INTERNATIONAL MONETARY FUND

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SEYCHELLES

December 2017

REQUEST FOR A THREE-YEAR POLICY COORDINATION INSTRUMENT AND EX POST ASSESSMENT OF LONGER-TERM PROGRAM ENGAGEMENT—PRESS RELEASE; STAFF REPORT

In the context of the Request for a Three-Year Policy Coordination Instrument and Ex Post Assessment of longer-term program engagement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2017, following discussions that ended on September 26, 2017 with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on November 30, 2017.

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December 13, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year Policy Coordination Instrument for Seychelles

On December 13, 2017, the Executive Board of the International Monetary Fund (IMF) approved a new three-year Policy Coordination Instrument (PCI) for Seychelles. [1] Seychelles is the first IMF member country to request a PCI.

The PCI for Seychelles will build on the lessons from the previous programs supported by the IMF. It aims to support the authorities' efforts to consolidate macroeconomic stabilization and foster sustained and inclusive growth. Program reviews take place on a semi-annual fixed schedule. While the PCI involves no use of IMF resources, successful completion of program reviews would help signal Seychelles' commitment to continued strong economic policies and structural reforms.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, said:

"Seychelles has made considerable progress toward external viability and fiscal sustainability since the crisis in 2008 under three successive Fund arrangements. The authorities' strong ownership has played an important role in the success of the Fund-supported programs. However, the country remains vulnerable to external shocks and further efforts are needed to address challenges in maintaining fiscal discipline.

"The authorities' economic program supported by the Policy Coordination Instrument (PCI) aims at locking in economic stability while fostering sustained and inclusive growth. Fiscal policy will be anchored by the medium-term target of bringing the public debt-to-GDP ratio below 50 percent by 2021. To reconcile this debt reduction target with the authorities' emphasis on infrastructure investments and measures to enhance the resilience of the economy to climate change, it is critical to steadfastly implement the permanent fiscal saving measures identified in the 2018 budget and the Program Statement.

[1] The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors. (see https://www.imf.org/en/About/Factsheets/Sheets/2017/07/25/policy-coordination-instrument).

“It is important to maintain the flexible exchange rate policy and limit foreign exchange intervention to preserve the international reserve buffers at around the current level. The authorities’ continued efforts to ensure a successful transition to the recently introduced monetary policy framework in which interest rates play a prominent role are welcome.

“The structural reform agenda is ambitious and targeted. The authorities’ commitment to strengthen the AML/CFT framework is critical in maintaining correspondent banking relationships. The authorities’ state-owned enterprise (SOE) Action Plan aims to minimize potential fiscal risks arising from the SOE sector while the public finance management Action Plan seeks to address remaining issues in public investment management. These efforts will help shore up fiscal sustainability and boost growth prospects. Continued efforts to diversify the economy under the “Blue Economy” initiatives will go a long way toward promoting shared prosperity.”

ANNEX

Recent economic development

Seychelles has made considerable progress toward macroeconomic stability since the 2008 crisis under three consecutive IMF programs. The public debt to GDP ratio has been reduced by almost two thirds during the period, while international reserves coverage has improved to around four months of prospective imports from less than one month at end-2008. Consequently, the country does not need the IMF’s financial assistance now.

The near- and medium-term economic outlook is favorable. Macroeconomic performance has been robust in 2017. The external current account deficit is estimated to have narrowed, supported by strong tourist arrivals. Reflecting strong performance in the tourism sector, economic growth for 2017 is projected to reach around 4¼ percent. The growth outlook after 2018 remains positive, buoyed by the tourism sector. While a strengthening in international commodity prices could have some negative impacts on the balance of payments, the country’s international reserves coverage is expected to remain at an adequate level, anchored by the authorities’ prudent policies.

Nonetheless, Seychelles still faces vulnerabilities and pressures, as a small island economy dependent on tourism in a challenging global economic environment. Downside risks to the outlook largely lie in the external factors which could dampen tourism performance.

Program Summary

The program is designed to consolidate macroeconomic stabilization, enhance resilience to external shocks, and foster sustained and inclusive growth, building on the achievements under the previous IMF-supported programs. The authorities' fiscal policy aims at buttressing medium-term fiscal sustainability while addressing the infrastructure gap and enhancing resilience to climate change. The authorities' primary surplus target of 2½ percent of GDP from 2018 onwards is estimated to be sufficient to keep the public debt to GDP ratio on a firm declining track and reduce it below 50 percent by 2021. Thus, the authorities proposed fiscal path strikes the right balance between preserving macroeconomic stability and addressing key investment needs.

The Central Bank of Seychelles (CBS) continues its efforts to ensure a successful transition to the recently introduced monetary policy framework where interest rates play a prominent role. The CBS is committed to a flexible exchange rate and will limit intervention to the extent needed to preserve reserves coverage at around the current level.

Structural reforms focus on raising economic efficiency and promoting inclusive growth, including by improving the efficiency of public investments, safeguarding the performance of state-owned enterprises, and strengthening the regulation of the offshore financial sector.

Seychelles: Selected Economic and Financial Indicators, 2014–22

Nominal GDP (2014): US$1,349 million
Per capita GDP (2014): US$14,770
Population, end-year (2014): 91,359
Literacy rate (2010): 94 percent
Main products and exports: Tourism, Canned Tuna

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Est.	Est.	Est.			Proj.			
	(Annual percent change, unless otherwise indicated)								
National income and prices									
Nominal GDP (millions of Seychelles rupees)	17,119	18,336	19,033	20,281	21,747	23,144	24,555	26,228	28,010
Real GDP	4.5	5.0	4.5	4.2	3.3	3.3	3.3	4.1	4.0
CPI (annual average)	1.4	4.0	-1.0	3.2	3.4	3.3	3.0	3.1	3.2
CPI (end-of-period)	0.5	3.2	-0.2	4.4	3.4	3.1	3.1	3.2	3.3
GDP deflator average	2.3	2.0	-0.7	2.2	3.8	3.0	2.7	2.6	2.7
Money and credit									
Broad money	26.6	2.9	12.1	14.3	8.1	...	...	...	...
Reserve money (end-of-period)	13.9	9.5	14.5	18.7	7.0	...	...	...	...
Reserve money (average of last quarter)	-14.5	7.2	10.4	18.8	7.0	...	...	...	...
Velocity (GDP/broad money)	1.4	1.5	1.4	1.3	1.3	...	...	...	...
Money multiplier (broad money/reserve money)	5.0	4.7	4.6	4.4	4.4	...	...	...	...
Credit to the private sector	26.2	7.8	10.3	15.7	9.1	...	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Savings-Investment balance									
External savings	23.1	18.6	18.3	15.8	13.9	13.5	13.4	12.8	14.0
Gross national savings	14.6	15.2	12.0	14.9	16.0	17.4	18.6	18.4	18.1
Of which: government savings	6.9	5.9	3.8	5.1	5.1	6.1	8.4	8.3	9.4
private savings	7.6	9.3	8.2	9.8	10.9	11.3	10.2	10.0	8.6
Gross investment	37.7	33.8	30.2	30.7	29.9	30.9	32.1	32.9	33.7
Of which: public investment [1]	6.7	4.8	5.0	6.5	6.9	6.9	7.6	7.7	8.2
private investment	31.0	29.0	25.2	24.2	23.0	24.0	24.5	25.2	25.5
Private consumption	50.8	47.6	47.1	42.8	43.1	43.3	44.5	45.2	45.1
	(Percent of GDP)								
Government budget									
Total revenue, excluding grants	34.3	33.4	36.6	38.1	37.0	36.3	36.2	36.2	36.2
Expenditure and net lending	34.6	32.8	38.1	40.3	39.5	38.2	37.3	37.1	36.9
Current expenditure	28.0	28.0	33.1	33.8	32.6	31.3	29.7	29.4	28.8
Capital expenditure [1]	6.6	4.8	5.0	6.5	6.9	6.9	7.5	7.7	8.2
Overall balance, including grants	2.1	0.9	-1.4	0.8	-0.7	-0.5	-0.3	-0.2	0.0
Program primary balance	4.9	4.3	3.4	3.0	2.5	2.5	2.5	2.5	2.5
Total government and government-guaranteed debt [2]	74.6	69.7	72.6	66.9	62.7	58.3	53.6	49.4	45.4
Domestic (including debt issued for monetary purposes)	33.5	34.8	40.4	37.0	34.4	32.1	29.0	26.5	24.0
of which: Monetary debt	11.0	13.4	16.2	13.9	11.8	10.3	8.9	7.5	6.3
External	41.1	34.9	32.2	29.9	28.3	26.2	24.7	22.9	21.4
External sector									
Current account balance including official transfers (in percent of GDP)	-23.1	-18.6	-18.3	-15.8	-13.9	-13.5	-13.4	-12.8	-14.0
Total external debt outstanding (millions of U.S. dollars) [3]	1,588	1,372	1,404	1,462	1,516	1,551	1,592	1,648	1,713
(percent of GDP)	118.2	99.6	98.2	98.4	96.7	93.5	91.1	89.3	88.3
Terms of trade (-=deterioration)	-0.3	1.9	2.7	-0.4	0.2	-0.2	-0.6	-0.4	0.0
Real effective exchange rate (average, percent change)	-3.2	11.5	-0.2	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	462.9	536.8	522.6	526	505	522	558	600	657
Months of imports, c.i.f.	3.9	4.3	4.1	4.0	3.8	3.8	3.8	3.8	3.8
Exchange rate									
Seychelles rupees per US$1 (end-of-period)	14.0	13.2	13.5	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	12.7	13.3	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 as well as a revision to the data to include domestic guarantees. In addition, the lower primary deficit and higher interest payments have increased the debt.

[3] Includes private external debt.

INTERNATIONAL MONETARY FUND

SEYCHELLES

November 30, 2017

REQUEST FOR A THREE-YEAR POLICY COORDINATION INSTRUMENT AND EX POST ASSESSMENT OF LONGER-TERM PROGRAM ENGAGEMENT

KEY ISSUES

Context: Seychelles has made substantial progress toward external viability and fiscal sustainability since the 2008 crisis under three successive Fund arrangements. The public debt to GDP ratio has been reduced by almost two thirds during the period, while international reserves coverage has improved to around four months of prospective imports from less than one month at end-2008. However, additional efforts are still needed to secure the hard-won economic stability, in view of the country's vulnerability to external shocks and challenges to maintain fiscal discipline over the next few years. The authorities recently requested a new Policy Coordination Instrument (PCI), as the last Extended Arrangement expired in early June and the country no longer needs Fund financial assistance.

