for the reserve money ceiling which was missed by a very small margin** (LOI Table 1). The end-2016 primary fiscal surplus exceeded the target by 0.4 percent of GDP. The fiscal balance benefited from overperformance in VAT and business tax on the back of strong growth. However, non-tax revenue and grants under performed by about 2 percent of GDP. Spending levels were lower than anticipated at the time of the fourth and fifth reviews, as capital spending was under executed by 2½ percent of GDP while current spending was broadly in line with the projection. Net international reserves (NIR) at end-2016 exceeded the target by US$14 million, supported by low international fuel and food prices up to the third quarter of 2016. The reserve money target on daily average during the fourth quarter of 2016 was missed by a very narrow margin due to higher-than-expected growth in foreign currency deposits. The Board granted a waiver for non-observance of the reserve money ceiling for end-2016 at the time of the Board meeting for the fourth and fifth review under the EFF as the end-2016 outturn became available prior to the Board meeting.

**11. Implementation of the structural agenda is generally proceeding as planned, despite some technical delays** (LOI Tables 2)**.** A new public financial management plan (PFM) was submitted to Cabinet for approval in mid-April. The Ministry of Finance and the Public Enterprise Monitoring Commission (PEMC) submitted a SOE Action Plan to Cabinet for approval also in mid-April. Development of a CBS strategy to improve financial literacy will be delayed to June 2017, compared with the end-March deadline proposed in the fourth and fifth reviews, as the hiring of a consultant took more time than expected. Cabinet approval of a strategy to tackle AML/CFT risks has been delayed to end-June 2017, compared with the end-March deadline proposed in the fourth and fifth reviews, as the finalization of the National Risk Assessment on AML/CFT issues, which will be a basis for the strategy, is likely to be delayed to May 2017.

# POLICY DISCUSSIONS

**12. Discussions revolved around how to shore up fiscal and external sustainability while enhancing inclusive growth.** Despite the impressive primary surplus performance for the past three years, the public debt to GDP ratio has declined only slowly after 2013. This is due to the issuance of monetary debt to mop up the excess liquidity resulting from the large foreign exchange purchases during 2009–10, aimed at rebuilding the international reserves import coverage to an adequate level from less than one month at end-2008 amid the crisis. In this context, the authorities would need to keep running strong fiscal surpluses to secure their medium-term debt reduction target. This will require implementing permanent fiscal measures in 2018, and creating further fiscal space beyond the debt reduction target over the medium term to accommodate priority public investments to enhance resilience to climate change. Maintaining a flexible exchange rate policy while preserving the current level of reserve buffer will help limit the buildup in monetary debt. Meanwhile, modernizing the monetary policy framework would improve the efficiency of monetary policy, and leveraging assets on the central bank's balance sheet would help facilitate public debt reduction. Promoting inclusive growth would require improving the business environment and strengthening the SOE sector and regulation of the offshore financial sector.

## A. Buttressing the Medium-term Debt Reduction Goal

**13. The 2017 budget approved by the National assembly in late February is consistent with the EFF, but it relies mostly on one-off measures.** The primary surplus is estimated to reach 3 percent of GDP in 2017 based on the 2017 budget, which is in line with the agreement under the 4th and 5th reviews. Staff estimates that if the primary surplus continues to be 3 percent of GDP from 2018 onwards as envisaged under the previous reviews, which is also a staff's proposed scenario, public debt-to-GDP ratio would steadily decline to below 50 percent by 2020—the authorities' revised medium-term goal. However, the 2017 fiscal outturn would be supported by large one-off revenue from the foreign acquisition of a local telecom company, and a delay in the implementation of the progressive income tax until January 1, 2018.

**14. Without additional measures in the 2018 budget, Seychelles' fiscal and external sustainability would be at risk**. If no additional measures are taken in a 2018 budget, the primary surplus will drop to around 1½ percent of GDP in 2018 and thereafter. In this scenario, the public debt to GDP ratio would be about 6 percent of GDP higher than the authorities' target of 50 percent at end-2020—it would fall below 50 percent in 2023, three years later than the authorities' goal. Furthermore, such fiscal policy slippage would put significant pressure on the exchange rate and/or GIR. This implies that Seychelles' hard-won economic stability and external viability could be at risk if no corrective actions were taken in the 2018 budget.

**Fiscal indicators after 2018 under two scenarios**

(all in percent of GDP, otherwise indicated)

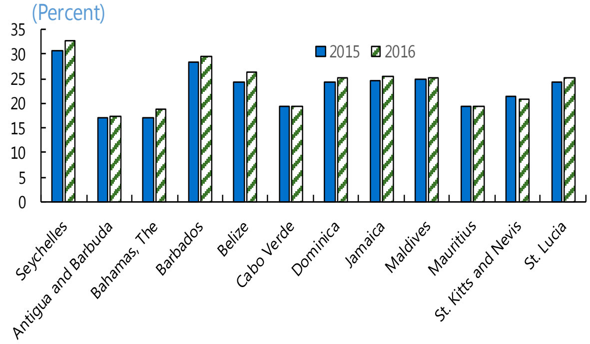
| | 2018 | | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Staff proposed | No policy actions | Staff proposed | No policy actions | Staff proposed | No policy actions | Staff proposed | No policy actions |
| Fiscal primary surplus | 3.0 | 1.5 | 3.0 | 1.5 | 3.0 | 1.4 | 3.0 | 1.4 |
| Total public debt | 62.6 | 64.1 | 55.9 | 60.0 | 49.7 | 56.2 | 45.6 | 53.7 |

Source: Staff estimates

**15. There is scope to boost revenue further, though Seychelles' tax to GDP ratio is relatively high.**[6] Seychelles collected more tax revenues in percent of GDP, compared with other tourism-dependent island countries. However, business taxes to GDP ratio has been hovering around 4¼–5½ percent since it peaked at 7.1 percent in 2011. In particular, tourism-related companies' share in business tax collection at around 7¾–10¼ percent for the past several years, compares unfavorably with their share of 25–34 percent in personal income tax and VAT, which broadly matches the tourism industry's GDP contribution. Tourism-related companies are subject to the business tax rate of 15 percent, against 30–33 percent applied to other companies. Furthermore, the Tourism Investment Act provides various business tax concessions such as accelerated and additional depreciation for investments. While transfer pricing by international hotel chains apparently plays a role, it is estimated that the revenue loss arising from preferential treatment on business tax for tourism companies could reach over ½ percent of GDP. Staff pointed out that recent empirical research indicated that tax incentives may affect FDI but their ultimate economic benefit may be limited.[7]

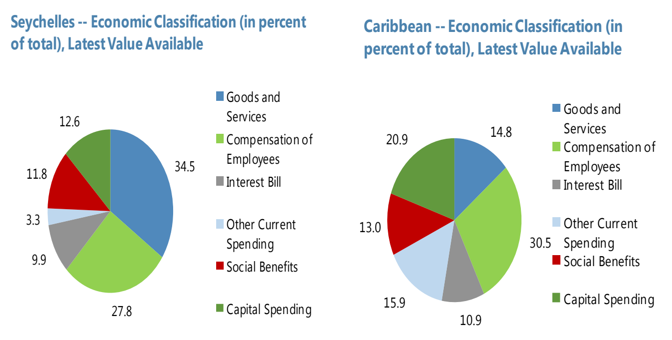
Tax Revenue to GDP ratio

(Percent)




Sources: IMF, World Economic Outlook

**16. Current spending growth needs to be constrained to create space for priority investment while preserving fiscal sustainability.** Seychelles' government expenditure composition is skewed toward current spending compared with Caribbean countries, most of which are tourism-dependent, small island economies. In particular, the country spends 10½ percent of GDP on wage bill, which is higher than most of the peer countries.[8] Furthermore, social welfare spending in Seychelles is not well targeted: the current social protection system supports households that are not needy, while most households in need do not get sufficient assistance, as pointed out by the Social Policy Protection Policy Note of the World




Sources: IMF FAD Expenditure Assessment Tool (EAT); World Economic Outlook; and Seychelles authorities.

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[6] See Chapter V of the Selected Issues paper.

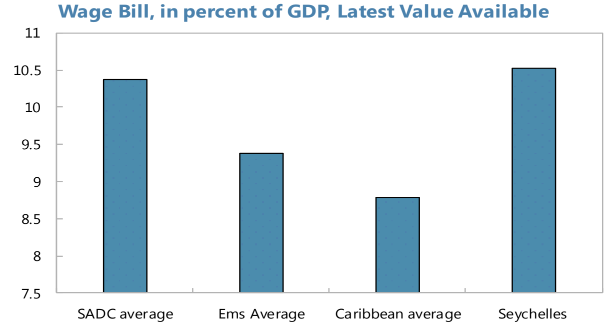
[7] For instance, see Klemm (IMF WP09/21, 2009) points out that tax incentives are effective in attracting FDI but not effective in boosting total investment or economic growth based on a dataset on tax incentives in over 40 Latin American, Caribbean, and African countries.

[8] The World Bank's Public Expenditure Review in 2014 found that salary costs accounted for over 90 percent of all education costs, leaving little for other vital spending such as learning materials.

Bank (June 2016). In light of the authorities' priority investment needs in infrastructure and electricity, as well as climate change mitigation and adaptation investments over the long term, the share of capital spending should increase in the medium to long term. Keeping a firm grip on current spending will be essential.

**17. The authorities are urged to articulate permanent measures to be included in a 2018 budget to shore up the medium-term debt reduction goal.** On the revenue side, the staff encouraged the government to re-examine potential measures, some of which were recommended in TA from FAD (text table). In total, these measures could yield additional revenue of almost 1½ percent of GDP. Staff welcomes the potential progressivity of the property tax under consideration, but cautioned that it should be non-discriminatory and should minimize distortions. On the expenditure side, the staff encouraged the authorities to consider, among others, the following measures to be implemented starting in 2018: (i) containing the wage bill growth significantly below the nominal GDP growth;[9] and (ii) better targeting social welfare spending by implementing recommendations by the World Bank, including review and adjustment of means test and benefit levels of the home care program and social welfare assistance.

**Wage Bill, in percent of GDP, Latest Value Available**



Sources: IMF FAD Expenditure Assessment Tool (EAT), IMF Investment and Capital Stock Dataset, and World Economic Forum.

**Potential revenue measures that could be introduced in the 2018 budget**

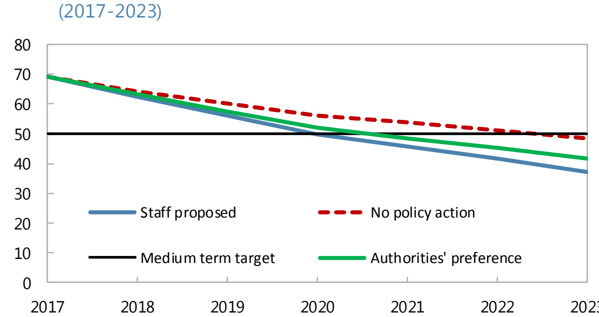
| | Revenue impact (in percent of GDP) |
|---|---|
| Increase fuel excises in line with FAD TA recommendations | 0.5 |
| Impose 10 percent tax on sugary drinks and confectionary | 0.1 |
| Eliminate preferential business tax rate and treatment for tourism-related companies | 0.6 |
| Increase various fees and charges, including passenger air duty | 0.2 |
| Introduce a property tax | Not available |
| Total | 1.4 |

Source: Ministry of Finance and staff estimates

## Authorities' view

**18. While the authorities are fully aware of the importance of a continued fiscal consolidation, they would prefer to target a slightly lower primary surplus from 2018 onwards.** Although they maintained their medium-term debt reduction goal of bringing public debt to GDP ratio below 50 percent by 2020, they indicated that they would prefer a primary surplus target of 2–2½ percent of GDP in 2018 and thereafter, which would help create space for scaling up

**Public Debt in Percent of GDP**
(2017-2023)



Source: IMF staff estimates.

[9] There could be scope for streamline salary costs in the public sector. For instance, there is scope to improve the efficiency of education spending in Seychelles (see Chapter V of the Selected Issues paper).

infrastructure investment. Should the primary surplus stay around 2–2½ percent of GDP from 2018 onwards, the debt-to-GDP ratio will fall below 50 percent in 2021, one year later than the authorities' medium-term goal. In this context, the staff stressed the need to pursue ways to create further fiscal space to accommodate higher infrastructure investment while preserving public debt sustainability. As to possible revenue measures to be implemented in a 2018 budget, which will be submitted to the National Assembly for debate in November, the authorities are considering the introduction of a sugar tax and are seeking World Bank TA on the design of a property tax, but were not ready for a further increase in fuel excises in line with the recent FAD TA recommendations. On the expenditure side, they pointed out the difficulties in containing the wage bill, citing the challenge in recruiting qualified staff in various government agencies, including the Seychelles Revenue Commission (SRC). Nonetheless, they indicated that they were willing to consider measures aimed at containing growth in the wage bill and goods and services, as well as better targeting social welfare spending.

## B. Reducing Vulnerability to Climate Change

**19. The authorities announced ambitious long-term plans to reduce the country's vulnerability to climate change in 2015.** While catastrophic natural disasters have so far spared Seychelles, it faces unique challenges regarding natural disasters in the context of climate change.[10] In the long run, rising sea level could pose a serious threat to livelihoods in coastal zones. The authorities are committed to a multilateral agreement under the United Nations Framework Convention on Climate Change (UNFCCC), which will come into effect in 2020. In their 2015 action plan (Nationally Determined Contribution (NDC) 2015), the authorities estimated that the country would need to spend US$604 million—over 40 percent of the 2016 GDP—over the next 15–20 years on priority mitigation and adaptation investments to address vulnerability to climate change (Box 3). Except for the $15 million Blue Bond marine resource management project to be implemented during 2017–21 and some other projects totaling about US$10 million, financing of the mitigation and adaptation investments is yet to be identified.[11]

[10] For the past 20 years or more, Seychelles was hit only by once by a natural disaster which entailed economic damage over 2 percent of GDP. See Chapters I and II of the Selected Issues paper. On average, damage from natural disasters is estimated at 0.7 percent of GDP annually compared to 1.3 percent for the Caribbean, since 2000.

[11] $15 million Blue Bond and other projects of about $10 million are included in the EFF baseline scenario illustrated in ¶20.

### Box 3. Seychelles' NDC 2015

Seychelles has been a key advocate for small sates in international climate change negotiations. In their NDC submitted to the UNFCC, the authorities outlined their climate change mitigation and adaptation plans to meet their commitment under the Paris Agreement. The authorities estimate that the total cost would exceed US$ 600 million (see the Box table below.).