Main policy commitments:

- **Fiscal policy:** Fiscal policy will be anchored by the medium-term target of reducing public debt below 50 percent of GDP by 2021. A package of permanent revenue enhancing and expenditure saving measures are incorporated in the authorities' 2018 budget to reconcile their debt reduction target with their emphasis on infrastructure building and climate change related investments.

- **Monetary and financial sector policies:** The Central Bank of Seychelles (CBS) continues its efforts to ensure a successful transition to the recently introduced monetary policy framework where interest rates play a prominent role. The CBS is committed to a flexible exchange rate and will limit intervention to the extent needed to preserve reserves coverage at around the current level. The authorities will step up efforts to strengthen the AML/CFT framework.

- **Structural reforms:** The structural agenda focuses on reducing potential fiscal risks; improving the efficiency of public investments; and enhancing inclusive growth.

Risks: Risks to the program are considered moderate given Seychelles' impressive track record under the successive Fund arrangements. The economy is still vulnerable to external shocks, including weakness in the key tourism markets and global banks' withdrawal of correspondent bank relationships (CBRs). Domestic risks center on potential fiscal slippages. The program effectively addresses those risks.

On this basis, **Staff support the authorities' request for a PCI**.

Approved By	
David Owen and Bob Traa	Discussions were held in Victoria during September 13-26, 2017. The staff team comprised Mr. Sy (head), Messrs. Bari, Issoufou, 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. Mr. Owen (AFR) participated in the discussions.

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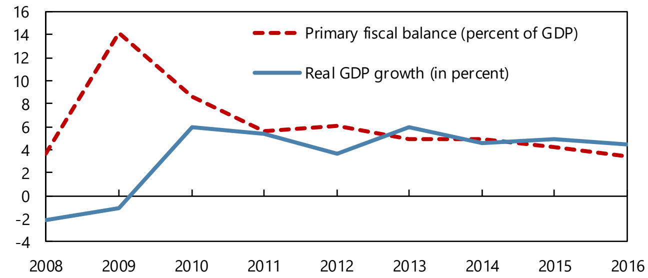
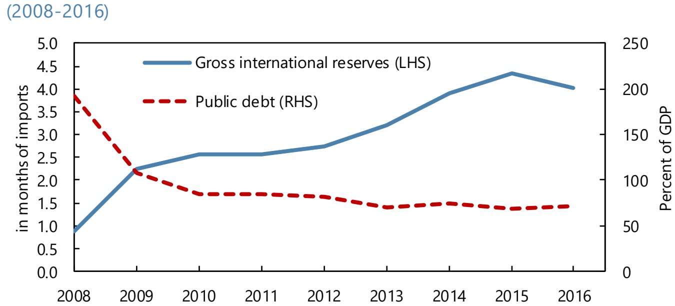
CONTEXT

1. Seychelles has made considerable progress toward macroeconomic stability and sustainability since the 2008 crisis under successive Fund arrangements. Since the 2008 balance of payments (BOP) and debt crisis, the authorities have conducted prudent macroeconomic policies and implemented comprehensive and bold structural reforms, supported by three Fund arrangements. These led to substantial primary fiscal surpluses and strong economic growth since 2009. Consequently, the public-debt-to-GDP ratio has been reduced by almost two thirds since end-2008 through a significant debt restructuring followed by primary surpluses. A strong fiscal position and significant IMF financial assistance,[1] led to a building up of external buffers: prospective import coverage of the gross international reserves (GIR) improved significantly to around 4 months from less than one month at end-2008.

Growth and Fiscal Balance
(2008-2016)



Gross International Reserves and Public Debt
(2008-2016)



Sources: Seychelles authorities; and IMF staff estimates.

2. Despite an impressive track record, additional efforts are needed to lock in medium-term sustainability. The government now intends to reduce the country's infrastructure gap and achieve ambitious climate change mitigation and adaptation goals over the medium term. In this context, it is necessary to ensure an efficient management of public investment and maintain fiscal discipline to shore up the authorities' medium-term debt reduction target and fiscal sustainability. However, the political situation could pose challenges to keep fiscal discipline as the President's party has been weakened by its loss of control of the legislature.[2] The government could face political constraints in reconciling its public investment priority with the medium-term debt reduction target. Furthermore, as a very small open economy dependent on tourism, Seychelles remains vulnerable to negative external shocks.

3. An ex post assessment of the previous three Fund arrangements provides valuable lessons (Annex I). Strong ownership by the authorities played a key role in successful programs

[1] The total amount drawn under the three successive Fund arrangements reached SDR 48.85 million, 213 percent of the country's quota.

[2] The opposition party won a majority for the first time in 40 years in September 2016.

supported by the Fund arrangements. Meanwhile, the authorities' social needs and fiscal sustainability should be carefully balanced, as illustrated by the 4th and 5th review discussions under the 2014–17 Extended Arrangement (EFF).

4. The authorities recently requested a Policy Coordination Instrument (PCI), as the previous EFF expired in June. Seychelles is the first member country to request a PCI. The authorities see it as an appropriate vehicle to maintain a close policy dialogue with the Fund, provide a positive signal to markets, and safeguard policy discipline against the challenges described above. The request is underpinned by strong domestic ownership as in the previous three Fund arrangements. The Cabinet endorsed a PCI request and a wide ranging structural reform agenda to be supported by the PCI. Good performance under the PCI would help signal Seychelles' commitment to continued strong policies and reforms and help reduce the government's external financing costs. While Seychelles does not need the Fund's financial assistance under the baseline, the country is vulnerable to external shocks. An on-track PCI could expedite access to Fund financing in the event of Seychelles' BOP need.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

5. Economic conditions have been favorable recently (Figures 1 and 2, Tables 1-5). Tourist arrivals grew by 19¾ percent for the first nine months of 2017 with strong growth from the major European markets and the United Arab Emirates (UAE). The nominal exchange rate has been stable in recent months while GIR has overperformed the staff's projection at the time of the 2017 Article IV consultation, supported by strong tourism. The primary surplus for the first eight months was larger than expected, buoyed by strong business tax revenues and lower current and capital expenditure. Headline year-on-year (yoy) CPI inflation rate has picked up to 3.2 percent in September from -0.2 percent in December 2016 due to increases in excise tax and electricity tariff adjustments in April, as well as methodological revisions to the CPI statistics.[3] Although private sector credit growth has edged up to 14¼ percent in August from 10¼ percent at end-2016, financial soundness indicators suggest that banks are adequately capitalized and profitable.

6. The near- and medium-term outlook is benign, provided the authorities maintain their prudent macroeconomic policies. Strong tourist arrivals up to September implies that growth momentum is carried over and growth is expected to reach 4¼ percent in 2017 before easing to the potential rate of around 3–3½ percent during 2018–20. Tourism will continue to drive economic growth over the medium term, and growth and foreign direct investment (FDI) should pick up after the lifting of the moratorium on large hotel construction projects at end-2020. The current account deficit is expected to decline gradually for the next few years, supported by strong tourism and stagnant international commodity prices, before edging up after 2021 due to the expected pick up in FDI mentioned above. As the current account deficit, would continue to be mostly financed by FDI, GIRs' import coverage would stay around the current level. While headline CPI inflation accelerated

[3] Methodological changes to CPI statistics introduced in May were applied retroactively starting January 2017. These changes are estimated to have increased the headline yoy inflation rate by about 2 percentage points starting January 2017.

in recent months, inflation pressures in coming months appear to be benign given that global commodity prices are expected to remain stagnant.

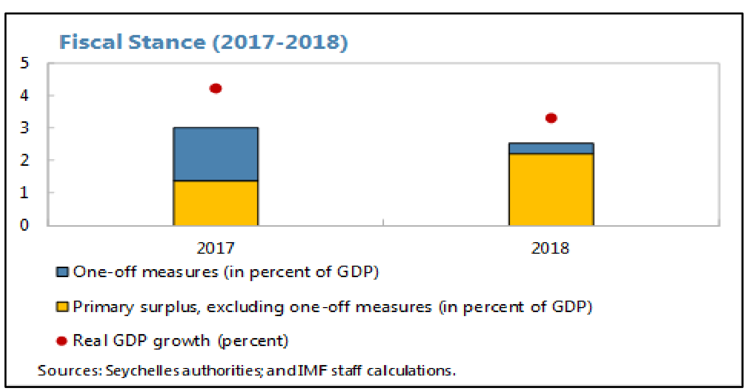
7. Risks to the outlook presented above are broadly balanced and unchanged from the 2017 Article IV Staff Report. The most significant sources of downside risks relate to external shocks, including intensification of security dislocation in parts of the Middle East, Africa, and Europe which would considerably dent tourist arrivals, as well as international banks' potential withdrawal of correspondent bank relationships (CBRs). Domestic risks center on potential fiscal slippages given the authorities' emphasis on infrastructure building up and climate change related investments with the government and legislature controlled by different parties. A reduction of the monetary debt at a pace faster than assumed under the baseline could cause inflationary pressures. In addition, Seychelles is vulnerable to natural disasters and climate change over the long run as a small archipelago. Staff's debt sustainability analysis (DSA) indicates that gross public and external financing needs remain very high for the foreseeable future, and the large foreign currency-denominated debt remains a key source of risk, which the program seeks to address under the baseline scenario (Annex II). On the upside, tourism sector growth could be significantly higher than projected in the next few years, buoyed by new direct flights.

POLICY DISCUSSIONS

8. Discussions focused on a macroeconomic policy framework and structural reforms to be implemented in the next three years. Building on the 2017 Article IV consultation, the mission and the authorities agreed on a package of policies to (i) strengthen medium-term fiscal sustainability; (ii) lock in price and external stability; (iii) buttress financial stability; (iv) reduce fiscal risks; and (v) enhance inclusive growth. In view of the lessons from the previous Fund programs, policy design attempts to balance the authorities' emphasis on infrastructure building in coming years and preserving medium-term fiscal sustainability.

A. Strengthening Fiscal Sustainability

9. The authorities' primary surplus target of 2½ percent of GDP from 2018 onwards is estimated to be consistent with medium-term debt sustainability and macroeconomic stability. The authorities target a slightly lower primary surplus after 2018, compared with the target of 3 percent of GDP committed at the time of the 4th and 5th reviews under the previous EFF, to create space for scaling up infrastructure investments. Staff's public DSA indicates that this revised primary surplus would lead to a steady



decline in the public debt-to-GDP ratio to below 50 percent by 2021,[154] one-year later than the authorities' medium-term debt reduction target envisaged under the previous EFF, assuming an unwinding of SCR 200–250 million each year of government debt issued for monetary policy purposes.[5] Although the headline primary surplus is set to decline from 3 percent of GDP in 2017 to 2½ percent in 2018, this is not a procyclical fiscal loosening: the primary surplus excluding one-off measures is estimated to increase from 1½ percent of GDP in 2017 to 2¼ percent in 2018 while growth is expected to slow down from 4½ percent in 2017 to 3¼ percent, the estimated potential rate, in 2018 (text chart). The primary surplus target is underpinned by credible measures (text table). Meanwhile, staff estimate that the monetary debt unwinding assumed under the baseline would not put significant pressures on inflation (see Annex III). Thus, the fiscal path proposed by the authorities would still be consistent with public debt sustainability and moderate inflation, striking the right balance between preserving economic stability and addressing investment needs.

Summary of Fiscal Stance/Measures during 2017-2020

		2017		2018		2019	2020
Primary surplus (in percent of GDP)		3.0		2.5		2.5	2.5
Permanent measures (in percent of G		0.6		0.9		0.3	0.0
	Fuel tax increase		Introduction of property tax		Expiration of business t		...
	Increase in various fees		Increase in vessel registration tax		incentives for tourism		
			Containment in wage and goods and serv		companies		
			Better targetting of social welfare				
One-off measures (in percent of GDP)		1.6		0.3		0.0	0.0
	Delay in progressive PIT introduction		Delay in progressive PIT introduction				
	Foreign acquisition of local telecom companies						
Primary surplus excluding one-off measures (in percent of GDF		1.4		2.2		2.5	2.5

Source: Ministry of Finance and staff estimates

10. The authorities intend to implement permanent revenue enhancing and expenditure saving measures, amounting of 0.9 percent of GDP, in their 2018 budget recently submitted to the National Assembly to achieve the primary surplus target. On the revenue side, the government would introduce a property tax on foreign-owned properties[6] and align the vessel

Permanent Fiscal Saving Measures in the 2018 Budget

Measures	**Estimated saving** (in SCR millions)	(in percent of GDP)
Revenue		
Introduction of a property tax	40	0.18
Alignment of vessel registration tax with international standars	30	0.14
Expenditure		
Containment of growth in wage bill and goods and services	85	0.39
Of which:		
Cancellation of opening of District Councils	15	0.07
Streamlining of fuel incentives for fishery industry	5	0.02
Stricter control on official travel	5	0.02
Better targetting of social welfare	30	0.14
Total	185	0.85

Source: Ministry of Finance and staff estimates

4 The government intends to adhere to its target of reducing the debt-GDP ratio below 50 percent by 2020 (Program Statement (PS) ¶5). However, staff cautioned that achieving this target by 2020 could complicate monetary policy. Thus, staff recommend a slower pace of unwinding and a slightly less ambitious pace of public debt reduction (see Annex III).

5 Starting in 2014, the CBS and the government conducted an ambitious sterilization program comprising of Treasury bonds to mop up the excess liquidity caused by large foreign exchange purchases by the CBS during 2009–10 (see Annex III).

6 A property tax on foreign owned properties with a rate of 0.25 percent is scheduled to enter effect in 2018.

registration tax with international standards at the beginning of 2018 (Program Statement (PS) ¶13). The property tax discriminates between residents and nonresidents and is thus a capital flow management measure (CFM) by virtue of its design according to the Fund's Institutional View on capital flows. Given that the objective of the measure is to raise revenue, staff recommended that the tax should be non-discriminatory by also being applied to residents. The authorities argued that they designed the proposed tax to help fill the remaining fiscal gap for 2018. Discussions on this issue, including to explore alternative less discriminatory measures, will continue in the first review. On the expenditure side, the government would strictly contain the nominal growth on wage bill and goods and services and better target the social welfare spending, including raising of retirement age from 60 to 63, starting in the 2018 budget (PS ¶7). In addition to those permanent fiscal measures, the government decided to postpone the introduction of a progressive personal income tax (PIT), which would lead to a revenue loss due to the high exemption threshold, by six months to July 1, 2018.[7]

11. The authorities are committed to keeping a tight rein on current expenditures and implementing necessary revenue enhancing measures after 2019 to shore up the primary surplus target. Nominal growth of the wage bill and goods and services would continue to be contained after 2019 through removing duplication of government services performed by different agencies, introducing a new staffing and recruitment plan, reducing the number of tourism offices and/or embassies, and implementing procurement reforms (PS ¶8). The government plans to begin eliminating preferential treatment on business tax for tourism companies in 2019, which would help offset the revenue loss arising from the introduction of the progressive PIT in mid-2018 (PS ¶13).[8]

12. Staff encouraged the authorities to create further fiscal space over the medium term, beyond that required to secure the debt reduction target, to accommodate investments aimed at enhancing resilience to climate change. The authorities' priority climate change mitigation and adaptation investments are estimated to cost ¼–1¼ percent of GDP each year over the next 15–20 years. For the most part, financing of these investments is yet to be identified.[9] Staff reiterated its advice at the time of the 2017 Article IV consultation that the authorities should seek concessional external financing for climate change related action to the extent possible.[10] The authorities would also need to take measures over the medium term, beyond those to be introduced in the 2018 budget, to create further fiscal space. Rationalization of social welfare spending, procurement reforms, and streamlining of public agencies mentioned above would help shift spending from current to capital outlays over the medium term. The government is exploring the possibility of additional revenue measures discussed at the time of the 2017 Article IV consultation in the medium

[7] The half-year delay of the introduction of the progressive PIT is estimated to produce one-off saving of around 0.3 percent of GDP in 2018.

[8] Preferential business tax treatments for tourism-related companies issued under the Tourism Incentive Act will expire at end-2018. The introduction of a progressive PIT will reduce revenue by around ½ percent of GDP on a full-year basis

[9] Out of the climate change mitigation and adaptation projects which would cost around $600 million, projects amounting of about $35 million are listed in the authorities' Public Sector Investment Plan and reflected in the staff's baseline in this Staff Report.

[10] For instance, the World Bank plans to support Seychelles' Blue Bond issuance using grants from the Global Environment Fund (GEF) to reduce the interest burden of the project (see ¶20).

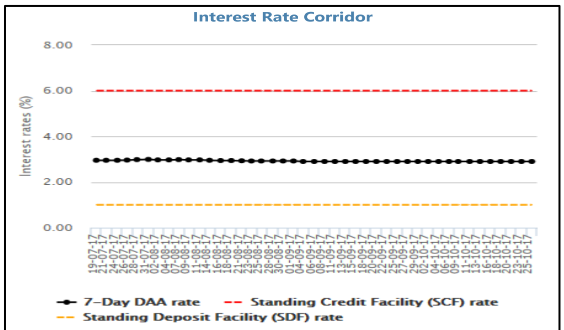
term (PS ¶7). Creative use of public-private partnership (PPP) on climate-change related public investments could create fiscal savings.

B. Locking in Monetary and External Stability

13. The Central Bank of Seychelles (CBS) recently introduced a new monetary policy framework, while slightly loosening monetary policy. While inflation remains the nominal anchor, the new framework uses an interest rate corridor as a new instrument for monetary policy (Box 1). The new framework aims at enhancing monetary policy transmission by reducing short-term interest rate volatility and promoting more guidance to short-term interest rates. As the policy rate remains to be determined in the transition to the framework, the CBS intends to closely monitor reserve money (PS ¶25–26). It also cautiously loosened its monetary stance (reflected in a 60bp decline in the average T-Bill rate), as it expected that inflationary pressure would remain modest in the near term.[11]

Box 1. Modernization of Seychelles' Monetary Policy Framework

Since November 2008, the monetary policy framework in Seychelles had been based on monetary aggregate targeting. However, short-term money market interest rates were highly volatile under such a framework and transmission from short-term money market interest rates to lending was very weak.[1] With a view to enhancing the monetary transmission mechanism and reducing short-term interest rate volatility, the CBS introduced a new monetary policy framework in late June 2017. While the quarterly level of reserve money continues to be concurrently determined under the new framework, it focuses more on interest rates.



Source: Central Bank of Seychelles.

The formalization of a standing deposit facility (SDF) and standing credit facility (SCF), the rates of which form the basis of an interest rate corridor, aims at assisting banks with their short-term liquidity management. The floor of the corridor sets the rate at which the CBS pays banks when they place their end-of-day excess funds in an overnight deposit at the CBS (SDF). The ceiling of the corridor sets the rate at which the CBS will charge banks when the SCF provides banks with overnight, collateralized liquidity. In this new framework, monetary policy stance is guided by the CBS' macroeconomic modelling and forecasting framework, and consequently would result in more proactive and open communications on monetary policy intentions. The SDF and SCF rates will be reviewed and published on a quarterly basis. However, this framework still does not embody a policy rate. Discussions with banks and the CBS during the mission suggested the repo rate as a possible candidate for a policy rate.

The CBS had previously attempted in 2014 to set an interest rate corridor. It was not effective in keeping short-term market interest rates within the corridor and was abandoned later in 2014. The unsuccessful launch stemmed notably from simultaneous introduction of the corridor, shifting from quantity to price auctions and fixing a higher than corridor interest rate, which inadvertently sent mixed signals to the market. The restoration of the corridor this time seems relatively more effective: short-term interest rates have been inside the corridor (see text chart above). The CBS has been receiving TA from the Fund to support the transition to the new policy framework.

[1] See Country Report No. 17/161

[11] Reserve money growth accelerated from 13.5 to 18.9 percent between June 2017 and October 2017. This reflects partially the cautious loosening stance taken in late June, but largely reflects banks' higher holding of FX excess reserves in response to exchange rate depreciation, ultimately driving up reserve money.

14. The CBS should stay vigilant to any sign of inflationary pressures and closely coordinate with the Ministry of Finance on monetary debt. Although the headline yoy inflation rate has picked up since end-2016, it is estimated that more than half of the increase is attributable to methodological changes (see ¶5). Staff agreed with the CBS that near-term inflation pressures would be benign (see ¶6). Nonetheless, the CBS intends to stay vigilant to any sign of demand-pull inflationary pressures or second-round effects of electricity tariff adjustment which took place in early November (PS ¶20).[12] Furthermore, the Ministry of Finance and the CBS would closely coordinate with each other on the unwinding of the monetary debt so that the government's debt reduction and the CBS' liquidity management and inflation objectives would be balanced (PS ¶26).[13]

15. Staff supported the CBS' continued use of the reserve money target until the new monetary policy framework functions effectively. The new framework would help strengthen monetary policy transmission mechanism over the medium term. With a view to making a successful transition to the new policy framework, the CBS is encouraged to continue to enhance its capacity for inflation forecasting and liquidity management and improve communication of its policy intentions, as well as to further develop the interbank market infrastructure. Meanwhile, the CBS plans to resume the use of reverse repurchase agreements as additional tools to remove excess liquidity from the system. This would facilitate the reduction of the government's monetary debt without exacerbating liquidity pressures in the banking system (Annex III).