**Box Table. Seychelles: Costs of NDC action plans estimated by the authoriteis**

| | In US$ million | In percent of GDP in 2016 |
|---|---|---|
| Mitigation | | |
| Public Electricity | | |
| 90 MW of solar PV | 192 | 13.4 |
| Waste Management | | |
| Retrofitting landfill for gas capture and flaring | 21 | 1.5 |
| Land Transport | | |
| 30 percent of private vehcles electric by 2030 | 67 | 4.7 |
| 15.8 MW solar PV for electric vehcles | 30 | 2.1 |
| Subtotal | 309 | 21.6 |
| Adaptation | | |
| Critical Infrastructure | 70 | 4.9 |
| Tourism/Coastal management | 45 | 3.1 |
| Food Security | 35 | 2.4 |
| Biodiversity | 15 | 1.0 |
| Water Security | 85 | 5.9 |
| Health | 30 | 2.1 |
| Blue Economy | 15 | 1.0 |
| Subtotal | 295 | 20.6 |
| Total | 604 | 42.3 |

Source: Authorities' estimates

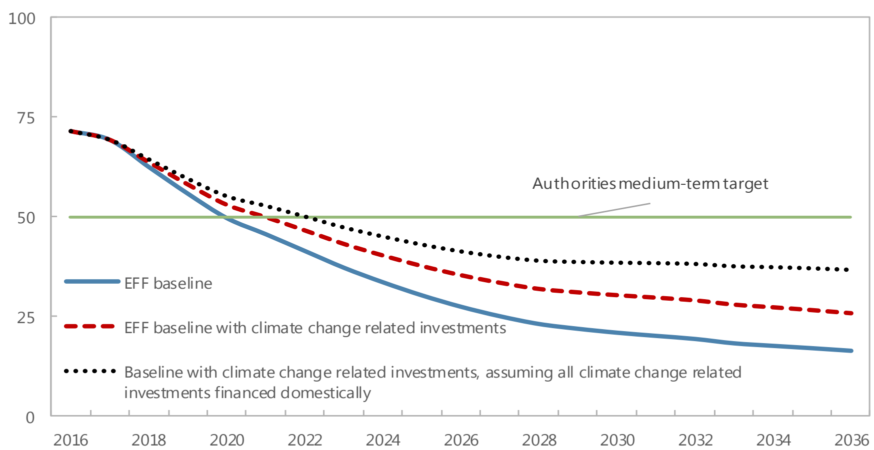
Most of these costs are likely to be incurred by the government. Furthermore, the authorities' estimate of the total cost of the mitigation and adaptation actions ($604 million) is likely to be a lower bound, according to the WB-FAD joint TA mission held in March.

**20. Over the medium term, the authorities would need to create further fiscal space beyond that required to secure the debt target so as to enhance resilience to climate change.** Implementation of the authorities' ambitious plans for climate change mitigation and adaptation is expected to delay the achievement of public debt reduction goals. Even after adding the mitigation and adaptation projects, whose financing is yet to be identified, to the projected public expenditure under the staff's proposed scenario (EFF baseline), the public debt is projected to decline each year. However, it falls below 50 per-cent by 2022, two years later compared with the EFF baseline (see text chart).[12] Assuming two-third of these projects are financed by external grants and concessional

[12] See Chapter II of the Selected Issues paper.

loans, the public debt to GDP ratio at the end of the projection period (2036) is estimated at around 26 percent, a reasonably low level but still significantly higher than the EFF baseline (around 16 percent). When we assume all the climate change related investments are financed domestically, the debt to GDP ratio would decline at a much slower pace than under the EFF baseline and is projected to reach around 36 percent in 2036. This points to a need to enhance revenue further, beyond securing the primary surplus target of 3 percent of GDP from 2018 onwards, including gradually introducing a carbon tax in line with the recent FAD TA recommendations, and to shift spending composition from current to capital expenditure over the medium term. The staff encouraged the authorities to seek concessional external financing for the climate change related actions to the extent possible,[13] incorporate climate change related risks in public financial management, and explore avenues for risk transfer over the medium term.[14]

**Seychelles: Public Debt**
**(In percent of GDP)**




Source: IMF Staff projections.

### Authorities' view

**21. The authorities broadly concurred with the staff's policy advice.** However, they indicated that it would take some years to start implementing FAD's recommendations on the introduction of a carbon tax through fuel excise adjustments (see ¶18).

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[13] For instance, the World Bank plans to support Seychelles' Blue Bond project using grants from the Global Environment Fund (GEF) to reduce the interest burden of the project. This is in line with efforts to provide concessional financing to small states facing vulnerability to climate change.

[14] See Chapter III of the Selected Issues paper.

## C. Minimizing Fiscal Risks and Enhancing Public Sector Efficiency

**22. Seychelles' still high public indebtedness and prominent role of the SOEs in the economy poses unique challenges.** While Seychelles has reduced the public-debt-to-GDP ratio by almost two thirds since end-2008, its debt burden remains high: the country spends about 10 percent of its expenditure outlays on interest payments. There are 22 SOEs whose revenues reach almost 70 percent of GDP in Seychelles. As pointed out by the TA from AFRITAC, except for the transport sector, profitability at an aggregate level appears low compared with international benchmarks. While most of the SOEs are currently profitable, their non-guaranteed debt—estimated at around 13 percent of GDP—implies a sizable contingent liability and could potentially pose serious fiscal risks.[15] Given the large size of government expenditure (close to 40 percent of GDP), strong PFM is essential.

**23. The government continues to seek opportunities to further reduce debt-related risks.** The government is considering a liability management exercise to swap the current US dollar obligation into Euros, which could save interest costs and better align the repayment currency with Seychelles' foreign exchange earnings. Over the medium term, as the CBS' monetary policy framework strengthens, some unwinding of the monetary debt, issued for sterilization purposes, would be feasible and it should help reduce the stock of domestic debt. Nevertheless, gross financing needs will remain very high for the foreseeable future, requiring extension of domestic maturities to help reduce rollover risks. The proposed issuance of a 7-year bond to replace maturing instruments is a step in the right direction and the authorities should seize opportunities to lengthen the maturity of domestic debt where possible.

**24. The authorities have made significant progress in improving PFM to contain fiscal risks and raise public sector efficiency.** A new PFM action plan recently submitted to Cabinet for approval outlines steps to address areas for improvement identified in the Public Expenditure and Financial Accountability (PEFA) assessment conducted in late 2016, including strengthening capital project selection, costing, and monitoring. The SOE Action Plan recently submitted to Cabinet for approval specifies measures to address weaknesses identified by TA from AFRITAC and the World Bank, such as implementation of full fiscal risk analysis of the SOE sector, quantification of the social costs incurred by the SOEs, enhancement of the financial reporting and the governance code of the SOEs, and reviewing of each SOE's role in the economy with a view to improving economic efficiency.

### Authorities' view

**25. The authorities agreed with the staff's policy advice.** They stressed that the SOEs are playing an important role in a small island country like Seychelles, but they intended to re-examine the role of each SOE which may lead to some streamlining in the future to enhance economic

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[15] See Country Report 17/51. The financial statements of the SOEs for 2016 are currently under audit and will be available in late May. Preliminary data indicate that majority of the SOEs recorded net profit in 2016, similarly to 2015.

efficiency. They pointed out that, while the Public Investment Manual (PIM) has been adopted, they face challenges in ensuring full compliance with the PIM. They may request a TA from the Fund on the PIM implementation.

## D. Preserving Price and External Stability

**26. CBS's primary monetary policy objective is price stability while its operations are anchored by reserve money targeting.** However, without a policy rate or actively functioning interbank and money market, volatility in short-term interest rates is high and there is uncertainty as to the correct rate to follow and at which to bid for open market instruments. The CBS is committed to a floating exchange rate policy. After building up an adequate level of reserve buffers by 2014, its foreign exchange interventions have been mostly confined to limiting excessive volatility.

**27. While these operational frameworks have worked well, structural excess liquidity in the banking system poses challenges to its conduct of monetary policy.** CPI inflation has been around or below 3 percent for most of the time since end-2013. Meanwhile, prospective import coverage of GIR has improved to 4 months now from less than 1 month at end-2008—at the time of the economic crisis. However, large foreign exchange purchases by the CBS during 2009–10, aimed at rebuilding reserves buffer, resulted in structural excess liquidity in the banking system. Starting in 2014, the CBS and the Ministry of Finance conducted a sterilization program by issuing Treasury bonds to mop up the excess liquidity, which resulted in a rapid increase in the level of government debt issued for monetary policy purposes.[16] Remaining excess liquidity, coupled with the absence of policy rate and under developed money markets, is likely to explain the weak monetary policy transmission mechanism estimated by the staff.[17]

**28. Although inflation and credit growth remain contained, the CBS should stand ready to tighten its policy stance, if needed, in coming months.** International fuel prices have been recovering since late 2016. Furthermore, with implementation of the 2016 SONA initiatives, pressures on inflation and credit growth could reemerge. Meanwhile, recently implemented increases in several excises in the 2017 budget and scheduled tariff adjustments in coming months could push up inflation later this year.[18] In this context, the CBS board decision to keep the monetary stance unchanged at its end-March meeting appears to be appropriate. The CBS should stand ready to tighten monetary policy in order to combat demand-pull inflationary pressures or second-round effects of the fuel import prices and the tariff and excise adjustments.

[16] Government debt for monetary policy purposes stands at around 16 percent of GDP as of end-2016.

[17] See Chapter VII of the Selected Issues paper.

[18] While the above-trend real GDP growth for the past several years indicate that the output gap is positive, it is unlikely to be significantly different from zero as of now given the absence of inflationary pressure so far.

**29. Progress has been made toward modernizing the monetary policy framework.** The CBS has received extensive TA from the Fund on monetary policy instruments, inflation and liquidity forecasting, and policy communication. The CBS intends to reintroduce an interest rate corridor around an appropriate policy rate starting in the third quarter of 2017. Such a policy framework would help provide guidance for other short-term interest rates and reduce their volatility, enhance development of interbank and money markets, and strengthen monetary policy transmission mechanisms.[19] A stronger monetary policy framework in which interest rates play a prominent role, and greater use of central bank securities would be especially helpful in unwinding monetary debt in the medium term. This will facilitate the reduction of government's domestic debt without exacerbating the liquidity issues in the banking system.

**30. Seychelles' external position is broadly consistent with fundamentals and desirable policies.** Although the EBA-lite approach results were inconclusive, other indicators like tourism market share and FDI inflows, point to a competitive external sector, despite some deterioration in doing business indicators (Box 4 and Chapter VI of the Selected Issues paper). Meanwhile, the GIR currently stands at around 170 percent of the relevant ARA metric. Given the Seychelles' perennial vulnerability to external shocks and natural disasters as a typical tourism-dependent small island economy, staff views that the current level of reserve coverage is adequate. In this context, the mission advises the CBS to maintain the flexible exchange rate policy and purchase foreign exchange to the extent necessary to preserve reserve coverage ratios at around the current level.

[19] See Chapter VIII of the Selected Issues paper.

### Box 4. External Sector Assessment

Staff's external sector assessment suggests that Seychelles' external position is broadly consistent with fundamentals and desirable policies. While the model-based estimates of the real exchange rate misalignment are inconclusive, the analysis of other indicators suggest that Seychelles remains competitive among its peers.

Immediate risks to external stability appear contained. The level of reserves stands at around 170 percent of the ARA-EM metrics, marking a steady improvement in comparison to the early post-crisis years (Figure 1). Currently, GIRs cover four months of prospective imports and exceed the amount of external public and private short-term debt.

Exchange rate assessment based on the EBA-lite approach gives mixed result. The external current account narrowed significantly over past few years but remains elevated. The current account model implies a sizable over valuation. However, the real effective exchange rate (REER) index model indicates a large undervaluation. This significant discrepancy could be explained by the limitations of the EBA-lite approach (both current account and REER models), which are reflected in a persistently poor fit of the panel estimation for small, tourism-dependent countries like Seychelles. With the tourism-related sectors accounting for about 30 percent of GDP, Seychelles is above the threshold set for special cases for external assessment. The import content of large FDI inflows also exaggerate the external current account deficit while small size and vulnerability to shocks limits the applicability of the REER model.

**Box Table. Estimated REER Misalignment[1]**

| | |
|---|---|
| Current account model | 22.1 |
| Real Effective exchange rate index model | -17.0 |

[1]In percent. Overvaluation (+), undervaluation (-).

To complement the EBA-lite approach, a qualitative approach is also applied by comparing Seychelles to a group of small island economies dependent on tourism (see Chapter VI of the Selected Issues paper). The tourism sector, the main source of foreign exchange earnings in Seychelles, has performed well in recent years. Seychelles' share in tourist arrivals among the small island tourism-dependent economies has been increasing strongly since early 2000s, though its share in tourism receipts has been stagnant in recent years. The less favorable performance in tourism receipts is due to the depreciation of the euro against the US dollar in recent years, as the most of Seychelles' tourism receipts are in euros. Inward FDIs to Seychelles largely followed a trend as those to peer countries.

The REER has been appreciating since end-2014 following a sharp depreciation. Continued REER appreciation could pose risks to Seychelles' competitiveness.

#### Authorities' view

31. **The authoriteis concurred with the staff's assessment and policy recommendations.** In particular, they view market determined exchange rates as a key tool for economic adjustment. Regarding monetary policy, they recogniz ed that further enhancement of liquidity management and better communications would play an important role in securing a successful transition to a new operational framework. They appreciated the Fund's ongoing TA activities on this front.

## E. Supporting Financial Stability

32. **While Seychelles has made significant progress in enhancing its prudential policy framework and safeguarding the offshore sector, its banking system is facing headwinds in**

**the context of global trends.** A Financial Stability Committee (FSC), whose mandate is to ensure financial stability, comprising members from the CBS, the Ministry of Finance, the Financial Services Authorities (FSA), and the Financial Intelligence Unit (FIU), became operational in March 2016 and meets every quarter.[20] While most of the foreign currency loans are hedged in Seychelles, the rise in unsecured lending is still a source of concern. Meanwhile, significant steps have been taken to improve governance in the offshore financial sector: the new International Business Corporations (IBC) Act took effect in late 2016, while the FIU has drafted a National Risks Assessment, which will form the basis for a strategy to tackle AML/CFT risks (¶11) and prepare for the mutual evaluation to be conducted by Eastern and South Africa Anti-Money Laundering Group (ESAAMLG) which will also start in June. Nonetheless, Seychelles' banks face pressures in maintaining CBRs amid trends toward withdrawal of CBRs, albeit that the loss of CBRs has been limited so far.

**33. The CBS is encouraged to continue efforts in strengthening its framework for macro prudential surveillance**. Forthcoming revisions to the CBS Act would allow the CBS to enforce micro and macro-prudential ratios including loan to value, debt to income, and debt service to income ratios to help address financial risks including a rise in unsecured lending. The transition to Basel II would also provide additional macro-prudential tools for the CBS. Meanwhile, MCM-LEG TA mission held in late 2016 pointed out that the legal framework for crisis management, bank resolution, and safety nets need to be strengthened and recommended that the related legal framework should be comprehensively reformed.

**34. The authorities should further step up efforts to enhance transparency of the offshore financial sector**. The authorities are currently working on an action plan to reduce financial sector risks and further loss of CBRs. The draft strategy focuses on ensuring that the banks' AML/CFT risk management and mitigation framework is in line with international standards, improving entity transparency in the offshore sector, and enhancing cooperation with relevant jurisdictions. It also includes measures to enhance information sharing at the regional level and to strengthen the capacity of respondent banks to comply with requests from global banks. The staff encouraged the authorities to enhance efforts at the regional/international level to make case for maintaining CBRs to global banks.