16. Allowing exchange rate flexibility and preserving reserves coverage at around the current level are key to reducing vulnerability and ensuring external stability over the medium term. The latest exchange rate assessment found the Seychellois Rupee to be broadly in line with fundamentals, broadly unchanged from the 2017 Article IV (Annex IV). Meanwhile, GIR currently stands at around 170 percent of the relevant ARA metric, which, in staff's view, is adequate, considering the country's vulnerability to external shocks and natural disasters. In this context, Staff encouraged the CBS to allow greater exchange rate flexibility by limiting the foreign exchange purchases only to the extent needed to preserve the reserves coverage ratio at around the current level.[14] Staff will discuss remedial actions with the authorities should the reserves' import coverage ratio fall below 3.8 months on the back of higher than projected imports.

C. Buttressing Financial Stability

17. Staff supported the authorities' stepped-up efforts to address the risks of further potential loss of CBRs. Significant progress is being made to improve governance in the offshore sector.[15] However, Seychelles' banks continue to face pressures in preserving CBRs, albeit that the loss of CBRs has been limited so far. The authorities recently completed the AML/CFT National Risk

[12] Electricity tariff for households was raised by about 20 percent effective of November 1, 2017, reflecting the government's policy to reduce the cross-subsidies of the electricity tariff over the medium term (see ¶26).

[13] While the CBS agreed on the annual amount of monetary debt to be retired, the quarterly schedule of retiring said debt in 2018 reflects staff's assumptions (see Table 4).

[14] While the reserves' import, coverage is expected to decline marginally from slightly over 4 months at end-2016 to 3¾ months by end-2018, this level of reserves coverage is still adequate in staff's view.

[15] See Country Report No. 17/160 for the progress made for the past few years to improve governance in the offshore sector.

Assessment, which will serve as a basis for the formulation of a national AML/CFT strategy to be approved by Cabinet by mid-2018. A mutual evaluation conducted by the Eastern and Southern Africa Anti-Money Laundering Group, which focuses on the effectiveness of the AML/CFT framework, is currently ongoing. Following this evaluation, the authorities will review and amend accordingly the AML/CFT legal and institutional framework in line with international standards and best practices by June 2018 (PS ¶31, reform target). They will also start implementing a risk-based approach to bank supervision consistent with the Financial Action Task Force (FATF) framework by end-2018 (reform target). Furthermore, the authorities recently made the case for maintaining CBRs, through an outreach tour to meet with global banks and regulators and discussing their experience at the peer-learning conference on CBRs in Sub-Saharan Africa during the October 2017 IMF Annual Meetings. Staff encouraged the authorities to continue engaging correspondent and respondent banks, and other stakeholders at the regional/international level. Meanwhile, the authorities intend to formulate a new strategy for the offshore sector by end-2017, focusing on shifting to a more transparent business model in compliance with international standards, particularly to ensure the transparency of companies and trusts (PS ¶30). The authorities have requested TA from the Fund to strengthen the AML/CFT framework.

18. The authorities' efforts to strengthen the macro prudential framework continue. The CBS intends to complete a full transition to Basel II and adopt the Basel III capital definition by end-2018 (PS ¶33). It would not only provide a framework to better ensure financial stability but also support on-going efforts to reduce the risk of further loss of CBRs, especially through international capital adequacy assessment process requirements and the adoption of a more risk-based supervisory approach. To address weaknesses in the country's legal framework for crisis management, bank resolution and safety net pointed out by the MCM/AFRITAC South TA mission in late 2016, the CBS intends to amend the relevant regulatory framework by end-2018 (PS ¶32, reform target).

D. Reducing Fiscal Risks

19. The still-high level of public debt and the prominent role of the State-Owned Enterprises (SOEs) in the economy could pose significant fiscal risk. The government spends about 8 percent of its total outlays on interest payments, and gross financing needs would remain at an escalated level for the foreseeable future, as the public DSA illustrates. Revenues of 22 SOEs reach almost 70 percent of GDP in Seychelles. While most of the SOEs are profitable, their non-guaranteed debt—estimated at around 13 percent of GDP—implies sizable contingent liabilities and could potentially pose significant fiscal risks.[16] In particular, significantly higher than projected international fuel prices could make some SOEs (such as Air Seychelles) loss-making again, while the balance sheet of the Development Bank of Seychelles (DBS) could worsen in case its project loans to marine resource projects would not turn out well (see below).

[16] The financial statements of the four SOEs for 2016 are still not finalized. Preliminary data indicate that majority of the SOEs recorded net profit in 2016, similarly to 2015.

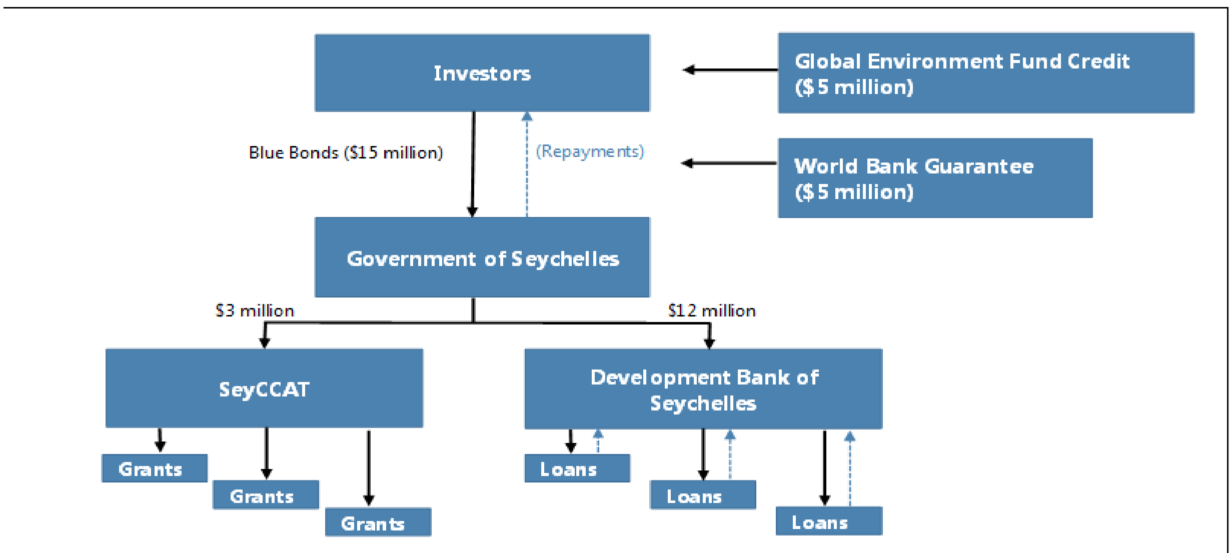
20. The government's efforts to further reduce debt-related risks continue. The government will carry out a liability management exercise to swap current US dollar obligations into Euros in coming months, which could save interest costs and better align the repayment currency with Seychelles' foreign exchange earnings (PS¶16).[17] It also plans to lengthen the maturity of domestic debt aimed at reducing the rollover risks (PS¶17). Liability management and a lengthening of the domestic debt maturity, together with a steadfast reduction of the level of public debt, would help better manage risks to debt sustainability over the medium term. To finance part of the project to improve marine resource management and strengthen fisheries value chains (Third South West Indian Ocean Fisheries Governance and Share Growth (SWIOFish3) project, see Annex V), the government will issue a Blue Bond of US$15 million early next year. The bond will be guaranteed by the World Bank to lower the interest cost. About $12 million of the bond proceeds will be transferred to the DBS, which makes loans to eligible projects on fisheries and marine resource management (see text chart above).[18] The rest will be transferred to the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) which will conduct marine conservation projects.[19] Given the prominent role of the DBS in SWIOFish3 project, the staff urged the DBS to be prudent in project loan selections.

Seychelles: Public Debt Stock
(In Percent of GDP)

	2017	2018	2019	2020
Total public debt	66.9	62.7	58.3	53.6
Domestic debt	37.0	34.4	32.1	29.0
of which: Monetary debt	13.9	11.8	10.3	8.9
External Debt	29.9	28.3	26.2	24.7
Official Creditors	18.3	18.8	18.3	18.2
Multilateral	11.5	12.8	13.2	13.8
Bilateral	6.7	5.9	5.2	4.4
Private Creditors	11.6	9.5	7.9	6.4

Source: Ministry of Finance and staff estimates

Seychelles: Blue Bonds



[17] The size of this liability management exercise would be US$154 million.

[18] Transfers of Blue Bond proceeds to the DBS and SeyCCAT will be done in tranches during 2018–23.

[19] SeyCCAT is a trust fund established by the Nature Conservancy, a global environmental NGO, using the proceeds of the debt buy back operation in early 2016. See Country Report 15/201.

21. The authorities are committed to implementing structural reform measures to further reduce potential fiscal risks arising from the SOE sector. Cabinet approved in April the SOE Action Plan which specifies measures to address remaining weaknesses identified by TA from AFRITAC South and the World Bank held during 2016. The staff encouraged the government to implement key components of the Action Plan as envisaged in the PS (PS¶18–19), including preparation of a Fiscal Risks Statement by end-2018 to be included in the 2019 budget (reform target), quantification of the cost of social obligations being absorbed by the SOEs by end-2018 (reform target), and submission of a new Code of Governance in line with the OECD Guidelines to the Cabinet by September 2018 (reform target). These measures would help improve fiscal transparency and risk management, as well as improve efficiency of the SOE sector over the medium term.

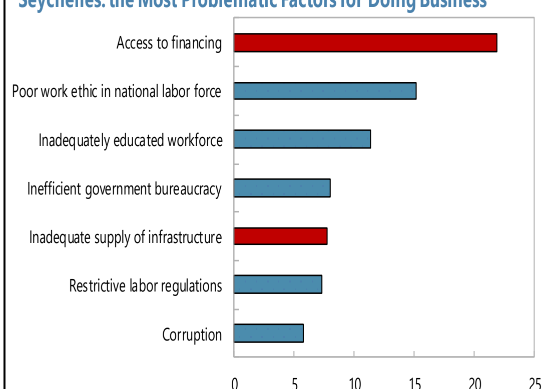
E. Enhancing Inclusive Growth

22. Seychelles needs to intensify efforts to enhance medium-term growth prospects and make growth more inclusive. Economic diversification is necessary to enhance inclusive growth, but could be constrained by business climate issues. Electricity ranks unfavorably in the World Bank's doing business indicators. Businesses often complain about high electricity costs, which result partly from cross-subsidies. Access to financing and infrastructure concerns are among the most problematic factors listed in the business survey conducted by the World Economic Forum.

Seychelles Doing Business Indicators, 2017

Source: World Bank Doing Business Indicators 2017.

Seychelles: the Most Problematic Factors for Doing Business



Source: World Economic Forum.
Note: From the list of factors above, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show

Box 2. Major Public Investment Projects in Coming Years

The government intends to shift spending composition from current to capital outlays over the next several years. Among public investments, electricity, water, and marine resource management and fishery upscaling are priority (see table below).

Major public investment projects, 2017–23
(in percent of GDP)

	2017	2018	2019	2020	2021	2022	2023
PUC: Electricity Network in South Mahe Island	0.26	0.22	0.30	0.29	0.96	0.00	0.00
PUC: La Gouge Dam	0.06	0.26	0.42	0.50	0.00	0.00	0.00
PUC: Water distribution and management	0.47	0.27	0.42	0.61	0.00	0.00	0.00
Port Victoria	0.00	0.00	0.00	0.57	0.54	0.00	0.00
SWIOFISH3	0.06	0.12	0.26	0.30	0.29	0.31	0.08
Total	0.85	0.87	1.40	2.27	1.78	0.31	0.08

Source: Ministry of Finance and staff estimates

Electricity network and water management/distribution projects are conducted by the Public Utility Company (PUC), financed by on-lending from the government. Feasibility studies indicate that Mahe Island, the biggest island where about 80 percent of the country's population resides, would face significant electricity and water supply shortage over the medium term, mostly reflecting an expected increase in commercial demand. Preliminary feasibility studies found that the proposed projects would make it possible for the PUC to meet the expected demand with a minimum economic, environmental, and social costs.

The Victoria Port rehabilitation and expansion project, which is a separate project from the SWIOFish3 project, is scheduled to be conducted in the form of PPPs.[1] It aims at enhancing fish processing and export capacity. Cash flow projections and cost-benefit analyses indicate that this project will yield significantly positive net economic cashflows over the next 20-year horizon.

The major public investment projects listed above are expected to augment Seychelles' medium-term potential growth prospects by addressing infrastructure bottlenecks, upgrading the fisheries industry, and enhancing capacity to adapt to global warming.

[1] As to the Victoria Port project, the table in Box 2 includes only the costs financed by on-lending to the Seychelles Port Authorities (SPA). As to the SWIOFish3 project, see Annex II of Country Report No. 17/162.

23. **Enhancing the efficiency of public investments would be key to address the infrastructure gap and boost growth potential.** Given the government's emphasis on infrastructure building in the next few years to improve the business environment (Box 2) and climate change related investments over the medium term, better management of public investments would be critical for longer-term fiscal sustainability as well. The Cabinet approved the PFM Action Plan in April, which largely focuses on measures to address areas for improvement in public investment management identified in the Public Expenditure and Financial Accountability (PEFA) assessment conducted in late 2016. Key elements of the Plan include strengthening capital project selection, cost-benefit analyses of major public investments (reform target, June 2018), and monitoring (PS¶10–11). The government recently resumed electricity tariff rebalancing with a view to gradually reducing cross-subsidies.[20] Continued electricity tariff rebalancing, together with electricity projects in coming years, would boost the electricity supply and help reduce the costs for businesses. While a series of documents to guide the operational aspects of PPPs have been recently finalized and the

[20] Rebalancing of electricity tariff is scheduled to take place annually over the next 8–10 years. Electricity tariff for households was raised by about 20 percent effective of November 1, 2017.

government has identified a pipeline of bankable PPP projects, staff encouraged the government to continue its efforts to strengthen capacity to manage potential fiscal risks arising from PPPs.

24. The authorities continue efforts to diversify the tourism industry and upgrade the fishery industry (Annex V)**.** Their plan to diversify the economy centers around deepening and diversifying tourism and upgrading the fishery industry under the "Blue Economy" initiatives.[21] The Tourism Master Plan articulates a series of reforms to tackle structural bottlenecks of the tourism industry, including better coordination and alignment of marketing, promoting strategy, and value chain analysis aimed at augmenting the domestic component of tourism-related activities. Implementation of the Plan would help ensure that the benefits of economic growth are more broadly distributed among the population. Meanwhile, the SWIOFish3 project, which was recently approved by the World Bank, will help finance the sustainable development of the Blue Economy and support increased value addition in the aquaculture, industrial, semi-industrial, and artisanal fishing and processing sectors. This project, together with the Victoria Port development project mentioned above, would help upgrade the industrial fisheries sector in a sustainable way.

25. The authorities are articulating a strategy to increase the financial sector's contribution to inclusive growth (PS ¶35-37)**.** They plan to adopt a National Financial Inclusion Strategy by 2019, focusing on areas such as enhancing SMEs' access to finance and competition in the financial sector. To support the National Financial Inclusion Strategy, the authorities are also formulating a strategy for financial education aiming at increasing the country's financial capability to be finalized by end-2017. They are also working out a legal framework for the protection of financial consumers through the establishment of a Financial Consumer Protection Act, which is expected to be submitted to the National Assembly by March 2018. These measures would help enhance inclusive growth and financial stability over the medium term.

PROGRAM MODALITIES AND RISKS

26. The attached Program Statement (PS) details the authorities' policy commitments under the new PCI. Seychelles does not need the Fund's financial assistance under the baseline and is not seeking financial assistance from the Fund as the program is fully financed. Reviews are set out in Table 6, with quantitative targets for the key set of macroeconomic variables monitored under the previous EFF: primary fiscal surplus; net international reserves; average reserve money (RM); and a continuous target on the non-accumulation of external arrears (PS Table 1a). In addition, the standard continuous targets on trade and exchange restrictions, bilateral payments arrangements and multiple currency practices shall apply throughout the term of the PCI (PS Table 1b). While the CBS recently introduced an interest-rate-based monetary policy framework, the program will initially include a quantitative target on RM as a safeguard mechanism. Following successful transition to the new policy framework, the program could shift to a Monetary Policy Conditionality Clause (MPCC). Given that public debt reduction is an anchor of the authorities' program, a ceiling on the level of the nominal level of public debt is set as a memorandum item. The authorities' reform targets for the next 12 months, which build on structural reform undertaken under the previous EFF, are proposed in PS Table 2.

[21] See Country Report No. 17/160.

27. Downside risks to a PCI appear to be moderate given Seychelles' commendable track record under successive Fund arrangements over the past eight years. Seychelles' remaining obligation to the Fund is relatively small and its capacity to repay the Fund is strong.[23] The proposed program effectively addresses Seychelles' perennial vulnerability to external shocks, areas of concern raised in the DSA heatmap, and potential fiscal slippage risks, including those arising from the SOE sector. Although a safeguards assessment is not required under a PCI, the CBS plans to complete a voluntary update safeguards assessment by the time of the First Review, with a view to facilitating quick access to Fund resources in the event a BOP need should materialize.

STAFF APPRAISAL

28. Despite the impressive progress made since the 2008 crisis under the three successive Fund arrangements, Seychelles continues to face challenges. The public debt to GDP ratio has been reduced by almost two thirds during the period, while international reserves coverage has improved to around four months of prospective imports from less than one month at end-2008. However, additional efforts would be necessary to secure the hard-won economic stability, considering the country's perennial vulnerability to external shocks and challenges to maintain fiscal discipline over the next few years.

29. The authorities recently requested a PCI, as the last EFF expired in early June and the country no longer needs Fund financial assistance. The request is supported by strong domestic ownership, as with the previous three Fund arrangements.

30. The authorities are committed to buttressing medium-term fiscal sustainability by implementing permanent fiscal saving measures in the 2018 budget. The authorities target a primary surplus of 2½ percent of GDP from 2018 onwards, slightly lower than the target committed at the time of the 4th and 5th reviews under the previous EFF, to create space for scaling up infrastructure investments. At the same time, the authorities' 2018 budget incorporates permanent revenue enhancing and expenditure saving measures of almost 1 percent of GDP to achieve the primary surplus target. The authorities have expressed commitment to keep a tight rein on current expenditures after 2019 to shore up the primary surplus target. The primary surplus of 2½ percent of GDP is estimated to be sufficient to keep the public debt to GDP ratio on a firm declining track and reduce it below 50 percent by 2021. Thus, the authorities proposed fiscal path is credible and strikes the right balance between preserving economic stability and fiscal sustainability and addressing key investment needs.

31. 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 intend to shift spending from current to capital outlays over the medium term by rationalizing social welfare spending and containing growth in wage bills and goods and services. They are also exploring the possibility of additional revenue measures discussed at the time of the 2017 Article IV consultation.

[23] See Country Report No. 17/160.

32. **The CBS should stay vigilant to any sign of inflationary pressures and allow greater exchange rate flexibility.** Although near-term inflation pressures should be benign, Staff support the CBS' intention to stay watchful to any sign of demand-pull inflationary pressures or second-round effects of the recent electricity tariff adjustment. The exchange rate appears broadly in line with fundamentals and the level of the reserves buffer is estimated to be adequate. Therefore, the CBS is advised to allow greater exchange rate flexibility with minimal intervention to preserve reserves import coverage ratios at around the current level.

33. **Staff welcome the introduction of a new monetary policy framework in which interest rates plays a prominent role.** The new framework would enhance monetary transmission mechanism in the medium term. The CBS is encouraged to continue its efforts to improve capacity for inflation forecasting and liquidity management and improve communication of its policy intentions, as well as to further develop the interbank market infrastructure.