### Authorities' view

**35. While the authorities agreed with the staff's policy advice in general, they were very concerned about potential further loss of CBRs.** They noted that further loss of CBRs could precipitate the collapse of a small economy like Seychelles, and could jeopardize efforts to reduce poverty. They pointed out that the country has made substantial progress toward making AML/CFT regulations consistent with the international best practice but Seychelles cannot prevent further CBR loss by itself. They would appreciate it if the Fund/World Bank could be even more vocal on this issue. In this regard, the authorities indicated that they are organizing a stake-holders conference for small states to help clarify regulatory and economic issues related to CBRs and to strengthen advocacy.

[20] While the FSC has been operational, the amendment of the CBS Act would be required to make its legal underpinning complete.

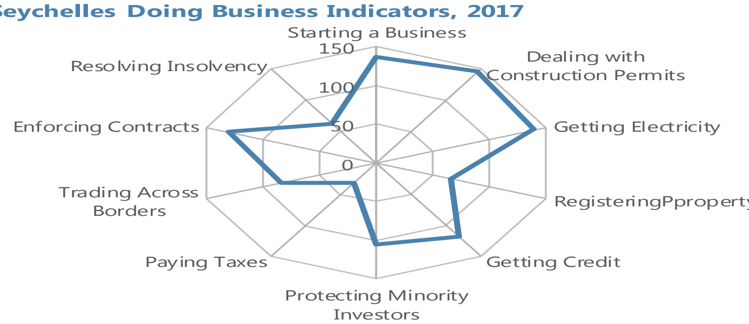
## F. Enhancing Inclusive Growth

**36. Seychelles' economy is centered around making the most of its marine natural resources.** The tourism-related sectors directly contribute about one-third of GDP, while, tourism receipts and canned tuna exports represent over half of the exports of goods and services. Meanwhile, a ceiling on yellow fin tuna catches which may be regionally imposed in coming months to help protect dwindling stocks could potentially stymie efforts to expand the contribution of fisheries to the economy.

**37. To enhance medium-term growth prospects and make growth more inclusive, Seychelles needs to continue its efforts to diversify the economy.** While recognizing that diversification in a small island economy will be challenging, the authorities' plan centers around deepening and diversifying tourism and upgrading the fishery industry under the "Blue Economy" initiatives.[21] The authorities plan to augment the domestic component of tourism-related activities, including promoting guesthouses and other tourism services provided by local small and medium-sized enterprises (SMEs). Such activities would help ensure that the benefits of growth are more widely distributed throughout the economy. Furthermore, there could be scope to improve the efficiency of education spending (see ¶17), which would enhance productivity and help reduce labor market mismatch. The planned major infrastructure development around the port in Victoria, together with the marine resource management project financed by the Blue Bond, would help upgrade the industrial fishing sector in a sustainable way.

**38. Economic diversification depends critically on improving the business climate.** Progress in this area is lagging—Seychelles fell from 80th to 93rd in the rankings for the World Bank's doing business indicators in the past three years. Electricity ranks unfavorably in particular, as businesses often complain that they are held back by the high cost of electricity, which results partly from cross-subsidies. Although the government indicated in the previous Article IV consultation its intention to reduce cross-subsidies over the next 8–10 years by annual electricity tariff adjustments (rebalancing adjustments), such adjustments did not take place during 2015–16. The staff urged the government to resume rebalancing adjustments to reduce cross-subsidies over the medium term. A CBS strategy to improve financial literacy, to be implemented by the end of 2017, would help make the financial sector contribute

**Seychelles Doing Business Indicators, 2017**




Source: World Bank Doing Business Indicators 2017.

[21] See Chapter IV of the Selected Issues paper for details.

more to inclusive growth. Public-private partnerships (PPP) would play a key role in upgrading infrastructure to improve the business climate. A draft PPP law has been approved by the cabinet and the authorities have drafted a PPP implementation manual and other documents to guide the operational aspects of PPP. The Development Committee has identified a pipeline of bankable PPP projects, including those on port development, transport, and housing. It would be important for the authorities to strengthen capacity to manage the fiscal risks arising from PPPs as they move towards implementation.

**Authorities' view**

39. **The authorities agreed with the staff's view.** Staff and the authorities agreed on the need to maintain momentum in structural reforms to enhance inclusive growth.

# OTHER ISSUES

40. **Seychelles' capacity to repay the Fund remain strong.** With ample international reserve buffers and prudent policies in place, the country's obligation to the Fund remain small relative to its exports and reserves (Table 6). Downside risks continue to stem from its perennial vulnerabilities to external shocks, as well as potential fiscal slippage beyond 2018 (see ¶8). Should such downside risks materialize, without additional measures in the 2018 budget, Seychelles' fiscal and external sustainability would be at risk, with potential implications for its capacity to repay the Fund. Although the President's party is weakened by its loss of control of the legislature, both the opposition and ruling party representatives indicated that they support the goals of the program when the mission met with them in the field. Both sides expressed willingness to support fiscal discipline, including streamlining public spending and strengthening revenue administration.

41. **Seychelles' macroeconomic data are broadly adequate to conduct surveillance, despite some weaknesses.** The authorities noted that there were still challenges in the production of quarterly national accounts, which would provide key information for the conduct of the monetary policy. They also raised concern about the quality of CPI statistics. The staff encouraged closer collaboration between relevant institutions, including NBS, SRC, and CBS, to enhance the quality of key source data for national accounts and BOP statistics. It urged the authorities to ensure that there is an adequate level of staffing for conducting the surveys and raw data collection that are needed to maintain quality statistics.

42. **The 2014 safeguards assessment update confirmed that the CBS has strengthened its governance and control framework.** The CBS continues to be subject to independent oversight and accountability by the Audit and Risk committee. The CBS is working on revising the CBS Act, and is taking steps to address capacity constraints in internal audit with the help of an external consultant.

# STAFF APPRAISAL

43. **The authorities have achieved economic stability and external sustainability under successive Fund arrangements.** Several years of fiscal discipline has led to a significant reduction

in the public debt. Anchored by prudent policies, the country has enjoyed strong economic growth and has built up reserve buffers to an adequate level. Seychelles was recently designated a high-income country by the World Bank, the first in the Sub-Saharan Africa region. The external position is broadly consistent with fundamentals and desirable policies. The accumulation and maintenance of an adequate level of reserves—an important achievement in the face of volatile external conditions—can act as an effective cushion against shocks, boosting resilience.

**44. Nevertheless, as a very small open economy dependent on tourism, Seychelles remains vulnerable to external developments**. The outlook for tourist arrivals remains highly susceptible to external developments, such as weak growth in advanced and emerging market economies, weakness in the Euro, and geopolitical tensions disrupting the Middle East, Africa, and Europe. Furthermore, the country is vulnerable to natural disasters and climate change over the long term. The authorities in Seychelles are acutely aware of these vulnerabilities and risks. In addition to actively developing multiple markets to diversify the tourism product and articulating a strategy to enhance resilience to climate change, they are also rightly focused on building macroeconomic buffers—in terms of robust debt dynamics and reserves—to manage the impact of shocks. These vulnerabilities highlight the central importance of continued macroeconomic discipline, sustained debt reduction, resilient financial sector, and preservation of adequate reserve coverage.

**45. The authorities should buttress the medium-term debt reduction target to safeguard the economic stability and external viability won through bold reforms implemented since the 2008 crisis.** Without additional measures in the 2018 budget, the primary surplus will be halved to 1½ percent of GDP in 2018 and thereafter. Under such a scenario, the authorities' target of bringing public debt-to-GDP ratio below 50 percent would be delayed by three years. Furthermore, the exchange rate and GIR would be under significant pressure. The authorities are urged to articulate permanent measures to be included in a 2018 budget to bring the primary surplus to 3 percent of GDP, with a view to shoring up the medium-term debt reduction goal. The list of possible revenue enhancing and expenditure streamlining measures discussed with the staff should be re-examined in the context of the 2018 budget. While the authorities prefer to target a primary surplus slightly lower than 3 percent of GDP from 2018 onwards, to facilitate infrastructure investment, they should explore ways to create further space to accommodate infrastructure building while preserving their debt reduction target. Meanwhile, the staff welcomes the progress made to improve PFM and strengthen the SOE sector. The authorities are encouraged to keep momentum on this front to minimize fiscal risks and enhance public sector efficiency.

**46. The authorities would need to create further fiscal space over the medium term beyond that required to secure the debt target to accommodate investments aimed at enhancing resilience to climate change.** The authorities' priority climate change mitigation and adaptation investments are estimated to cost over 40 percent of the 2016 GDP over the next 15–20 years. For the most part, financing of those investments is yet to be identified. This points to a need to enhance revenue further, beyond securing the primary surplus target of 3 percent of GDP from 2018 onwards, and to shift spending composition from current to capital expenditure over the medium term.

**47. The CBS should maintain its monetary policy stance and preserve international reserve coverage at around the current level.** Although inflation and credit growth remain constrained, pressures on inflation and credit growth could reemerge in coming months due to the recovering of international fuel prices and implementation of the 2016 SONA measures. In this context, the CBS should stand ready to tighten its policy stance if needed. While the exchange rate appears broadly in line with fundamentals and reserve buffer adequate, the CBS is advised to maintain the flexible exchange rate policy with minimal intervention to preserve reserve coverage ratios at around the current level. The staff welcomes the progress toward a stronger monetary policy framework in which interest rate play a prominent role.

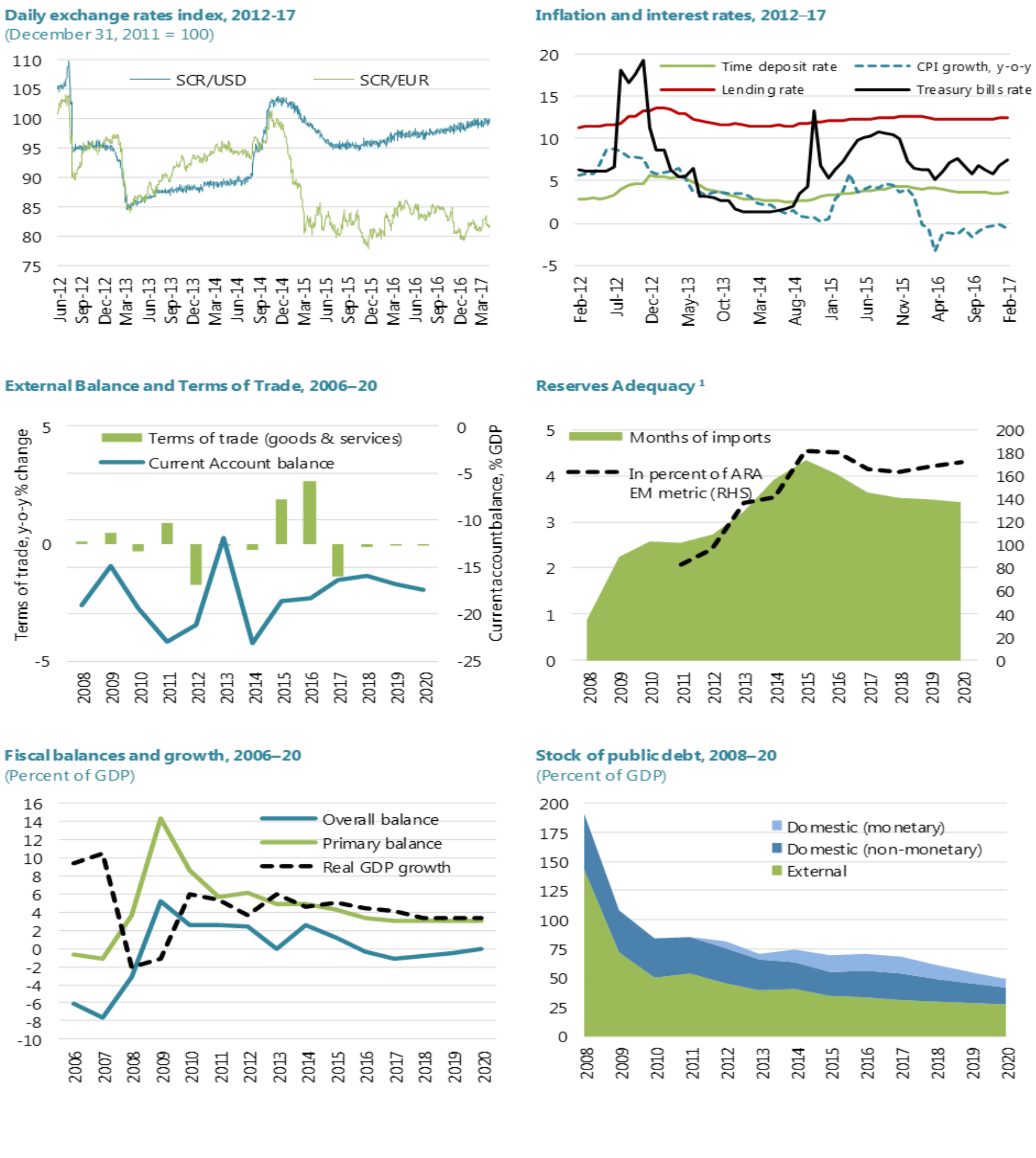
**48. The authorities should continue efforts to address the risks of further potential loss of CBRs.** Seychelles banking sector lost some CBRs in recent years, reflecting a global trend towards withdrawal of CBR and intense global scrutiny on AML/CFT issues. The authorities are urged to finalize plans to reduce financial sector risks and avoid further loss of CBRs, including effective implementation of the AML/CFT framework in line with international standards and enhancing entity transparency in the offshore sector. They are encouraged to enhance efforts at the regional/international level to make the case for maintaining CBRs by global banks.

**49. Sustained and inclusive growth in Seychelles will require further structural reforms to diversify the economy.** The authorities' plan to deepen and diversify tourism and upgrade the fishery industry under the "Blue Economy" initiatives could help ensure that the fruits of economic growth are shared more widely throughout the economy. Economic diversification requires improving the business environment. Reducing cross-subsidization in electricity prices in a steadfast way would enable the private sector to be more competitive and foster growth. Efficient use of PPPs would contribute to upgrading infrastructure to improve the business climate, as well as creating space for the government priority investments in climate change mitigation and adaptation in the medium term. Finally, accelerating investments in education would help raise productivity and address skills mismatch in the labor market, which would go a long way toward promoting shared prosperity.

**50. Data are broadly adequate for surveillance.** The authorities would need to step up efforts to improve the quality of national account and price data, where the country has some long-standing weaknesses. It is essential to ensure that there is adequate level of staffing for conducting the surveys and raw data collection that are needed to maintain quality statistics.

**51. 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 sixth and final review under the Extended Arrangement**. It is proposed that the next Article IV consultation with Seychelles take place within 24 months in accordance with the Decision on Article IV Consultation Cycles.

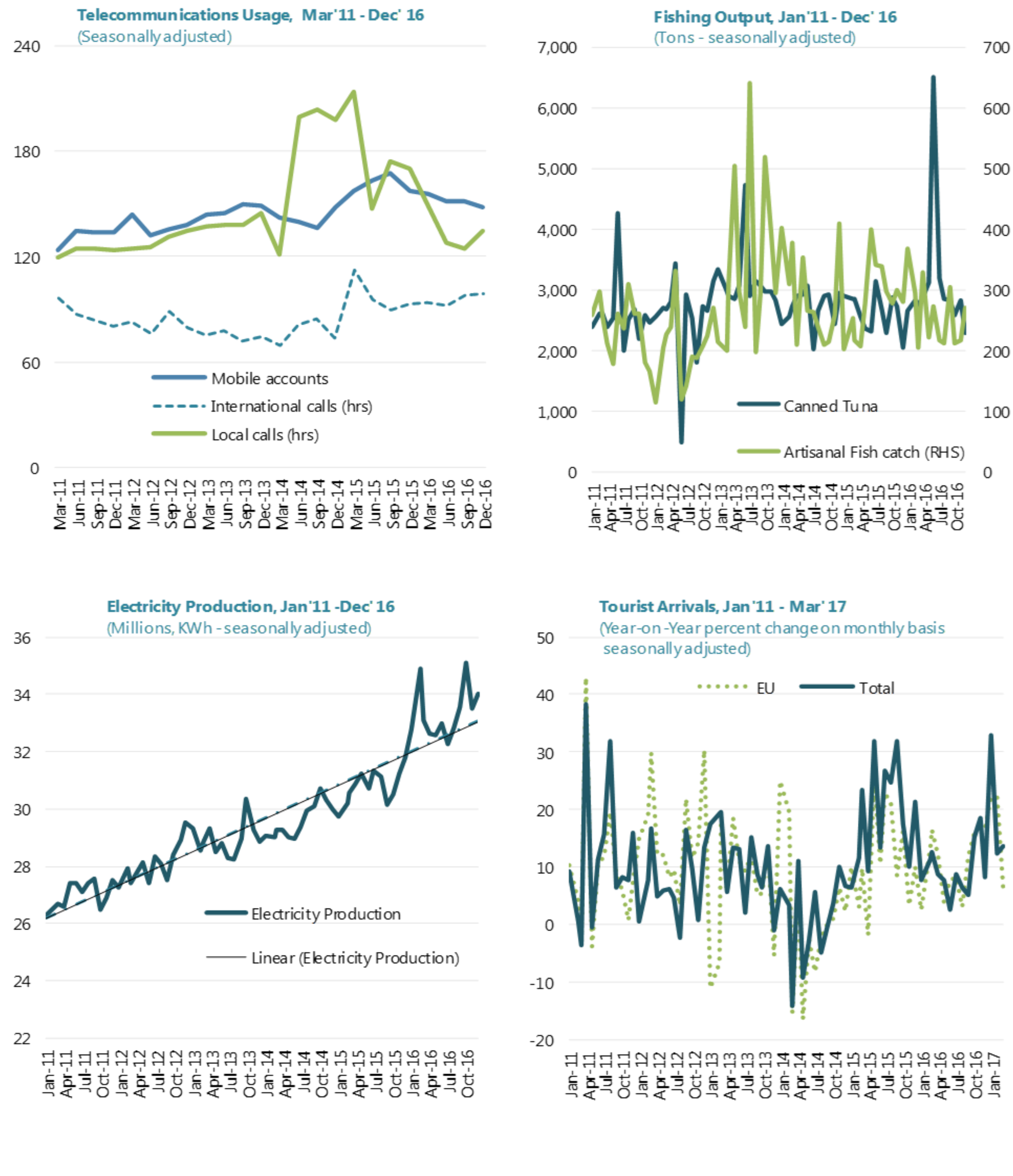
## Figure 1. Seychelles: Macroeconomic Developments and Projects




Sources: Seychelles authorities; and IMF staff estimates.

[1] Data for the ARA EM metric are not available prior to 2011.

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




Sources: Seychelles authorities; and IMF staff estimates.

## Table 1. Seychelles: Balance of Payments, 2014–22

| | 2014 Est. | 2015 Est. | 2016 Proj. | 2017 Proj. | 2018 Proj. | 2019 Proj. | 2020 Proj. | 2021 Proj. | 2022 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| Current account balance (+ surplus; - deficit) | -310 | -256 | -263 | -240 | -246 | -275 | -302 | -333 | -341 |
| (percent of GDP) | -23.1 | -18.6 | -18.4 | -16.4 | -15.9 | -16.8 | -17.4 | -18.3 | -17.8 |
| Balance of goods and services (+ surplus; - deficit) | -211 | -124 | -143 | -131 | -156 | -177 | -207 | -249 | -261 |
| Exports of goods | 539 | 449 | 459 | 517 | 536 | 557 | 590 | 626 | 663 |
| *Of which:* oil re-exports | 193 | 147 | 131 | 178 | 186 | 192 | 203 | 217 | 233 |
| *Of which:* tuna exports | 318 | 239 | 270 | 279 | 287 | 298 | 317 | 336 | 353 |
| Imports of goods | 1,081 | 922 | 973 | 1,034 | 1,087 | 1,136 | 1,193 | 1,281 | 1,343 |
| *Of which:* oil imports | 282 | 170 | 162 | 242 | 276 | 279 | 295 | 315 | 316 |
| FDI-related | 91 | 80 | 60 | 48 | 41 | 52 | 55 | 93 | 92 |
| grants- and loans-related | 84 | 63 | 95 | 96 | 89 | 86 | 94 | 84 | 90 |
| other | 624 | 609 | 657 | 649 | 682 | 719 | 750 | 790 | 844 |
| Exports of services | 834 | 848 | 879 | 909 | 927 | 948 | 969 | 996 | 1,028 |
| *Of which:* tourism earnings[1] | 398 | 393 | 414 | 428 | 436 | 446 | 457 | 470 | 485 |
| Imports of services | 504 | 498 | 508 | 523 | 532 | 545 | 572 | 590 | 610 |
| Balance on primary income (+ surplus; - deficit) | -102 | -105 | -112 | -81 | -67 | -72 | -70 | -61 | -54 |
| *Of which:* interest due | 42 | 27 | 41 | 35 | 34 | 37 | 39 | 41 | 39 |
| transfers of profits and dividends | 16 | 18 | 19 | 18 | 16 | 17 | 18 | 19 | 19 |
| Balance on secondary income (+ surplus; - deficit) | 3 | -27 | -8 | -28 | -23 | -26 | -26 | -24 | -25 |
| *Of which:* general government, net | 57 | 38 | 49 | 29 | 27 | 27 | 27 | 27 | 27 |
| Capital account | 39 | 37 | 57 | 56 | 44 | 36 | 24 | 23 | 24 |
| Financial account | 258 | 279 | 153 | 151 | 208 | 266 | 308 | 323 | 337 |
| Direct investment, net [1] | 216 | 148 | 91 | 78 | 73 | 85 | 89 | 140 | 139 |
| Abroad | -71 | -5 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| In Seychelles | 145 | 144 | 101 | 88 | 83 | 95 | 99 | 151 | 150 |
| *Of which:* offshore sector | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Portfolio investment, net | -13 | 36 | -50 | -42 | -12 | 18 | 58 | 69 | 62 |
| Other investment, net | 55 | 94 | 111 | 115 | 146 | 164 | 160 | 115 | 137 |
| Government and government-guaranteed | 22 | -14 | -25 | 10 | 18 | 12 | 26 | 9 | 11 |
| Disbursements | 21 | 0 | 5 | 37 | 44 | 41 | 63 | 52 | 59 |
| Project loans | 3 | 0 | 5 | 27 | 34 | 41 | 63 | 52 | 59 |
| Program loans | 27 | 10 | 10 | 10 | 10 | 0 | 0 | 0 | 0 |
| Amortization | -16 | -24 | -44 | -36 | -35 | -38 | -46 | -52 | -56 |
| Private sector [2] | 32 | 108 | 136 | 105 | 128 | 152 | 134 | 106 | 125 |
| Net errors and omissions | 50 | 12 | 39 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 36 | 72 | -53 | -33 | 5 | 27 | 29 | 13 | 20 |
| Financing | -36 | -72 | 14 | 33 | -5 | -27 | -29 | -13 | -19 |
| Change in net international reserves (increase: –) | -36 | -72 | 14 | 33 | -5 | -27 | -29 | -13 | -20 |
| Change in gross official reserves (increase: –) | -38 | -74 | 14 | 31 | 1 | -20 | -22 | -7 | -15 |
| Liabilities to IMF, net | 1 | 2 | -1 | 2 | -6 | -7 | -7 | -6 | -5 |
| Other net foreign assets (increase: –) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Exceptional financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 39 | 0 | 0 | 0 | 0 | 0 | -1 |
| *Memorandum items:* | | | | | | | | | |
| Exports G&S growth, percent | 9.2 | -5.5 | 3.1 | 6.6 | 2.6 | 2.8 | 3.6 | 4.1 | 4.3 |
| Tourism growth, percent | -7.6 | -1.2 | 5.3 | 3.5 | 1.9 | 2.3 | 2.3 | 3.0 | 3.2 |
| Exports of goods volume growth, percent | -4.8 | -12.1 | 8.7 | 2.8 | 2.9 | 3.5 | 4.6 | 4.7 | 4.3 |
| Imports G&S growth, percent | 17.5 | -10.3 | 4.2 | 5.1 | 4.0 | 3.8 | 5.0 | 6.0 | 4.4 |
| Imports of goods volume growth, percent | 8.6 | 2.0 | 13.1 | -2.4 | 4.4 | 4.2 | 4.4 | 6.4 | 3.9 |
| Exports G&S, percent of GDP | 102 | 94 | 94 | 97 | 95 | 92 | 90 | 89 | 88 |
| Imports G&S, percent of GDP | 118 | 103 | 104 | 106 | 105 | 103 | 102 | 102 | 102 |
| FDI, percent of GDP [3] | -16.1 | -10.8 | -6.4 | -5.3 | -4.7 | -5.2 | -5.2 | -7.7 | -7.2 |
| Gross official reserves (stock, e.o.p.) | 463 | 537 | 523 | 492 | 491 | 512 | 534 | 541 | 556 |
| *Of which:* program definition [4] | 433 | 507 | 492 | 462 | 461 | 481 | 504 | 511 | 526 |
| (Months of imports of goods & services) | 3.9 | 4.3 | 4.0 | 3.6 | 3.5 | 3.5 | 3.4 | 3.3 | 3.3 |
| Percentage of IMF reserve adequacy metric | 142 | 182 | 181 | 166 | 163 | 168 | 172 | 171 | 173 |
| debt | 501 | 475 | 442 | 446 | 449 | 445 | 456 | 450 | 447 |
| (Percent of GDP) | 37.3 | 34.5 | 31.0 | 30.4 | 29.0 | 27.2 | 26.3 | 24.6 | 23.4 |
| GDP | 1,343 | 1,377 | 1,429 | 1,467 | 1,547 | 1,637 | 1,735 | 1,826 | 1,915 |

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

[1] 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

[2] Includes parastatals for which data are available.

[3] Per STA recommendations, renewals of off-shore licenses are excluded.

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

## Table 2. Seychelles: Consolidated Government Operations, 2014–22 [1]

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | Prel. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Millions of Seychelles rupees) | | | | | | | | |
| Total revenue and grants | 6,413 | 6,276 | 7,205 | 8,175 | 8,315 | 8,679 | 9,055 | 9,661 | 10,271 |
| Total revenue | 5,870 | 6,132 | 6,965 | 7,527 | 7,846 | 8,327 | 8,859 | 9,482 | 10,078 |
| Tax | 5,294 | 5,557 | 6,188 | 6,574 | 6,835 | 7,255 | 7,719 | 8,269 | 8,790 |
| Personal income tax | 878 | 948 | 939 | 898 | 806 | 874 | 940 | 1,006 | 1,071 |
| Trade tax | 376 | 326 | 359 | 335 | 354 | 371 | 391 | 458 | 480 |
| Excise tax | 858 | 962 | 1,144 | 1,258 | 1,475 | 1,558 | 1,653 | 1,768 | 1,881 |
| Goods and services tax (GST) / VAT [2] | 1,803 | 1,803 | 1,996 | 2,125 | 2,272 | 2,409 | 2,562 | 2,725 | 2,899 |
| Business tax [3] | 782 | 757 | 1,039 | 1,019 | 1,210 | 1,283 | 1,364 | 1,451 | 1,544 |
| Corporate Social Responsibility Tax (CSR) [3] | 84 | 79 | 87 | 91 | 97 | 103 | 109 | 116 | 124 |
| Marketing Tourism Tax (MTT) [3] | 40 | 45 | 45 | 61 | 65 | 69 | 73 | 78 | 83 |
| Other | 472 | 637 | 581 | 788 | 556 | 589 | 626 | 666 | 709 |
| Nontax | 576 | 575 | 777 | 952 | 1,011 | 1,072 | 1,140 | 1,213 | 1,288 |
| Fees and charges | 347 | 322 | 403 | 469 | 498 | 528 | 561 | 597 | 633 |
| Dividends from parastatals | 151 | 228 | 330 | 429 | 456 | 483 | 514 | 547 | 582 |
| Other | 78 | 25 | 44 | 55 | 58 | 61 | 65 | 69 | 73 |
| External grants | 543 | 144 | 240 | 648 | 468 | 351 | 196 | 179 | 194 |
| Expenditure and net lending | 5,981 | 6,057 | 7,277 | 8,394 | 8,500 | 8,780 | 9,071 | 9,539 | 10,032 |
| Current expenditure | 4,798 | 5,130 | 6,295 | 6,712 | 6,966 | 7,208 | 7,459 | 7,713 | 8,010 |
| Primary current expenditure | 4,393 | 4,566 | 5,581 | 5,891 | 6,135 | 6,427 | 6,723 | 7,070 | 7,436 |
| Wages and salaries [4] | 1,229 | 1,753 | 2,002 | 2,223 | 2,284 | 2,344 | 2,414 | 2,486 | 2,560 |
| Goods and services [4] | 1,288 | 2,126 | 2,489 | 2,561 | 2,719 | 2,883 | 3,035 | 3,228 | 3,434 |
| Transfers [4] | 1,855 | 659 | 1,063 | 1,072 | 1,096 | 1,161 | 1,233 | 1,312 | 1,396 |
| Social program of central government | 343 | 79 | 130 | 132 | 141 | 148 | 157 | 167 | 177 |
| Transfers to public sector from central government | 1,070 | 123 | 80 | 60 | 63 | 67 | 71 | 75 | 80 |
| Benefits and programs of Social Security Fund | 442 | 458 | 853 | 880 | 892 | 946 | 1,006 | 1,070 | 1,138 |
| Other | 21 | 29 | 27 | 35 | 37 | 39 | 41 | 44 | 46 |
| Interest due | 404 | 564 | 714 | 821 | 831 | 781 | 736 | 643 | 574 |
| Foreign interest | 175 | 181 | 190 | 212 | 204 | 250 | 265 | 288 | 265 |
| Domestic interest | 229 | 383 | 524 | 609 | 627 | 531 | 471 | 356 | 309 |
| Capital expenditure | 1,011 | 801 | 909 | 1,447 | 1,339 | 1,334 | 1,369 | 1,439 | 1,611 |
| Domestically financed | 656 | 651 | 644 | 667 | 708 | 751 | 893 | 1,030 | 1,083 |
| Foreign financed | 355 | 150 | 265 | 780 | 631 | 584 | 476 | 409 | 528 |
| Net lending | 120 | 77 | 35 | 210 | 160 | 200 | 203 | 345 | 366 |
| Contingency | 53 | 49 | 38 | 25 | 35 | 37 | 39 | 42 | 45 |
| Primary balance | 836 | 783 | 642 | 603 | 645 | 680 | 720 | 766 | 813 |
| Overall balance, commitment basis [5] | 431 | 219 | -72 | -219 | -186 | -101 | -16 | 122 | 239 |
| Change in float | -70 | -48 | -201 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance, cash basis (after grants) | 361 | 171 | -273 | -219 | -186 | -101 | -16 | 122 | 239 |
| Financing | -361 | -171 | 273 | 219 | 186 | 101 | 16 | -122 | -239 |
| Foreign financing | 8 | -84 | -304 | 19 | 130 | 43 | 240 | -2 | 49 |
| Disbursements | 230 | 102 | 287 | 512 | 605 | 563 | 873 | 724 | 831 |
| Project loans | 4 | 6 | 25 | 375 | 468 | 563 | 873 | 724 | 831 |
| Program/budget support | 226 | 96 | 262 | 137 | 137 | 0 | 0 | 0 | 0 |
| Scheduled amortization | -222 | -186 | -591 | -493 | -475 | -520 | -633 | -727 | -796 |
| Of which Paris Club buy-back | ... | ... | -269 | ... | ... | | | | |
| Domestic financing, net | -412 | 130 | 578 | 99 | -147 | 58 | -224 | -120 | -288 |
| Bank financing | -873 | -172 | 389 | 89 | -132 | 52 | -202 | -108 | -259 |
| CBS | -1,076 | -488 | -191 | 0 | 450 | 650 | 600 | 200 | 200 |
| Commercial banks | 203 | 316 | 579 | 89 | -582 | -598 | -802 | -308 | -459 |
| Nonbank financing | 461 | 302 | 190 | 10 | -15 | 6 | -22 | -12 | -29 |
| Privatization and long-term lease of fixed assets | 77 | 46 | 76 | 101 | 202 | 0 | 0 | 0 | 0 |
| Transfer of SSF deposits to SPF | ... | -176 | ... | ... | ... | | | | |
| Statistical discrepancy | -34 | -86 | -77 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum item:* | | | | | | | | | |
| Pension Fund contribution | 180 | 196 | 251 | 210 | 220 | 231 | 242 | 255 | 268 |
| Pension Fund benefits payment | 77 | 85 | 91 | 160 | 174 | 189 | 206 | 224 | 244 |
| Pension Fund operating expenses | 21 | 36 | 37 | 31 | 33 | 34 | 36 | 37 | 39 |
| External debt service due | 397 | 367 | 781 | 705 | 679 | 770 | 898 | 1,014 | 1,062 |