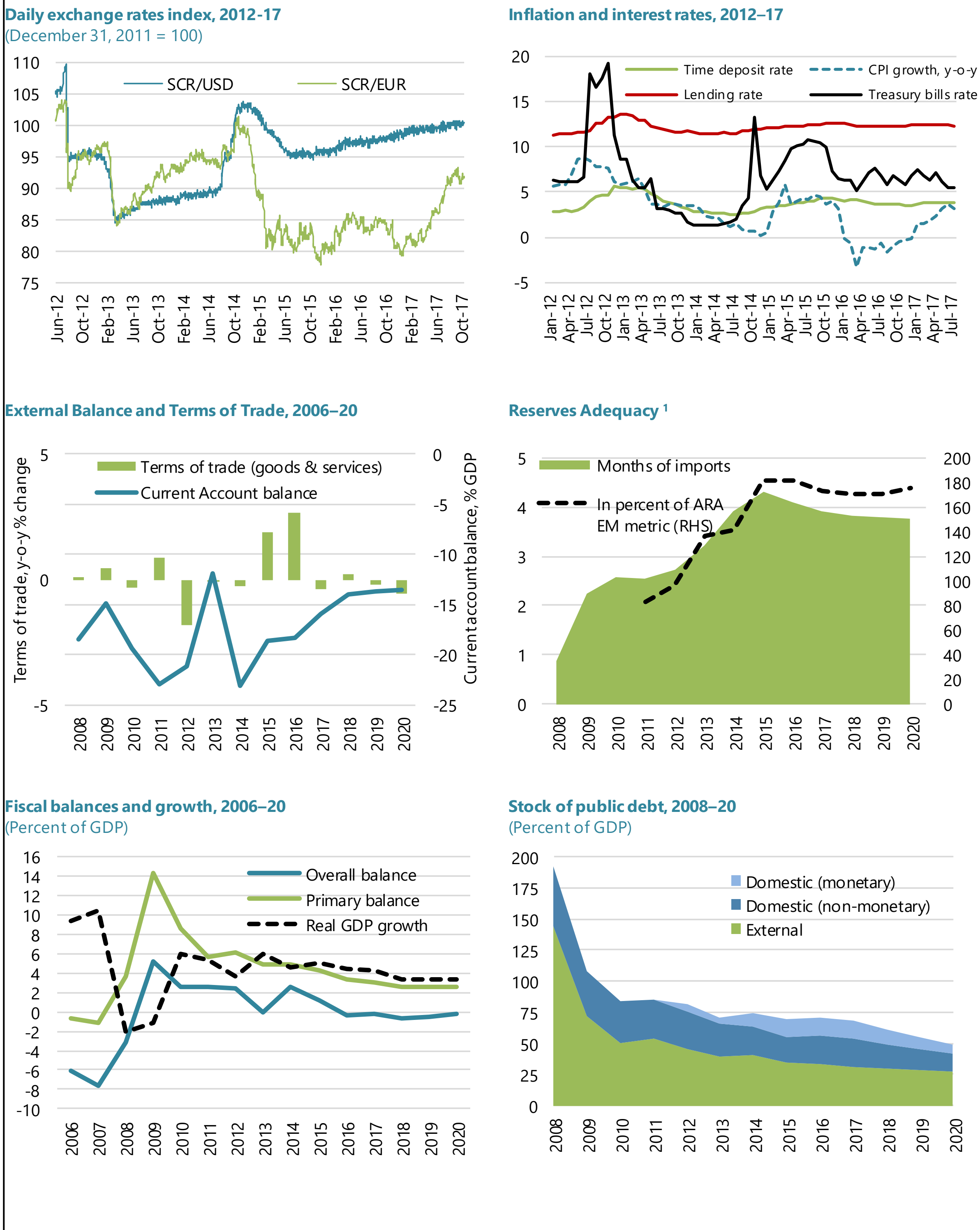
34. **The authorities should continue efforts to address the risks of further potential loss of CBRs.** The authorities are urged to align the AML/CFT framework with international standards and best practices and enhance entity transparency in the offshore sector. They are encouraged to continue efforts at the regional/international level to make the case for maintaining CBRs by global banks.

35. **The authorities' structural reform agenda attempts to reduce potential fiscal risks and enhance inclusive growth.** The authorities are committed to implementing the SOE Action Plan to address the remaining weakness of the SOE sector. In view of the government's emphasis on infrastructure scaling up in coming years, better management of public investment would be key to effectively address infrastructure gap, boost prospects for inclusive growth, and shore up fiscal sustainability. The authorities are encouraged to steadfastly implement the PFM Action Plan to address the remaining issues in public investment management. The authorities' continued efforts 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.

36. **Risks to the program appears to be contained given Seychelles' impressive track record under the successive Fund arrangements.** The proposed program effectively addresses Seychelles' perennial vulnerability to external shocks, areas of concern raised in the DSA heatmap, and potential fiscal slippage risks.

37. **Staff recommend approval of the PCI**.

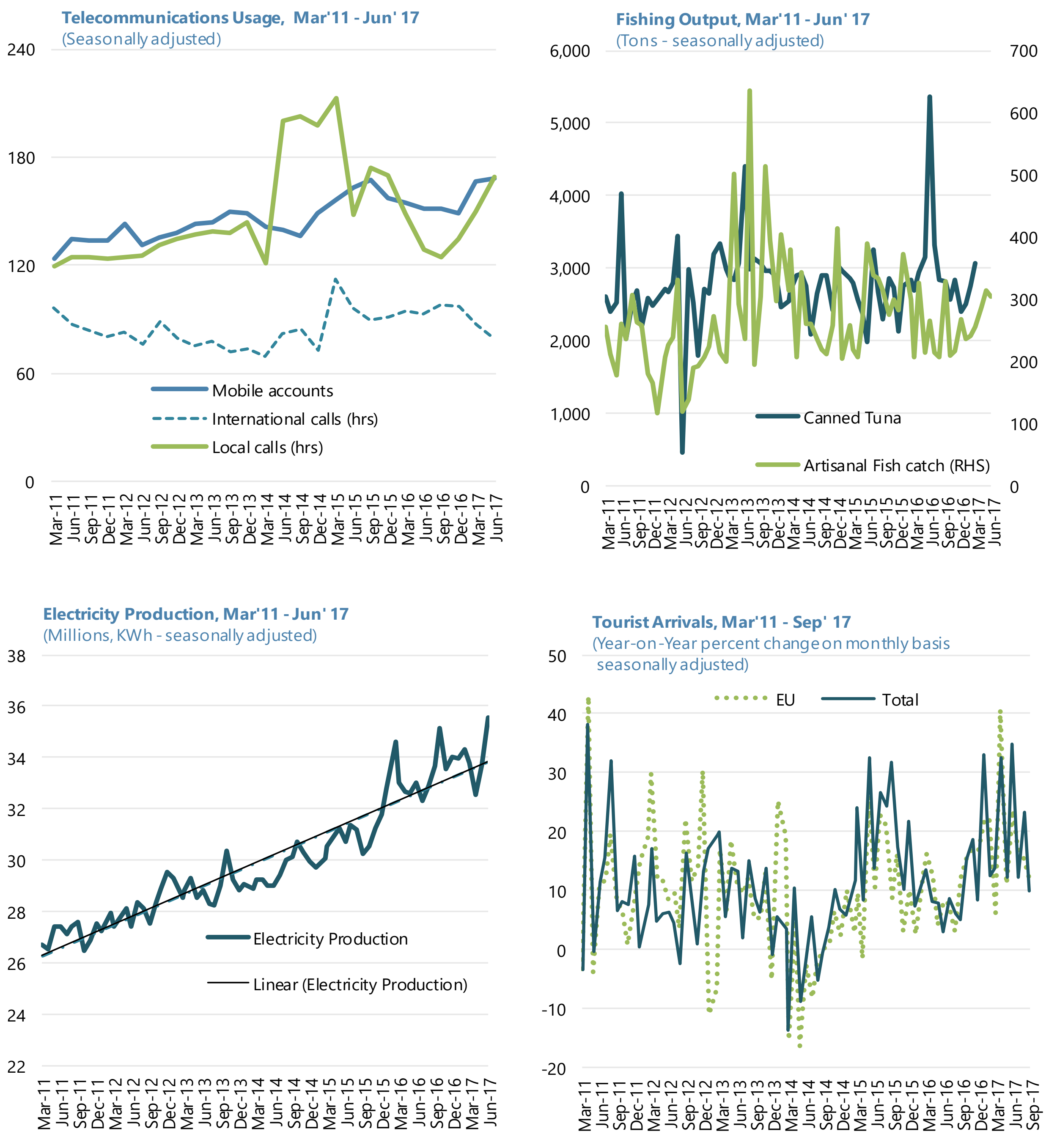
Figure 1. Seychelles: Macroeconomic Developments and Projections



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: Selected Economic and Financial Indicators, 2014–22

Nominal GDP (2014): US$1,349 million
Per capita GDP (2014): US$14,770
Population, end-year (2014): 91,359
Literacy rate (2010): 94 percent
Main products and exports: Tourism, Canned Tuna