Sources: Seychelles authorities; and IMF staff estimates and projections.

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

[2] VAT replaced GST in January 2013.

[3] CSR and MTT were subsumed into Business Tax in CR 14/186.

[4] From 2015 onwards, wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

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

## Table 2. Seychelles: Consolidated Government Operations, 2014–22[1] (Concluded)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | Prel. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Percent of GDP) | | | | | | | | |
| Total revenue and grants | 37.5 | 34.2 | 37.9 | 40.8 | 39.1 | 38.5 | 37.8 | 37.9 | 37.9 |
| Total revenue | 34.3 | 33.4 | 36.6 | 37.6 | 36.9 | 36.9 | 37.0 | 37.2 | 37.2 |
| Tax | 30.9 | 30.3 | 32.5 | 32.8 | 32.1 | 32.2 | 32.2 | 32.4 | 32.4 |
| Personal income tax | 5.1 | 5.2 | 4.9 | 4.5 | 3.8 | 3.9 | 3.9 | 3.9 | 3.9 |
| Trade tax | 2.2 | 1.8 | 1.9 | 1.7 | 1.7 | 1.6 | 1.6 | 1.8 | 1.8 |
| Excise tax | 5.0 | 5.2 | 6.0 | 6.3 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 |
| Goods and services tax (GST) / VAT [2] | 10.5 | 9.8 | 10.5 | 10.6 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 |
| Business tax | 4.6 | 4.1 | 5.5 | 5.1 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| Corporate Social Responsibility Tax (CSR) | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Marketing Tourism Tax (MTT) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other | 2.8 | 3.5 | 3.1 | 3.9 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| Nontax | 3.4 | 3.1 | 4.1 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.7 |
| Fees and charges | 2.0 | 1.8 | 2.1 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Dividends from parastatals | 0.9 | 1.2 | 1.7 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Other | 0.5 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| External grants | 3.2 | 0.8 | 1.3 | 3.2 | 2.2 | 1.6 | 0.8 | 0.7 | 0.7 |
| Expenditure and net lending | 34.9 | 33.0 | 38.2 | 41.9 | 40.0 | 39.0 | 37.8 | 37.4 | 37.0 |
| Current expenditure | 28.0 | 28.0 | 33.1 | 33.5 | 32.8 | 32.0 | 31.1 | 30.2 | 29.5 |
| Primary current expenditure | 25.7 | 24.9 | 29.3 | 29.4 | 28.9 | 28.5 | 28.0 | 27.7 | 27.4 |
| Wages and salaries [3] | 7.2 | 9.6 | 10.5 | 11.1 | 10.7 | 10.4 | 10.1 | 9.7 | 9.4 |
| Goods and services [3] | 7.5 | 11.6 | 13.1 | 12.8 | 12.8 | 12.8 | 12.7 | 12.7 | 12.7 |
| Transfers [3] | 10.8 | 3.6 | 5.6 | 5.4 | 5.2 | 5.1 | 5.1 | 5.1 | 5.1 |
| Social program of central government | 2.0 | 0.4 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Transfers to public sector from central government | 6.2 | 0.7 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Benefits and programs of Social Security Fund | 2.6 | 2.5 | 4.5 | 4.4 | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| Other | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Interest due | 2.4 | 3.1 | 3.8 | 4.1 | 3.9 | 3.5 | 3.1 | 2.5 | 2.1 |
| Foreign interest | 1.0 | 1.0 | 1.0 | 1.1 | 1.0 | 1.1 | 1.1 | 1.1 | 1.0 |
| Domestic interest | 1.3 | 2.1 | 2.8 | 3.0 | 2.9 | 2.4 | 2.0 | 1.4 | 1.1 |
| Capital expenditure | 5.9 | 4.4 | 4.8 | 7.2 | 6.3 | 5.9 | 5.7 | 5.6 | 5.9 |
| Domestically financed | 3.8 | 3.6 | 3.4 | 3.3 | 3.3 | 3.3 | 3.7 | 4.0 | 4.0 |
| Foreign financed | 2.1 | 0.8 | 1.4 | 3.9 | 3.0 | 2.6 | 2.0 | 1.6 | 1.9 |
| Net lending | 0.7 | 0.4 | 0.2 | 1.0 | 0.8 | 0.9 | 0.8 | 1.4 | 1.3 |
| Contingency | 0.3 | 0.3 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Primary balance | 4.9 | 4.3 | 3.4 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Overall balance, commitment basis [4] | 2.5 | 1.2 | -0.4 | -1.1 | -0.9 | -0.4 | -0.1 | 0.5 | 0.9 |
| Change in arrears | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in float | -0.4 | -0.3 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis (after grants) | 2.1 | 0.9 | -1.4 | -1.1 | -0.9 | -0.4 | -0.1 | 0.5 | 0.9 |
| Financing | -2.1 | -0.9 | 1.4 | 1.1 | 0.9 | 0.4 | 0.1 | -0.5 | -0.9 |
| Foreign financing | 0.0 | -0.5 | -1.6 | 0.1 | 0.6 | 0.2 | 1.0 | 0.0 | 0.2 |
| Disbursements | 1.3 | 0.6 | 1.5 | 2.6 | 2.8 | 2.5 | 3.6 | 2.8 | 3.1 |
| Project loans | 0.0 | 0.0 | 0.1 | 1.9 | 2.2 | 2.5 | 3.6 | 2.8 | 3.1 |
| Program/budget support | 1.3 | 0.5 | 1.4 | 0.7 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Scheduled amortization | -1.3 | -1.0 | -3.1 | -2.5 | -2.2 | -2.3 | -2.6 | -2.9 | -2.9 |
| Of which Paris Club buy-back | ... | ... | -1.4 | ... | ... | | | | |
| Domestic financing, net | -2.4 | 0.7 | 3.0 | 0.5 | -0.7 | 0.3 | -0.9 | -0.5 | -1.1 |
| Bank financing | -5.1 | -0.9 | 2.0 | 0.4 | -0.6 | 0.2 | -0.8 | -0.4 | -1.0 |
| CBS | -6.3 | -2.7 | -1.0 | 0.0 | 2.1 | 2.9 | 2.5 | 0.8 | 0.7 |
| Commercial banks | 1.2 | 1.7 | 3.0 | 0.4 | -2.7 | -2.7 | -3.3 | -1.2 | -1.7 |
| Nonbank | 2.7 | 1.6 | 1.0 | 0.0 | -0.1 | 0.0 | -0.1 | 0.0 | -0.1 |
| Privatization and long-term lease of fixed assets | 0.5 | 0.3 | 0.4 | 0.5 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfer of SSF deposits to SPF | ... | -1.0 | ... | ... | ... | | | | |
| Statistical discrepancy | -0.2 | -0.5 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | |
| Nominal GDP (millions of Seychelles Rupees) | 17,119 | 18,336 | 19,033 | 20,022 | 21,259 | 22538.9 | 23969.0 | 25498.1 | 27123.5 |
| Transfer of assets of SSF to SPF | | | | | | | | | |
| Pension Fund contribution | 1.1 | 1.1 | 1.3 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Pension Fund benefits payment | 0.4 | 0.5 | 0.5 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |
| Pension Fund operating expenses | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Public domestic debt (% GDP) [5] | 31.7 | 32.9 | 36.8 | 35.5 | 30.6 | 26.2 | 21.2 | 18.7 | 15.8 |
| Excluding t-bills issued for monetary purposes | 20.7 | 19.5 | 20.6 | 20.1 | 18.3 | 17.5 | 15.5 | 14.1 | 12.2 |
| Publicly guaranteed domestic debt (% GDP) | 1.8 | 1.9 | 3.4 | 3.4 | 2.9 | 2.5 | 2.2 | 2.2 | 2.2 |

Sources: Seychelles authorities and IMF staff estimates and projections.

1 Includes the central government and the social security system.

2 VAT replaced GST in January 2013.

3 From 2015 onwards, wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

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

5 Includes debt issued by the Ministry of Finance for monetary purposes, excludes guarantees.

## Table 3. Seychelles: Monetary Survey and Central Bank Accounts, 2014–17

| | 2014 | 2015 | 2016 | 2017 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Mar. | Jun. | Sep. | Dec. |
| | Est. | Est. | Est. | Proj. | Proj. | Proj. | Proj. |
| | (Millions of Seychelles rupees) | | | | | | |
| **Monetary survey** | | | | | | | |
| Net foreign assets | 9,657 | 9,349 | 9,817 | 10,163 | 10,123 | 9,869 | 9,497 |
| Central bank | 5,906 | 6,506 | 6,550 | 6,883 | 6,658 | 6,569 | 6,179 |
| Deposit money banks | 3,751 | 2,844 | 3,267 | 3,280 | 3,465 | 3,299 | 3,319 |
| Net domestic assets | 2,169 | 2,823 | 3,831 | 3,662 | 3,879 | 4,311 | 4,859 |
| Domestic credit | 5,818 | 6,229 | 7,110 | 7,126 | 7,169 | 7,462 | 7,723 |
| Net claims on the government | 1,414 | 1,309 | 1,791 | 1,791 | 1,791 | 1,796 | 1,871 |
| Credit to the economy | 4,404 | 4,920 | 5,319 | 5,335 | 5,379 | 5,667 | 5,852 |
| *Of which*: credit to the private sector | 4,307 | 4,644 | 5,122 | 5,138 | 5,181 | 5,469 | 5,654 |
| Other items, net | -3,649 | -3,406 | -3,279 | -3,464 | -3,290 | -3,151 | -2,863 |
| Broad money | 11,825 | 12,173 | 13,648 | 13,825 | 14,002 | 14,180 | 14,357 |
| Currency in circulation | 874 | 932 | 1,026 | 925 | 945 | 968 | 1,080 |
| Foreign currency deposits | 4,950 | 4,732 | 5,029 | 5,069 | 5,278 | 5,343 | 5,408 |
| Local currency deposits | 6,002 | 6,509 | 7,592 | 7,831 | 7,779 | 7,869 | 7,869 |
| **Central bank** | | | | | | | |
| Net foreign assets | 5,906 | 6,506 | 6,550 | 6,883 | 6,658 | 6,569 | 6,179 |
| Foreign assets | 6,498 | 7,062 | 7,059 | 7,450 | 7,231 | 7,137 | 6,751 |
| Foreign liabilities | 592 | 556 | 508 | 567 | 573 | 567 | 572 |
| Net domestic assets | -3,519 | -3,892 | -3,558 | -3,878 | -3,581 | -3,490 | -3,071 |
| Domestic credit | -2,475 | -3,301 | -2,855 | -3,135 | -2,816 | -2,700 | -2,247 |
| Government (net) | -1,491 | -1,979 | -2,170 | -2,170 | -2,170 | -2,165 | -2,170 |
| Commercial banks | -885 | -1,180 | -610 | -890 | -571 | -460 | -2 |
| Other (parastatals) | -100 | -142 | -75 | -75 | -75 | -75 | -75 |
| Other items, net | -1,044 | -591 | -703 | -744 | -765 | -791 | -824 |
| Reserve money | 2,388 | 2,614 | 2,992 | 3,005 | 3,077 | 3,079 | 3,108 |
| Currency in circulation | 874 | 932 | 1,026 | 925 | 945 | 968 | 1,080 |
| Commercial bank reserves (includes cash in vault) | 1,514 | 1,682 | 1,966 | 2,080 | 2,132 | 2,111 | 2,028 |
| *Of which*: vault cash | 144 | ... | ... | ... | ... | ... | ... |
| *Of which*: excess reserves (excl. bank vault cash) | -71 | ... | ... | ... | ... | ... | ... |
| *Of which*: required reserves in foreign currency [1,2] | 555 | 654 | 703 | 708 | 738 | 747 | 756 |
| required reserves in domestic currency [2] | 886 | 930 | 1,061 | 1,112 | 1,106 | 1,119 | 1,120 |
| *Memorandum items:* | | | | | | | |
| Gross international reserves (millions of U.S. dollars) [3] | 463 | 537 | 523 | 549 | 531 | 522 | 492 |
| Foreign currency deposits (millions of U.S. dollars) | 353 | 360 | 372 | 374 | 388 | 391 | 394 |
| Broad money growth (12–month percent change) | 26.6 | 2.9 | 12.1 | 6.5 | 10.0 | 6.5 | 5.2 |
| Credit to the private sector (12–month percent change) | 26.2 | 7.8 | 10.3 | 8.3 | 8.7 | 9.5 | 10.4 |
| Reserve money (end-of-period; 12–month percent change) | 13.9 | 9.5 | 14.5 | 11.5 | 9.4 | 7.1 | 3.9 |
| Reserve money (daily average over quarter; 12–month perce | -14.5 | 7.2 | 12.6 | 8.5 | 9.3 | 7.3 | 1.9 |
| Money multiplier (broad money/reserve money) | 5.0 | 4.7 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| Velocity (GDP/broad money; end-of-period) | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |

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

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

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

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

## Table 4. Seychelles: Financial Soundness Indicators for the Banking Sector, 2012Q4–2016Q4[1]

| | 2012 | 2013 | 2014 | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q4 | Q4 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | (Percent, end-of-period) | | | | | | | | | | |
| **Capital adequacy** | | | | | | | | | | | |
| Regulatory capital to risk weighted assets | 26.7 | 26.7 | 21.7 | 23.3 | 23.3 | 24.8 | 25.5 | 26.2 | 25.2 | 25.2 | 26.6 |
| Regulatory tier 1 capital to risk weighted assets | 19.3 | 21.0 | 16.3 | 16.4 | 18.9 | 19.6 | 18.1 | 17.4 | 20.9 | 20.9 | 20.4 |
| Capital to assets (net worth) | 10.3 | 9.7 | 8.5 | 9.5 | 10.2 | 11.3 | 11.0 | 11.2 | 11.3 | 11.3 | 11.8 |
| Net tangible capitalization [2] | 10.4 | 9.8 | 8.6 | 9.6 | 10.4 | 11.5 | 11.2 | 11.4 | 11.5 | 11.5 | 12.0 |
| **Asset quality** | | | | | | | | | | | |
| Foreign exchange loans to total loans | 18.7 | 18.7 | 23.8 | 26.0 | 26.3 | 26.6 | 28.6 | 28.6 | 27.0 | 27.0 | 25.0 |
| Non-performing loans to gross loans | 9.3 | 9.4 | 8.2 | 7.1 | 7.2 | 7.7 | 7.6 | 8.5 | 7.8 | 7.8 | 6.8 |
| Provision as percentage of non-performing loans | 29.5 | 39.2 | 43.9 | 46.0 | 45.5 | 42.0 | 41.1 | 37.2 | 40.7 | 40.7 | 37.4 |
| Provisions as percentage of total loans | 2.7 | 3.7 | 3.6 | 3.3 | 3.3 | 3.2 | 3.1 | 3.2 | 3.2 | 3.2 | 2.5 |
| **Earnings and profitability** | | | | | | | | | | | |
| Return on assets (annualized) | 3.1 | 1.9 | 3.3 | 3.5 | 3.2 | 4.6 | 3.8 | 4.0 | 3.8 | 3.8 | 3.8 |
| Return on equity (annualized) | 29.8 | 19.6 | 38.2 | 37.5 | 32.1 | 41.5 | 34.7 | 35.1 | 34.8 | 34.8 | 32.7 |
| Interest margin to gross income | 62.7 | 56.6 | 57.5 | 56.9 | 61.7 | 67.3 | 60.1 | 59.4 | 63.4 | 63.4 | 62.7 |
| Noninterest expense to gross income | 56.6 | 65.1 | 50.3 | 43.7 | 43.2 | 42.1 | 52.9 | 43.4 | 45.7 | 45.7 | 45.5 |
| Net interest margin (annualized) [3] | 4.1 | 3.2 | 2.8 | 3.4 | 3.8 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.6 |
| Net noninterest margin (annualized ) [4] | 0.0 | -0.4 | 0.0 | -0.2 | -0.3 | -0.4 | -0.4 | -0.2 | -0.6 | -0.6 | -1.0 |
| Expense to income | 46.4 | 54.5 | 52.6 | 50.6 | 51.1 | 50.1 | 50.3 | 49.9 | 51.9 | 51.9 | 55.2 |
| Interest expense to gross income | 11.8 | 15.3 | 10.7 | 11.5 | 11.2 | 11.0 | 11.1 | 12.9 | 13.0 | 13.0 | 10.7 |
| **Liquidity** | | | | | | | | | | | |
| Core liquid assets to total assets [5] | 39.6 | 41.6 | 40.8 | 41.0 | 35.4 | 31.1 | 33.0 | 33.8 | 30.6 | 30.6 | 28.6 |
| Broad liquid assets to total assets [6] | 52.0 | 54.7 | 54.2 | 54.9 | 52.4 | 47.0 | 49.1 | 48.8 | 48.2 | 48.2 | 47.9 |
| Liquid assets (broad) to short term liabilities | 58.1 | 61.2 | 60.0 | 61.2 | 59.0 | 54.2 | 55.9 | 55.8 | 55.2 | 55.2 | 55.0 |
| Liquid assets (broad) to total liabilities | 58.0 | 60.6 | 59.2 | 60.7 | 58.4 | 53.0 | 55.2 | 55.0 | 54.3 | 54.3 | 54.3 |
| Liquid assets to deposit liabilities | 62.5 | 64.3 | 62.7 | 64.1 | 62.2 | 56.7 | 59.5 | 59.6 | 58.0 | 58.0 | 57.8 |
| **Foreign exchange exposure** | | | | | | | | | | | |
| Net open foreign exchange position to capital | 7.9 | 8.9 | 8.8 | 3.2 | -4.2 | -3.0 | 1.9 | 5.9 | 3.1 | 3.1 | 3.0 |

Source: Central Bank of Seychelles.

[1] Data from 2015 onwards include purely offshore banks.

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

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

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

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

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

## Table 5. Seychelles: Indicators of Fund Credit, 2014-22

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (Millions of SDR) | | | | |
| **Existing Fund credit** | | | | | | | | | |
| Stock [1] | 29.2 | 29.0 | 28.0 | 27.9 | 23.3 | 18.3 | 13.1 | 9.2 | 5.7 |
| Obligation | 2.7 | 2.1 | 0.9 | 3.0 | 4.9 | 5.4 | 5.4 | 4.1 | 3.6 |
| Principal (repayments/repurchases) | 2.4 | 1.8 | 0.9 | 2.8 | 4.5 | 5.1 | 5.2 | 3.9 | 3.4 |
| Charges and interest | 0.3 | 0.2 | 0.0 | 0.2 | 0.4 | 0.3 | 0.3 | 0.2 | 0.1 |
| Disbursements | 3.3 | 3.3 | ... | 3.3 | ... | ... | ... | ... | |
| **Prospective Fund credit** | | | | | | | | | |
| Disbursement | ... | ... | 0.0 | 1.6 | ... | ... | ... | ... | |
| Stock [1] | 9.9 | 13.1 | 13.1 | 14.8 | 14.8 | 14.8 | 14.8 | 14.6 | 14.4 |
| Obligations [2] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.3 |
| Principal (repayments/repurchases) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.3 |
| Charges and interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Stock of existing and prospective Fund credit** [1] | 29.2 | 30.6 | 28.0 | 29.5 | 25.0 | 19.9 | 14.7 | 10.7 | 7.0 |
| In percent of quota | 267.5 | 280.7 | 122.2 | 128.8 | 109.0 | 86.9 | 64.3 | 46.6 | 30.4 |
| In percent of GDP | 3.3 | 3.1 | 2.8 | 2.9 | 2.3 | 1.7 | 1.2 | 0.8 | 0.5 |
| In percent of exports of goods and services | 3.1 | 3.3 | 3.0 | 2.9 | 2.4 | 1.9 | 1.4 | 0.9 | 0.6 |
| In percent of gross reserves | 9.2 | 8.0 | 7.6 | 8.5 | 7.3 | 5.6 | 3.9 | 2.7 | 1.7 |
| **Obligations to the Fund from existing and prospective Fund arrangements** | | | | | | | | | |
| Disbursements | 3.3 | 3.3 | 0.0 | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Obligations | 2.7 | 2.1 | 0.9 | 3.0 | 5.0 | 5.4 | 5.4 | 4.3 | 3.9 |
| Principal (repayments/repurchases) | 2.38 | 1.83 | 0.92 | 2.77 | 4.54 | 5.08 | 5.16 | 4.07 | 3.70 |
| Charges and interest | 0.34 | 0.23 | 0.00 | 0.25 | 0.42 | 0.36 | 0.28 | 0.21 | 0.16 |
| In percent of quota [3] | 25.1 | 8.9 | 4.0 | 13.2 | 21.7 | 23.8 | 23.8 | 18.7 | 16.9 |
| In percent of GDP | 0.3 | 0.2 | 0.1 | 0.3 | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 |
| In percent of exports of goods and services | 0.3 | 0.2 | 0.1 | 0.3 | 0.5 | 0.5 | 0.5 | 0.4 | 0.3 |
| In percent of gross reserves | 0.9 | 0.5 | 0.2 | 0.9 | 1.4 | 1.5 | 1.5 | 1.1 | 0.9 |

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

[1] End-of-period.

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

[3] Effective February 2016, the new quota of SDR 22.9 million is applied.

## Table 6. Seychelles: Schedule of Reviews and Purchases Under the Extended Arrangement, 2014–17 [1]

| Program Review | Date of availability | Conditions | Amount (Millions of SDR) | Amount (Percent of quota) [2] |
|---|---|---|---|---|
| | June 4, 2014 | Board approval of the Extended Arrangement | 1.635 | 7 |
| First | September 15, 2014 | Completion of first review and compliance with end-June 2014 quantitative performance criteria | 1.635 | 7 |
| Second | March 31, 2015 | Completion of second review and compliance with end-December 2014 quantitative performance criteria | 1.635 | 7 |
| Third | September 15, 2015 | Completion of third review and compliance with end-June 2015 quantitative performance criteria | 1.635 | 7 |
| Fourth | March 31, 2016 | Completion of fourth review and compliance with end-December 2015 quantitative performance criteria | 1.635 | 7 |
| Fifth | September 15, 2016 | Completion of fifth review and compliance with end-June 2016 quantitative performance criteria | 1.635 | 7 |
| Sixth | March 31, 2017 | Completion of sixth review and compliance with end-December 2016 quantitative performance criteria | 1.635 | 7 |
| **Total** | | | **11.445** | **50** |

Source: IMF

[1] The fourth and fifth reviews are combined, and performance assessed on the basis of continuous performance criteria and targets for the most recent test date, which is end-December 2016.

[2] As per Seychelles' new quota of SDR 22.9 million.

# Appendix I. Letter of Intent

15th May 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund

Dear Ms. Lagarde:

1. The IMF Executive 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 (50 percent of quota). The fourth and fifth review under the arrangement were completed by the Executive Board on January 11. 2017.

2. The overall macroeconomic performance in 2016 was favorable, with real growth rate of 4.5 %, supported by strong tourist arrivals, and continued expansion in water and electricity production, information and communication services, transportation and financial services. The rate of inflation was negative, as a result of low commodity prices and a stable exchange rate. The external current account was unchanged and the net international reserves exceeded the end-2016 target by US$ 14 million, with gross reserves equivalent to 3.8 months of imports of goods and services. The primary budget surplus, at 3.4 % of GDP exceeded the program target of 3%, as a result of a strong revenue performance and a shortfall in capital expenditure. The end- 2016 reserve money target was exceeded by a narrow margin, owing to a strong growth of foreign currency deposits. For 2017 the growth prospects remain favorable, with real GDP growth projected at about 4.1 % as tourist arrivals continue to rise at a sustained pace, while inflation should remain subdued, on account of the stability of fuel and other commodity prices. The primary budget is expected to achieve the targeted surplus of 3 % of GDP, owing in part to large one-off revenue related to a private sector enterprise sale.

3. Good progress has been made with the structural benchmarks for the first quarter of 2017, albeit with some technical delays: The Cabinet approved a public financial management action plan, and a strategy to strengthen governance of state owned enterprises in late April. Meanwhile, Cabinet approval of a strategy to reduce AML/CFT risk, and the development of a strategy to improve financial literacy by the CBS have been delayed to end-June 2017.

4. Overall we believe that the main objectives of the three-year program supported by the EFF arrangement were met. We were able to achieve a sustained rate of growth of 5.4 % on average in 2014-16, with a low rate of inflation, owing to a strong performance of the tourism sector, and also of construction, water and electricity, telecommunication and financial services. Inflation has remained low as the Central Bank kept monetary policy generally tight to contain possible threat to domestic price stability. The external current account deficit declined and the gross reserve position increased significantly from the equivalent of 3.2 months of imports at end-2013 to over 3.8 months at end 2016.

The large primary budgetary surpluses achieved in 2014-16 (4.5% on average in 2014-15 and 3.4% in

2016), led to a decline in public external debt (from 39.6% of GDP at end-2013 to 31 % at end-2016) and of domestic debt excluding debt issued for monetary purposes (from 26 % of GDP to 24%). At the same time the debt issued for monetary purposes, to absorb excess liquidity created by the Central Bank increase in external reserves, rose significantly, from 5 % of GDP at end-2013 to 16% at end-2016, so that the total public and publicly guaranteed debt remained stable at about 70% of GDP. The initial program target to curtail the public debt to 50% by end-2018 had to be pushed forward to end-2020.

5. The favorable budgetary performance in 2014 and 2015 is the result of a strong revenue collection, accompanied by a prudent expenditure policy. In 2016 revenues increased by 3 % of GDP, on account of higher business taxes, VAT, and excise tax revenue and dividends receipts, but current expenditure were boosted by 5 % of GDP by the decision early in the year to raise the minimum wage, and various benefits for unemployed, disabled and the elderly in order to reduce poverty. The introduction of an income exemption under the personal income tax, effective on July 1, 2016, had a small impact on 2016 revenue, but will have a larger effect in 2017 and following years, as the progressive income tax with a generalized income exemption that will enter into effect in 2018 is not revenue neutral. While one-off revenue will allow us to achieve a primary budgetary surplus of 3% of GDP in 20017, the primary surplus is likely to fall in 2018. The government is aware of the need to take offsetting measures in order to achieve the target of bringing the public debt-to-GDP ratio to 50% by end-2020.