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Est.	Est.	Est.			Proj.			
	(Annual percent change, unless otherwise indicated)								
National income and prices									
Nominal GDP (millions of Seychelles rupees)	17,119	18,336	19,033	20,281	21,747	23,144	24,555	26,228	28,010
Real GDP	4.5	5.0	4.5	4.2	3.3	3.3	3.3	4.1	4.0
CPI (annual average)	1.4	4.0	-1.0	3.2	3.4	3.3	3.0	3.1	3.2
CPI (end-of-period)	0.5	3.2	-0.2	4.4	3.4	3.1	3.1	3.2	3.3
GDP deflator average	2.3	2.0	-0.7	2.2	3.8	3.0	2.7	2.6	2.7
Money and credit									
Broad money	26.6	2.9	12.1	14.3	8.1	…	…	…	…
Reserve money (end-of-period)	13.9	9.5	14.5	18.7	7.0	…	…	…	…
Reserve money (average of last quarter)	-14.5	7.2	10.4	18.8	7.0	…	…	…	…
Velocity (GDP/broad money)	1.4	1.5	1.4	1.3	1.3	…	…	…	…
Money multiplier (broad money/reserve money)	5.0	4.7	4.6	4.4	4.4	…	…	…	…
Credit to the private sector	26.2	7.8	10.3	15.7	9.1	…	…	…	…
	(Percent of GDP, unless otherwise indicated)								
Savings-Investment balance									
External savings	23.1	18.6	18.3	15.8	13.9	13.5	13.4	12.8	14.0
Gross national savings	14.6	15.2	12.0	14.9	16.0	17.4	18.6	18.4	18.1
Of which: government savings	6.9	5.9	3.8	5.1	5.1	6.1	8.4	8.3	9.4
private savings	7.6	9.3	8.2	9.8	10.9	11.3	10.2	10.0	8.6
Gross investment	37.7	33.8	30.2	30.7	29.9	30.9	32.1	32.9	33.7
Of which: public investment [1]	6.7	4.8	5.0	6.5	6.9	6.9	7.6	7.7	8.2
private investment	31.0	29.0	25.2	24.2	23.0	24.0	24.5	25.2	25.5
Private consumption	50.8	47.6	47.1	42.8	43.1	43.3	44.5	45.2	45.1
	(Percent of GDP)								
Government budget									
Total revenue, excluding grants	34.3	33.4	36.6	38.1	37.0	36.3	36.2	36.2	36.2
Expenditure and net lending	34.6	32.8	38.1	40.3	39.5	38.2	37.3	37.1	36.9
Current expenditure	28.0	28.0	33.1	33.8	32.6	31.3	29.7	29.4	28.8
Capital expenditure [1]	6.6	4.8	5.0	6.5	6.9	6.9	7.5	7.7	8.2
Overall balance, including grants	2.1	0.9	-1.4	0.8	-0.7	-0.5	-0.3	-0.2	0.0
Program primary balance	4.9	4.3	3.4	3.0	2.5	2.5	2.5	2.5	2.5
Total government and government-guaranteed debt [2]	74.6	69.7	72.6	66.9	62.7	58.3	53.6	49.4	45.4
Domestic (including debt issued for monetary purposes)	33.5	34.8	40.4	37.0	34.4	32.1	29.0	26.5	24.0
of which: Monetary debt	11.0	13.4	16.2	13.9	11.8	10.3	8.9	7.5	6.3
External	41.1	34.9	32.2	29.9	28.3	26.2	24.7	22.9	21.4
External sector									
Current account balance including official transfers (in percent of GDP)	-23.1	-18.6	-18.3	-15.8	-13.9	-13.5	-13.4	-12.8	-14.0
Total external debt outstanding (millions of U.S. dollars) [3]	1,588	1,372	1,404	1,462	1,516	1,551	1,592	1,648	1,713
(percent of GDP)	118.2	99.6	98.2	98.4	96.7	93.5	91.1	89.3	88.3
Terms of trade (-=deterioration)	-0.3	1.9	2.7	-0.4	0.2	-0.2	-0.6	-0.4	0.0
Real effective exchange rate (average, percent change)	-3.2	11.5	-0.2	…	…	…	…	…	…
Gross official reserves (end of year, millions of U.S. dollars)	462.9	536.8	522.6	526	505	522	558	600	657
Months of imports, c.i.f.	3.9	4.3	4.1	4.0	3.8	3.8	3.8	3.8	3.8
Exchange rate									
Seychelles rupees per US$1 (end-of-period)	14.0	13.2	13.5	…	…	…	…	…	…
Seychelles rupees per US$1 (period average)	12.7	13.3	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 as well as a revision to the data to include domestic guarantees. In addition, the lower primary deficit and higher interest payments have increased the debt.
[3] Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of U.S. dollars, unless otherwise indicated)								
Current account balance (+ surplus; - deficit)	-310	-256	-261	-235	-218	-224	-235	-236	-272
(percent of GDP)	-23.1	-18.6	-18.3	-15.8	-13.9	-13.5	-13.4	-12.8	-14.0
Balance of goods and services (+ surplus; - deficit)	-211	-124	-145	-96	-77	-73	-76	-78	-75
Exports of goods	539	449	459	493	504	516	526	584	682
Of which: oil re-exports	193	147	131	159	167	173	180	195	214
Of which: tuna exports	318	239	270	273	273	276	276	335	362
Imports of goods	1,081	922	991	1,012	1,039	1,079	1,138	1,258	1,326
Of which: oil imports	282	170	162	201	218	293	322	380	386
FDI-related	91	80	134	118	98	102	100	133	156
grants- and loans-related	84	63	93	74	81	83	84	81	92
other	624	609	602	620	642	602	632	664	691
Exports of services	834	848	894	943	986	1,011	1,035	1,091	1,118
Of which: tourism earnings[1]	398	393	414	437	462	479	496	526	538
Imports of services	504	498	507	520	527	521	499	495	550
Balance on primary income (+ surplus; - deficit)	-102	-105	-108	-108	-117	-124	-129	-125	-162
Of which: interest due	42	27	48	39	48	44	46	47	48
transfers of profits and dividends	16	18	19	18	16	17	18	19	19
Balance on secondary income (+ surplus; - deficit)	3	-27	-8	-30	-24	-27	-30	-33	-35
Of which: general government, net	57	38	50	28	27	27	27	27	28
Capital account	39	37	54	39	39	34	25	23	24
Financial account	258	271	244	197	165	215	253	261	310
Direct investment, net[1]	216	148	182	161	147	144	143	188	217
Abroad	-71	-5	-4	-4	-4	-4	-4	-4	-4
In Seychelles	145	144	178	157	143	140	139	185	214
Of which: offshore sector	0	0	0	0	0	0	0	0	0
Portfolio investment, net	-13	36	-50	-79	-104	-128	-101	-25	-46
Other investment, net	55	86	112	114	122	199	211	98	139
Government and government-guaranteed	22	-14	-35	-8	2	7	10	-1	-2
Disbursements	21	0	5	20	27	34	50	49	61
Project loans	3	0	5	20	27	34	50	49	61
Program loans	27	10	10	0	0	0	0	0	0
Amortization	-16	-24	-54	-36	-34	-33	-43	-49	-59
Private sector	32	100	146	122	119	192	202	99	141
Net errors and omissions	50	20	-50	0	0	0	0	0	0
Overall balance	36	72	37	1	-14	24	43	48	62
Financing	-36	-72	13	-1	14	-24	-43	-48	-62
Change in net international reserves (increase: –)	-36	-72	13	-1	14	-24	-43	-48	-62
Change in gross official reserves (increase: –)	-38	-74	14	-3	21	-17	-36	-42	-57
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	0
Exceptional financing	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:	(Percent of GDP, unless otherwise indicated)								
Exports G&S growth, percent	9.2	-5.5	4.3	6.1	3.7	2.5	2.3	7.3	7.5
Tourism growth, percent	-7.6	-1.2	5.3	5.7	5.7	3.7	3.4	6.1	2.3
Exports of goods volume growth, percent	-4.8	-12.1	8.7	1.7	1.3	1.8	1.4	13.4	5.8
Imports G&S growth, percent	17.5	-10.3	5.5	2.2	2.2	2.1	2.3	7.1	7.0
Imports of goods volume growth, percent	8.6	1.9	15.0	-3.9	1.7	3.0	4.9	9.3	4.5
Exports G&S, percent of GDP	102	94	94.69	97	95	92	89	91	93
Imports G&S, percent of GDP	118	103.19	104.87	103	100	96	94	95	97
FDI, percent of GDP[2]	16.1	10.8	12.8	10.8	9.4	8.7	8.2	10.2	11.2
Gross official reserves (stock, e.o.p.)	463	537	523	526	505	522	558	600	657
(Months of imports of goods & services)	3.9	4.3	4.1	4.0	3.8	3.8	3.8	3.8	3.8
Percentage of IMF reserve adequacy metric	142	182	181	177	167	171	180	188	202
Government and government-guaranteed external debt	501	486	453	441	442	434	429	419	412
(Percent of GDP)	37.3	35.3	31.7	29.7	28.2	26.1	24.6	22.7	21.3
GDP (Millions of U.S. dollars)	1,343	1,377	1,429	1,486	1,568	1,659	1,748	1,846	1,940

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

Table 3. Seychelles: Consolidated Government Operations, 2014–20[1]

	2014	2015	2016	2017	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018	2019	2020
	Act.	Act.	Prel.	Proj.	Proj.				Proj.	Proj.	Proj.
	(Millions of Seychelles rupees)										
Total revenue and grants	6,413	6,276	7,205	8,134	1,767	2,134	2,209	2,329	8,439	8,736	9,088
Total revenue	5,870	6,132	6,965	7,735	1,676	2,032	2,149	2,182	8,039	8,402	8,882
Tax	5,294	5,557	6,188	6,677	1,521	1,734	1,812	1,786	6,853	7,203	7,634
Personal income tax	878	948	939	869	202	211	198	206	817	795	844
Trade tax	376	326	359	300	83	79	90	86	338	331	351
Excise tax	858	962	1,144	1,284	317	323	339	377	1,355	1,405	1,491
Goods and services tax (GST) / VAT [2]	1,803	1,803	1,996	2,121	524	595	584	589	2,292	2,436	2,584
Business tax [3]	782	757	1,039	1,298	241	401	435	301	1,379	1,523	1,607
Corporate Social Responsibility Tax (CSR) [3]	84	79	87	92	24	24	26	25	99	105	112
Marketing Tourism Tax (MTT) [3]	40	45	45	59	15	16	16	17	64	68	72
Other	472	637	581	653	115	86	124	186	510	541	574
Nontax	576	575	777	1,058	155	297	338	396	1,186	1,199	1,249
Fees and charges	347	322	403	479	110	146	127	119	502	530	559
Dividends from parastatals	151	228	330	515	15	137	171	226	550	531	547
Other	78	25	44	63	29	14	40	50	134	138	142
External grants	543	144	240	399	90	103	60	147	400	334	206
Expenditure and net lending	5,981	6,057	7,277	8,165	1,778	2,092	2,103	2,618	8,592	8,857	9,165
Current expenditure	4,798	5,130	6,295	6,859	1,518	1,741	1,839	1,996	7,095	7,253	7,297
Primary current expenditure	4,393	4,566	5,581	6,213	1,392	1,615	1,658	1,740	6,404	6,554	6,606
Wages and salaries [4]	1,229	1,753	2,002	2,217	609	580	602	628	2,419	2,563	2,578
Goods and services [4]	1,288	2,126	2,489	2,634	528	721	732	736	2,717	2,723	2,754
Transfers [4]	1,855	659	1,063	1,327	239	303	316	375	1,233	1,234	1,239
Social program of central government	343	79	130	142	28	27	29	50	136	134	134
Transfers to public sector from central government	1,070	123	80	75	5	5	5	6	22	23	23
Benefits and programs of Social Security Fund	442	458	853	1,109	206	271	281	318	1,076	1,078	1,083
Other	21	29	27	35	15	11	7	1	35	35	35
Interest due	404	564	714	646	127	127	182	256	691	699	691
Foreign interest	175	181	190	204	62	49	100	23	234	256	279
Domestic interest	229	383	524	442	65	78	81	233	457	442	412
Capital expenditure	1,011	801	909	1,155	230	250	262	592	1,334	1,329	1,370
Domestically financed	656	651	644	641	119	113	152	336	720	787	948
Foreign financed	355	150	265	515	111	137	110	256	614	542	421
Net lending	120	77	35	135	27	95	-2	24	143	250	473
Contingency	53	49	38	16	4	5	4	7	20	25	25
Primary balance	836	783	642	615	115	169	288	-33	538	578	614
Overall balance, commitment basis [5]	431	219	-72	-31	-12	42	106	-289	-153	-121	-77
Change in float	-70	-48	-201	201	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	361	171	-273	170	-12	42	106	-289	-153	-121	-77
Financing	-361	-171	273	-170	12	-42	-106	289	153	121	77
Foreign financing	8	-84	-304	-223	-81	-57	-29	74	-92	15	95
Disbursements	230	102	287	275	37	61	89	192	378	473	698
Project loans	4	6	25	275	37	61	89	192	378	473	698
Program/budget support	226	96	262	0	0	0	0	0	0	0	0
Scheduled amortization	-222	-186	-591	-498	-117	-117	-117	-117	-469	-458	-603
Of which Paris Club buy-back	…	…	-269	…	…	…	…	…	…		
Domestic financing, net	-412	130	578	112	61	-26	-102	162	95	5	-96
Bank financing	-873	-172	389	101	58	-28	-105	160	85	5	-87
CBS	-1,076	-488	-191	250	125	63	50	13	250	200	200
Commercial banks	203	316	579	-149	-67	-91	-155	147	-165	-195	-287
Nonbank financing	461	302	190	11	2	2	2	2	9	1	-10
Privatization and long-term lease of fixed assets	77	46	76	101	32	40	25	53	150	100	78
Transfer of SSF deposits to SPF	…	-176	…	…	…	…	…	…	…		
Statistical discrepancy	-34	-86	-77	-160	0	0	0	0	0	0	0
Memorandum item:									0		
Pension Fund contribution	180	196	251	210	49	49	58	66	222	233	245
Pension Fund benefits payment	77	85	91	160	40	58	67	12	177	193	209
Pension Fund operating expenses	21	36	37	31	7	8	9	9	33	33	34
External debt service due	397	367	781	702	179	166	218	141	703	715	882