6. We have carried out comprehensive structural reforms as envisaged under the three –year program to strengthen the foundations for sustained growth. To that end we have taken measures to strengthen public financial management and governance of public enterprises, modernized the financial system, tightened the regulations of the global business sector to bring it in line with best practices and combat tax evasion. Specifically, in the public finance area we have adopted a medium term fiscal framework, we have introduced performance program based budgeting in some ministries, to be extended to all, we have strengthened tax administration, in particular in customs. To improve the governance of public enterprises we have conducted governance audits and operational assessment of the six the major enterprises, with World Bank assistance and a number of recommendations will be put into practice. To strengthen the financial system, we established in 2014 a new Financial Service Authority (FSA) with the task to supervise the nonbank financial sector, including global business corporation, and we have adopted a new international business corporation act to bring practices of the offshore sector in line with international best practices; we are preparing regulations on investment banking and collective investment schemes. In the banking and payments area, we have adopted core elements of Basel II and III, we are developing the national payments system with studies undertaken to establish a central security depository and a real time gross settlement system, and we are preparing legislation on financial consumer protection. To make the transmission mechanism of monetary policy more efficient, we are preparing to review monetary policy implementation under the current reserve money targeting framework to put more emphasis on short term interest rate.

To protect from reputational risks, we have launched a new assessment of our AML-CFT regulations, with a national risk assessment to be completed in mid-2017 and a mutual evaluation to be carried out in the last quarter of 2017 by the regional body associated with the Financial Action Task Force (FATF). In August 2015, the OECD Global Forum on transparency and the exchange of information for tax purposes has found that the Seychelles is largely compliant.

7. We are aware that the Seychelles economy is exposed to considerable risks from climate change and natural disasters, and, as a consequence, fiscal space needs to be increased in order to provide room for appropriate mitigation actions. This calls for prudent fiscal policies in the period ahead aimed to reducing the debt-to-GDP ratio at least to the 50% target for 2020.

8. In light of the overall performance in 2016 and the progress made in the structural agenda in the first quarter of 2017, we are requesting the completion of the sixth review and the disbursement of the last drawing under the EFF arrangement. We intend to remain in close contact with the IMF in the period ahead and to use its expertise in the design of appropriate macroeconomic policies as we are interested in a successor program.

9. In line with our commitment to transparency, we request that the IMF publish this letter, and the staff report. We will simultaneously publish these documents in Seychelles.

Sincerely,

/s/
Louis Rene Peter Larose
Minister of Finance, Trade and Economic Planning
Republic of Seychelles

/s/
Caroline Abel
Governor
Central Bank of Seychelles

## Table 1. Seychelles: Quantitative Performance Criteria Under the Extended Arrangement [1]

| | 2015 | | | | 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | End-Sep. | | End-Dec. | | End-March | | End-June | | End-Sep. | | End-Dec. | |
| | Indicative Targets | | Performance Criteria | | Indicative Targets | | Performance Criteria | | Indicative Targets | | Performance Criteria | |
| | Prog. | Est. | Prog. | Est. | Prog. | Est. | Prog. | Est. | Prog. | Est. | Prog. | Est. |
| **Performance criteria** | | | | | | | | | | | | |
| Net international reserves of the CBS, millions of U.S. dollars (floor) [1] | 417 | 417 | 409 | 423 | 429 | 435 | 412 | 423 | 418 | 433 | 401 | 415 |
| Net international reserves (adjusted targets) | 417 | … | 405 | … | 406 | … | 393 | … | 404 | … | 402 | … |
| Reserve money target (ceiling on daily average during the quarter) [2] | 2,552 | 2,520 | 2,781 | 2,708 | 2,818 | 2,758 | 2,858 | 2,815 | 2,897 | 2,870 | 2,961 | 2,990 |
| Primary balance of the consolidated government (cumulative floor) | 539 | 805 | 720 | 783 | 85 | 224 | 288 | 434 | 470 | 733 | 571 | 642 |
| Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling from start of 2015) | 63 | 56 | 90 | 71 | 110 | 90 | 110 | 90 | 110 | 90 | 130 | 90 |
| 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 | 0.0 | 0.0 |
| Accumulation of external payments arrears by the public sector (ceiling) [3] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 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 | 0.0 | 0.0 |
| ***Memorandum items:*** | | | | | | | | | | | | |
| Net external non-project financing (millions of U.S. dollars; cumulative) [4] | -8.3 | -8.3 | -22.4 | -18.4 | 12.3 | -11.4 | -11.7 | -31.0 | -14.4 | -28.6 | -51.5 | -51.3 |
| External budget loans | 7.0 | 7.0 | 7.0 | 7.0 | 15.0 | 10.0 | 15.0 | 15.0 | 15.0 | 20.0 | 20.0 | 20.0 |
| Cash payments on foreign debt service | 18.3 | 18.3 | 34.3 | 30.3 | 2.7 | 21.4 | 26.7 | 46.0 | 29.4 | 48.6 | 71.4 | 71.3 |
| External budget grants | 3.1 | 3.1 | 4.9 | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserve money (daily average during the quarter) | 2,520 | 2,520 | 2,700 | 2,708 | 2,736 | 2,758 | 2,775 | 2,815 | 2,813 | 2,870 | 2,875 | 2,990 |
| **Program accounting exchange rates** [5] | | | | | | | | | | | | |
| SR/US$ (end-of-quarter) | 13.74 | 13.74 | 13.01 | 13.01 | 13.01 | 13.28 | 13.01 | 13.28 | 13.01 | 13.34 | 13.01 | 13.34 |
| US$/Euro (end-of-quarter) | 1.12 | 1.12 | 1.12 | 1.12 | 1.12 | 1.09 | 1.12 | 1.09 | 1.12 | 1.12 | 1.12 | 1.12 |
| US$/UK pound (end-of-quarter) | 1.54 | 1.54 | 1.51 | 1.51 | 1.51 | 1.39 | 1.51 | 1.39 | 1.51 | 1.30 | 1.51 | 1.30 |
| US$/AUD (end-of-quarter) | 0.78 | 0.78 | 0.70 | 0.70 | 0.70 | 0.72 | 0.70 | 0.72 | 0.70 | 0.77 | 0.70 | 0.77 |
| US$/CAD (end-of-quarter) | 0.80 | 0.80 | 0.75 | 0.75 | 0.75 | 0.74 | 0.75 | 0.74 | 0.75 | 0.76 | 0.75 | 0.76 |
| US$/SDR (end-of-quarter) | 1.41 | 1.41 | 1.40 | 1.40 | 1.40 | 1.38 | 1.40 | 1.38 | 1.40 | 1.40 | 1.40 | 1.40 |

Sources: Seychelles authorities and IMF staff estimates and projections.

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

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

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

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

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

**Table 2. Seychelles. Structural Benchmarks Under the Extended Arrangement, 2015– 17**

| Actions | Timing | Objective/Status |
|---|---|---|
| **Fiscal and Public Financial Mgmt. Policy** | | |
| **Prior Action for 4th and 5th reviews:** Submission of 2017 budget consistent with program goals, targeting 3.0 percent primary surplus to National Assembly | December 2016 | Ensuring country remains on track with debt reduction target. Met. |
| Cabinet approval of Public Financial Management Action Plan | End-March 2017 | Not met. Implemented in early April 2017. |
| Cabinet approval of new Public Private Partnership Regulation | *End*-December, 2016 | Strengthen the framework for Public Private Partnerships. Met. |
| Update and publish on-line a government asset register, including state land. | End December 2015 | Not met. The register was created but not extended to include government land. |
| **State-Owned Enterprises (SOEs)** | | |
| Conduct governance reviews and operational/business assessments of initial three SOEs. | End June, 2016 | Met. Reinforce the monitoring and oversight of SOEs. |
| Conduct governance reviews and operational/business assessments of a further three SOEs | End December, 2016 | Met. Reinforce the monitoring and oversight of SOEs. |
| Approval by Cabinet of SOE strategy building on results of governance reviews. | End March 2017 | Not met. Implemented in early April 2017. |
| **Real Sector and Private Sector Development** | | |
| Approval by cabinet of a revised Micro, Small and Medium Enterprise Policy | End-March, 2016 | Met. Support inclusive growth through a strengthened framework for SME support. |
| **Financial Sector Development** | | |
| Approval by the Board of CBS of a framework for macro prudential surveillance. | End March, 2016 | Met. |
| Development of a CBS strategy to improve financial literacy | End March, 2017 | Not met. The authorities plan to complete it by end-June 2017. Improve financial inclusion. |
| **International Financial Services Sector** | | |
| Submission to National Assembly of new legislation on International Business Companies consistent with international standards. | End December, 2015 | Not met. Gazetted in January 2016, law approved in July 2016 |
| Submission to National Assembly of new legislation on International Corporate Service Providers and Trusts consistent with international standards. | End December, 2015 | Not met. Gazetted in January 2016. |
| Cabinet approval of a strategy to tackle AML/CFT risks, drawing on the National Risk Assessment. | End-March, 2017 | Not met. The authorities plan to complete it by end-June 2017. Reduce AML/CFT risks in financial and off-shore sectors. |

# Attachment 1. Technical Memorandum of Understanding

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 LOI, respectively.

## I. QUANTITATIVE PERFORMANCE CRITERIA

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

**DEFINITION**

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

**Calculation method**

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**

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**

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.

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

**Definition**

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**

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. Semiannually, at each test date for program performance criteria, the reserve money data submitted by the CBS to the IMF will be audited by the CBS' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date.

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

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.

### Public External Debt (Ceiling)

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.

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 leasor retains title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property;
d. arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g. payment on delivery) will not give rise to debt.

### External Arrears of the Public Sector

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.

### Domestic Arrears of Government

The nonaccumulation of budget expenditure arrears will be a performance criterion under the program and will be measured on net basis from the beginning of a calendar year. Budget expenditure arrears are defined as the sum of (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 30 days; (2) unpaid wages, pensions, or transfers, pending for longer than 30 days to domestic or foreign residents, irrespective of the currency denomination of the debt; and (3) debt service payment on domestic debt of the government or guaranteed by the government that has not been made within the contractually agreed period.

## DATA AND INFORMATION

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.

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

INTERNATIONAL MONETARY FUND

# SEYCHELLES

May 18, 2017

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT—INFORMATIONAL ANNEX


| Prepared By | The African Department<br>(In consultation with other departments) |
|---|---|


## CONTENTS

# RELATIONS WITH THE FUND

(As of March 31, 2017)

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

| **General Resources Account** | SDR Million | % Quota |
|---|---|---|
| Quota | 22.90 | 100.0 |
| Fund holdings of currency | 50.19 | 219.18 |
| Reserve Position in Fund | 3.53 | 15.41 |

| **SDR Department** | SDR Million | % Allocations |
|---|---|---|
| Net cumulative allocation | 8.28 | 100.0 |
| Holdings | 5.05 | 60.99 |

| **Outstanding Purchases and Loans:** | | |
|---|---|---|
| Extended Arrangements | 30.82 | 134.59 |

**Financial Arrangements**:

| | | | SDR Million | |
|---|---|---|---|---|
| Type | Arrangement | Expiration | Amount Approved | Amount Drawn |
| EFF | Jun 04, 2014 | Jun 03, 2017 | 11.45 | 9.81 |
| EFF | Dec 23, 2009 | Dec. 23, 2013 | 26.40 | 26.40 |
| Stand-By | Nov 14, 2008 | Dec. 22, 2009 | 17.60 | 11.00 |

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

| | *Forthcoming* | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Principal | 2.95 | 4.54 | 5.08 | 5.16 | 3.93 |
| Charges/interest | 0.32 | 0.39 | 0.32 | 0.25 | 0.19 |
| **Total** | 3.27 | 4.93 | 5.41 | 5.41 | 4.12 |

**Implementation of HIPC Initiative:** Not applicable

**Safeguards Assessments:**

An update assessment of the Central Bank of Seychelles (CBS) in relation to the successor Extended Fund Facility (EFF) was completed in September 2014. The update assessment confirmed that the CBS has made further progress in developing its governance and control framework and that its operations are subject to independent oversight and accountability. The key remaining vulnerability is in internal audit, which lacks capacity. The CBS is working with an external consultant to develop this function in the medium-term. In addition, certain provisions of the CBS legal framework need strengthening. An updated review by LEG against evolving international benchmarks identified areas for improvement, particularly to safeguard the CBS Act's integrity and further ensure the central bank's autonomy. IMF technical assistance will be needed to draft the amendments and provide examples of leading practices.

**Exchange Rate Arrangement:**

The exchange market was liberalized in November 2008, which resulted in the elimination of all restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The de jure exchange rate regime is floating and its de fact exchange rate regime is classified as floating. On March 31st, 2017 US$1 = SR 13.5817 (mid-rate).

**Article IV Consultations:**

Seychelles is currently under a 24-month consultation cycle.

**Technical Assistance (November 2016–April 2017):**

| Department | Head of Mission | Subject | Date |
|---|---|---|---|
| MCM | Mr. Ramakrishnan | Self-assessment of ISOCO principle | November-December 2016 |
| FAD | Mr. Scott | Ensure adequate controls to prevent fraud and revenue leakage while facilitating trade | February 2017 |
| MCM | Mr. Ramakrishnan | Strengthen non-bank financial supervision | February-March 2017 |
| FAD | Ms. Cheasty | Carbon taxation | March 2017 |
| MCM | Mr. Humik | Inflation forecasting | March 2017 |
| STA | Mr. Legoff | National accounts | March 2017 |

| Department | Head of Mission | Subject | Date |
|---|---|---|---|
| MCM | Mr. Bossone | Diagnostic mission | March 2017 |
| MCM | Mr. Petrus | Tools and procedures for communication and inflation | March 2017 |
| MCM | Ms. Selander | Develop tools and procedures for communication | March 2017 |
| FAD | Mr. MacMorran | Follow-up on 2016 diagnostic mission recommendations | April 2017 |
| STA | Ms. Razin | Balance of payment statistics | April 2017 |
| STA | Ms. Evangelista | Residential property price index | April 2017 |

**Resident Representative:** None

# JOINT WORLD BANK-IMF WORK PROGRAM, 2017

(As of April, 2017)

| Title | Products | Provisional timing of mission | Expected delivery date |
|---|---|---|---|
| | **A. Mutual Information on Relevant Work Programs** | | |
| **Bank** | **A. Strategy** | | |
| | Systematic Country Diagnostic | n.a. | June 2017 |
| | Country Partnership Framework | Ongoing | June 2018 |
| | **B. Lending Program** | | |
| | Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3) | Ongoing | July 2017 |
| | Development Policy Loan with Catastrophe Deferred Drawdown Option (DPL CAT-DDO) | Ongoing | Ongoing |
| | **C. Analytical work, Technical Assistance and Capacity Building** | | |
| | TA on Social Sectors | Ongoing | June 2018 |
| | TA on Financial Sector Development | Ongoing | June 2017 |
| | TA on Efficiency and Value for Money in Health | Ongoing | August 2017 |
| | TA on Program Performance Based Budgeting and Performance M&E | Ongoing | October 2019 |

| Title | Products | Provisional timing of mission | Expected delivery date |
|---|---|---|---|
| **Fund** | **A. Program and surveillance work** | | |
| | Sixth Review under EFF | March 2017 | June 2017 |
| | **B. Technical assistance and capacity building** | | |
| | FAD technical assistance on progressive tax | Ongoing | Ongoing |
| | FAD technical assistance on revenue administration management and governance arrangement | June 2017 | September 2017 |
| | STA technical assistance on prices and index numbers | October 2017 | January 2018 |
| | STA technical assistance on national accounts | October 2017 | January 2018 |
| | STA technical assistance on prices and index numbers | February 2018 | May 2018 |
| | FAD technical assistance on risk management | February 2018 | May 2018 |
| | STA technical assistance on national accounts | April 2018 | July 2018 |
| | **B. Requests for Work Program Inputs** | | |
| Bank request to Fund | Medium-term macroeconomic and fiscal framework to inform Systematic Country Diagnostic and Country Partnership Framework | n.a. | Ongoing |
| Fund request to Bank | Assist authorities in reviewing AML/CFT framework and in conducting a national risk assessment | n.a. | Ongoing |

# RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

The Bank commenced operations in Seychelles in 1978 and has since approved 34 operations, comprising 15 projects, 3 lines of credit and 1 partial credit guarantee as well as numerous studies, capacity building, technical assistance and emergency relief operations (15 in total). The cumulative value of approvals, net of cancellations, as at April 2017 is UA 135.4 million, of which 82.5% from the ADB, 7.9% from the ADF, 7.9% from the NTF, and the remaining 1.6% from the AWF and the Fund for Africa Private Sector Assistance (FAPA).

In addition to Budget Support (Policy Based) operations, the Bank supported the Seychelles East Africa Submarine (SEAS) cable ICT PPP project, amounting to USD 39 million, of which the Bank financed US$12million, which was successfully implemented and completed in 2012. The Bank also provided in 2009 a partial credit guarantee of USD 10 million to help the Government of Seychelles restructure its commercial debt whilst reinforcing financial governance. The most recent investment project approved by the Bank, on 1 April 2015, is for a US$20.6 million loan in support of the Mahe Sustainable Water Augmentation Project (MSWAP).

The on-going non-lending operations include five (5) technical assistance packages in support of the reforms targeted by the Budget Support Operation, including support to Private Sector Development, particularly enhancing access to finance and skills development for small and medium enterprises (MSMEs), as well as a project jointly financed with the Investment Climate Facility (ICF) to support the preparation of a PPP legal, regulatory and operational framework. The Bank's TA package also includes support to the Development of Quality of Service Standards and Regulations to ensure reliable and efficient delivery of high quality communication broadcast services and ensure the protection of the welfare of all classes of consumers for all services (voice, data, and Broadcasting services) in Seychelles.

The current Country Strategy Paper (CSP 2016-20) – was approved by the AfDB Board in March 2016 and is articulated around two mutually reinforcing pillars: Pillar 1 – Enhancing energy infrastructure to promote inclusive and green growth; and Pillar 2 – Stimulating private sector activity in support of economic diversification though policy reforms. The overarching objective of the CSP is fostering a more diversified economy with greater resilience to external shocks and to create jobs, notably for the youth. To achieve this objective, the CSP is based on a two-pronged approach that focuses on the private sector as the main engine of diversified, inclusive economic growth: investments in energy infrastructure and support of policy reforms towards a more conducive business environment. Bank's Support under Pillar 1 will boost private sector activity and enable economic diversification through improved access to energy, reduced energy cost, and more reliable energy supply; while under Pillar 2, Bank's support will stimulate private sector activity and enable economic diversification through policy reforms that improve Seychelles business environment by facilitating access to finance and strengthening competitiveness.

The Bank's Indicative lending program for the first 3 years of the CSP 2016-20 is estimated at UAC 28.7 million (USD 39 million) and includes an energy project and a 3-year Policy Based Operation under a programmatic approach. These will be financed from the ADB window, and will be complemented with Trust Fund resources, climate funds as well as resources mobilized through leveraging (parallel and co-financing). The CSP 2016-20 mid-term review will be prepared in 2018, and will provide the opportunity to prepare, in close consultation with the Government, the lending and non-lending programs for the remaining CSP period, assess implementation progress, and, if necessary, adjust the strategy's focus for the remaining CSP period.

# STATISTICAL ISSUES

| **SEYCHELLES—STATISTICAL ISSUES APPENDIX**<br>As of May 18, 2017 |
|---|
| **I. Assessment of Data Adequacy for Surveillance** |
| **General:** Data provision has some shortcomings, but it is broadly adequate for surveillance. The country participates in the General Data Dissemination System (GDDS) since December 2006 and in government finance statistics modules of the Anglophone Africa project funded by the U.K. Department for International Development (DFID). Good progress has been achieved in improving statistical capacity, though sustained technical assistance and additional resources will be required for statistical development over the medium term in order to improve the quality of economic statistics. Having met all Special Data Dissemination Standard (SDDS) requirements and following review of metadata by the IMF Statistics Department, Seychelles subscribed to the SDDS on May 1, 2015. |
| **National accounts:** National accounts data are prepared on a calendar-year basis with 2006 serving as the base year for constant price measures. The NBS has developed quarterly national accounts data for the period 2006-14. Further technical assistance is being provided to allow for a rebasing of the national accounts to 2013 (reflecting the results of the new Household Budget Survey), compilation of the quarterly national accounts using the expenditure approach, production of seasonally-adjusted quarterly GDP figures. Tourism statistics are compiled on a weekly and monthly basis. Production indicators are compiled quarterly, and both are reported to the IMF in a timely manner. Data on average earnings and employment by sector are collected on a quarterly basis by the NBS, but there are no data on unit labor costs. |
| **Price statistics:** A new consumer price index (CPI) was introduced in January 2015 based on expenditure weights derived from the 2013 household budget survey. There is some concern on the quality of CPI data as some CPI sub-components are not collected every month and |

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| estimated, instead. Further technical assistance is being provided to improve data quality and collection. |
| **Government finance statistics:** Seychelles reports to STA the cash flow statements and financial balance sheet data based on the Government Finance Statistics Manual (GFSM 2001). Main recommendations of the 2011 GFS mission were: (i) establish a GFS task force among Treasury, Financial Planning and Control Division (FPC), Debt Management staff, and other relevant agencies to discuss and resolve technical and methodological issues; (ii) establish a strategic plan that specifies how to address weaknesses in terms of: (1) augmenting the cash recording of transactions in the execution of the budget with relevant accrual-based measures; (2) improving data on other economic flows for financial assets and liabilities; and, (3) addressing the lack of stock data on government holdings of nonfinancial assets, beginning with fixed assets and non-produced assets (lands). While substantial progress has been made, further work will be needed to support a full move to GFSM 2001. |
| **Monetary and financial statistics:** Monetary and financial sector data are reported regularly to STA for publication in the *IFS*. The analytical framework underlying the compilation of monetary statistics is generally sound. An integrated monetary database has been developed and is fully operational using the standardized report forms (SRF) for reporting monetary data to the Fund. The SRF-based monetary data have been published in the *IFS Supplement* since its March 2007 issue. |
| **Financial sector surveillance:** The authorities are compiling financial soundness indicators and report them to the Fund on a monthly basis. Work is ongoing to strengthen the recently established macroprudential framework, which includes revisions to the Central Bank Act and migration towards Basel II. |
| **External sector statistics:** The authorities have adopted the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual,* and began compiling the international investment position in 2015. Annual balance of payments data are reported to the Statistics and African Departments nine months after the reference period, but provisional estimates are provided to missions earlier. Quarterly BOP data are being compiled since 2009, and made publicly available and reported to STA since 2015. Merchandise trade data are reported on a quarterly basis. Considerable progress has been made in collecting and updating data on public sector external debt and debt-service and payments of external arrears. Remaining priority areas include improving the coverage of external sector statistics, and compiling private sector debt data. |

| **II. Data Standards and Quality** | |
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| | No ROSC has been carried out. |

## Seychelles: Table of Common Indicators Required for Surveillance

| | Date of latest observation (For all dates in table, please use format dd/mm/yy) | Date received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of Publication[7] |
|---|---|---|---|---|---|
| Exchange Rates | 21/04/17 | 25/04/17 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 21/04/17 | 25/04/17 | D | W | M |
| Reserve/Base Money | 21/04/17 | 25/04/17 | D | W | M |
| Broad Money | 31/03/17 | 28/04/17 | M | M | M |
| Central Bank Balance Sheet | 21/04/17 | 25/04/17 | D | W | M |
| Consolidated Balance Sheet of the Banking System | 31/03/17 | 28/04/17 | M | M | M |
| Interest Rates[2] | 28/02/17 | 10/04/17 | M | M | M |
| Consumer Price Index | 31/03/17 | 24/04/17 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | 28/02/17 | 24/04/17 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government | 28/02/17 | 24/04/17 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 31/03/17 | 25/04/17 | M | M | M |
| External Current Account Balance | 31/12/16 | 15/03/17 | Q | Q | Q |
| Exports and Imports of Goods and Services | 31/12/16 | 15/03/17 | Q | Q | Q |
| GDP/GNP | 31/12/15 | 31/01/17 | Q | Q | Q |
| Gross External Debt | 31/12/16 | 01/02/17 | Q | Q | Q |
| International Investment Position[6] | 30/06/16 | 15/09/16 | Q | Q | Q |

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

**Statement by Mr. Choi, Executive Director for Seychelles**
**and Mr. Cafrine Advisor to the Executive Director**
**June 2, 2017**

**The Seychelles economy has undergone a remarkable transformation since 2008. A comprehensive reform program has had strong ownership and political commitment, and has been supported by successive EFF arrangements.** The authorities are committed to consolidating and safeguarding the hard-earned gains. Their target is to reduce debt to below 50 percent of GDP by 2020 while promoting sustainable growth, addressing concerns about poverty, infrastructure gap and implementing sound climate policies. They have made substantial use of technical assistance, principally from the IMF and World Bank. Both parties in parliament support ongoing reforms, continued fiscal discipline, and accountability and transparency in public finances. However, Seychelles is a small and open economy, reliant on tourism, and remains highly exposed to external shocks. The current EFF will expire in early June and the authorities are very grateful for the mission teams and their constructive discussions, analysis and advice. Recognizing the productive relationship with the Fund that started almost a decade ago, the authorities have notified IMF management of their desire to remain actively engaged with the Fund through a precautionary arrangement.

## ECONOMIC OUTLOOK

**Growth has continued to be robust**. The economy grew by an average of 4.7 percent over 2014-2016, due to low inflation, strong tourism performance, construction, the water and electricity sectors, telecommunications and financial services. The outlook is positive, but risks are significant. These are namely further weakening of the euro against the US dollar, weaker growth in major tourism markets and higher-than-expected oil price increases. Seychelles is also exposed to natural disasters and climate change risks. On the upside, new hotels will open in the next two years and major airlines have expressed an intention to add new flights into the islands, which would address current peak-season accommodation pressures.

## FISCAL AND STRUCTURAL POLICIES

**Under successive programs, Seychelles has strengthened its public financial management and fiscal discipline, and reduced public debt.** The FY2017 Budget targets a primary surplus of 3 percent, in line with the EFF framework. A similar primary surplus is also expected for FY2018, but declining to between 2 and 2.5 percent thereafter. This is despite measures announced last year to address issues around poverty and inequality. The smaller surpluses in the out-years create room for growth-friendly capital investments. The authorities believe there is potential for further improvement in revenue administration and will consider recommendations on tax measures from IMF. The past two years has seen strong revenue collections from the major taxes and dividends from SOEs.

**The Medium-Term Fiscal Framework is now anchoring Seychelles' fiscal strategy, and**

**helping improve cash, asset and capital project management.** A recent Public Expenditure and Financial Accountability (PEFA) assessment was completed in 2016. Five Government departments are operating their 2016 budgets using Program Performance Based Budgeting and the remaining departments will have joined the project in the 2018 and 2019 budget. A regulatory and operational framework for strengthening the framework for public-private partnerships, developed with TA from the African Development Bank, was recently approved by Cabinet.

**The authorities continue their focus on structural reforms to raise public sector efficiency and minimize the fiscal risks from SOEs.** They are mindful of the need for accountability, monitoring and control so that SOEs do not present undue risks to public finances. In particular, the authorities are placing new emphasis on applying best practices to SOEs through management and governance audits, to further enhance transparency and efficiency. A new Public Financial Management (PFM) action plan was recently approved by Cabinet. Its adoption ensures the implementation of recommendations from the recent PEFA assessment, including: strengthening capital project selection, costing and monitoring; quantification of the social costs incurred by the SOEs; and enhancement of financial reporting and the governance code.

**The authorities are seeking to enhance medium-term growth prospects and make growth more inclusive, including through the innovative "blue economy initiative."** They are also mindful, however, that diversification in a small, resource-deficient and import-dependent economy is a challenge. The government is promoting diversification in the two largest sectors (tourism and fisheries) with concessionary financing arrangement through the Development Bank and Commercial Banks, aiming at attracting local SMEs to these sectors. Improvement to the business environment continue to receive increased priorities and closer relationships have been established with key stakeholders and industry associations to encourage private sector participation in business activities. Progress is being made with streamlining of licenses, procurement regulations, tax and customs improvement.

## MONETARY POLICY AND THE FINANCIAL SECTOR

**The Central Bank of Seychelles continued its tight monetary policy stance over 2016, which is an appropriate safeguard against possible inflationary and exchange rate pressures**. The floating exchange rate regime has served the economy well and market interventions are limited to addressing excessive volatility. Planning is underway to move towards a more forward-looking monetary policy framework, with a policy rate around which an interest rate corridor will be established.

**Strengthening of the regulatory framework continues to be priority to safeguard the financial sector, including bringing financial regulation in line with international standards.** Core elements of Basel II and III standards are being implemented in banking and payment areas. Pressures on correspondent banking relationships are persisting, with the offshore sector portrayed as a major source of risks. Thus, significant steps have been taken to improve transparency and governance. A National Risk Assessment is being conducted by the World Bank and will form part of the basis for a comprehensive strategy to address AML/CFT issues and risks from the offshore sector in Seychelles.

## CLIMATE CHANGE

**Climate change risks are a major concern and efforts continue to mainstream those risks into the macro-fiscal framework and development strategies**. Seychelles is a leading advocate for small states in international climate change discussions and negotiations and was one of the first to sign on to the UN Framework Convention on Climate Change. The country was recently host to a pilot study Climate Change Policy Assessment (CCPA) for small states, conducted jointly by the IMF and the World Bank. The authorities highly value this exercise for its potential to influence the directions of future policy development. The authorities encourage countries in similar circumstances to consider such an assessment in the future. Over the next two decades, the authorities have indicated a total investment of over US$600 million (40 percent of GDP in 2016) for mitigation and adaptation. In that regard, the authorities also recognize the need to build strong fiscal buffers to establish greater resilience.

## CONCLUSION

The authorities are highly appreciative to the Fund for the support they have received throughout program period, which started almost a decade ago. They are thankful to Article IV team, led by Wendell Samuel, for their constructive discussions, analysis and advice that have also helped for timely and successful conclusion of the Extended Fund Facility (EFF) arrangement, which expires on June 3, 2017. Recognizing the productive close engagement with the Fund, the authorities have formally notified the Fund's management of their intention to request a Stand-By Arrangement, on a precautionary basis. The authorities believe that continuing engagement after the EFF expires would support the further strengthening of macroeconomic stability and entrench growth in the medium term.