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 3. Seychelles: Consolidated Government Operations, 2014–20[1] (Concluded)

	2014	2015	2016	2017	2018					2019	2020
					Q1	Q2	Q3	Q4			
	Act.	Act.	Prel.	Proj.	Proj.				Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)										
Total revenue and grants	37.5	34.2	37.9	40.1	8.1	9.8	10.2	10.7	38.8	37.7	37.0
Total revenue	34.3	33.4	36.6	38.1	7.7	9.3	9.9	10.0	37.0	36.3	36.2
Tax	30.9	30.3	32.5	32.9	7.0	8.0	8.3	8.2	31.5	31.1	31.1
Personal income tax	5.1	5.2	4.9	4.3	0.9	1.0	0.9	0.9	3.8	3.4	3.4
Trade tax	2.2	1.8	1.9	1.5	0.4	0.4	0.4	0.4	1.6	1.4	1.4
Excise tax	5.0	5.2	6.0	6.3	1.5	1.5	1.6	1.7	6.2	6.1	6.1
Goods and services tax (GST) / VAT [2]	10.5	9.8	10.5	10.5	2.4	2.7	2.7	2.7	10.5	10.5	10.5
Business tax	4.6	4.1	5.5	6.4	1.1	1.8	2.0	1.4	6.3	6.6	6.5
Corporate Social Responsibility Tax (CSR)	0.5	0.4	0.5	0.5	0.1	0.1	0.1	0.1	0.5	0.5	0.5
Marketing Tourism Tax (MTT)	0.2	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.3	0.3	0.3
Other	2.8	3.5	3.1	3.2	0.5	0.4	0.6	0.9	2.3	2.3	2.3
Nontax	3.4	3.1	4.1	5.2	0.7	1.4	1.6	1.8	5.5	5.2	5.1
Fees and charges	2.0	1.8	2.1	2.4	0.5	0.7	0.6	0.5	2.3	2.3	2.3
Dividends from parastatals	0.9	1.2	1.7	2.5	0.1	0.6	0.8	1.0	2.5	2.3	2.2
Other	0.5	0.1	0.2	0.3	0.1	0.1	0.2	0.2	0.6	0.6	0.6
External grants	3.2	0.8	1.3	2.0	0.4	0.5	0.3	0.7	1.8	1.4	0.8
Expenditure and net lending	34.9	33.0	38.2	40.3	8.2	9.6	9.7	12.0	39.5	38.3	37.3
Current expenditure	28.0	28.0	33.1	33.8	7.0	8.0	8.5	9.2	32.6	31.3	29.7
Primary current expenditure	25.7	24.9	29.3	30.6	6.4	7.4	7.6	8.0	29.4	28.3	26.9
Wages and salaries [3]	7.2	9.6	10.5	10.9	2.8	2.7	2.8	2.9	11.1	11.1	10.5
Goods and services [3]	7.5	11.6	13.1	13.0	2.4	3.3	3.4	3.4	12.5	11.8	11.2
Transfers [3]	10.8	3.6	5.6	6.5	1.1	1.4	1.5	1.7	5.7	5.3	5.0
Social program of central government	2.0	0.4	0.7	0.7	0.1	0.1	0.1	0.2	0.6	0.6	0.5
Transfers to public sector from central government	6.2	0.7	0.4	0.4	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Benefits and programs of Social Security Fund	2.6	2.5	4.5	5.5	0.9	1.2	1.3	1.5	4.9	4.7	4.4
Other	0.1	0.2	0.1	0.2	0.1	0.1	0.0	0.0	0.2	0.1	0.1
Interest due	2.4	3.1	3.8	3.2	0.6	0.6	0.8	1.2	3.2	3.0	2.8
Foreign interest	1.0	1.0	1.0	1.0	0.3	0.2	0.5	0.1	1.1	1.1	1.1
Domestic interest	1.3	2.1	2.8	2.2	0.3	0.4	0.4	1.1	2.1	1.9	1.7
Capital expenditure	5.9	4.4	4.8	5.7	1.1	1.2	1.2	2.7	6.1	5.7	5.6
Domestically financed	3.8	3.6	3.4	3.2	0.5	0.5	0.7	1.5	3.3	3.4	3.9
Foreign financed	2.1	0.8	1.4	2.5	0.5	0.6	0.5	1.2	2.8	2.3	1.7
Net lending	0.7	0.4	0.2	0.7	0.1	0.4	0.0	0.1	0.7	1.1	1.9
Contingency	0.3	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Primary balance	4.9	4.3	3.4	3.0	0.5	0.8	1.3	-0.2	2.5	2.5	2.5
Overall balance, commitment basis [4]	2.5	1.2	-0.4	-0.2	-0.1	0.2	0.5	-1.3	-0.7	-0.5	-0.3
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	-0.4	-0.3	-1.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	2.1	0.9	-1.4	0.8	-0.1	0.2	0.5	-1.3	-0.7	-0.5	-0.3
Financing	-2.1	-0.9	1.4	-0.8	0.1	-0.2	-0.5	1.3	0.7	0.5	0.3
Foreign financing	0.0	-0.5	-1.6	-1.1	-0.4	-0.3	-0.1	0.3	-0.4	0.1	0.4
Disbursements	1.3	0.6	1.5	1.4	0.2	0.3	0.4	0.9	1.7	2.0	2.8
Project loans	0.0	0.0	0.1	1.4	0.2	0.3	0.4	0.9	1.7	2.0	2.8
Program/budget support	1.3	0.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-1.3	-1.0	-3.1	-2.5	-0.5	-0.5	-0.5	-0.5	-2.2	-2.0	-2.5
Of which Paris Club buy-back	…	…	-1.4	…	…	…	…	…	…		
Domestic financing, net	-2.4	0.7	3.0	0.6	0.3	-0.1	-0.5	0.7	0.4	0.0	-0.4
Bank financing	-5.1	-0.9	2.0	0.5	0.3	-0.1	-0.5	0.7	0.4	0.0	-0.4
CBS	-6.3	-2.7	-1.0	1.2	0.6	0.3	0.2	0.1	1.1	0.9	0.8
Commercial banks	1.2	1.7	3.0	-0.7	-0.3	-0.4	-0.7	0.7	-0.8	-0.8	-1.2
Nonbank	2.7	1.6	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization and long-term lease of fixed assets	0.5	0.3	0.4	0.5	0.1	0.2	0.1	0.2	0.7	0.4	0.3
Transfer of SSF deposits to SPF	…	-1.0	…	…	…	…	…	…	…		
Statistical discrepancy	-0.2	-0.5	-0.4	-0.8	0.0	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	20,281	21,747	21,747	21,747	21,747	21,747	23,144	24,555
Transfer of assets of SSF to SPF											
Pension Fund contribution	1.1	1.1	1.3	1.0	0.2	0.2	0.3	0.3	1.0	1.0	1.0
Pension Fund benefits payment	0.4	0.5	0.5	0.8	0.2	0.3	0.3	0.1	0.8	0.8	0.9
Pension Fund operating expenses	0.1	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.2	0.1	0.1
Public domestic debt [5]	31.7	32.9	36.8	33.9	…	…	…	30.9	30.9	28.2	25.3
Excluding t-bills issued for monetary purposes	20.7	19.5	20.6	19.9	…	…	…	19.0	19.0	17.9	16.5
Publicly guaranteed domestic debt	1.8	1.9	3.6	3.1	…	…	…	3.6	3.6	3.9	3.6

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 4. Seychelles: Monetary Survey and Central Bank Accounts, 2014–18

	2014	2015	2016	2017				2018			
				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Est.	Est.	Est.	Est.	Est.	Est.	Proj.	Proj.			
	(Millions of Seychelles rupees)										
Monetary survey											
Net foreign assets	9,657	9,349	9,817	10,462	10,406	11,027	11,038	11,216	11,116	11,117	10,940
Central bank	5,906	6,506	6,550	6,953	6,862	6,941	6,655	6,888	6,692	6,652	6,447
Deposit money banks	3,751	2,844	3,267	3,510	3,544	4,086	4,383	4,328	4,424	4,466	4,493
Net domestic assets	2,169	2,823	3,831	3,463	4,004	4,197	4,563	4,790	5,186	5,470	5,931
Domestic credit	5,818	6,229	7,110	6,853	7,159	7,241	7,735	7,570	7,679	8,047	8,359
Net claims on the government	1,414	1,309	1,791	1,538	1,631	1,260	1,593	1,651	1,623	1,518	1,678
Of which: Government deposits at the Central Bank	-2,676	-3,164	-3,355	-3,219	-3,545	-3,807	-3,355	-2,980	-2,917	-2,867	-2,855
Of which: Change in monetary debt [1]	-1,076	-488	-191	-176.7	300.6	62.5	63.6 n	125.0	62.5	50.0	12.5
Credit to the economy	4,404	4,920	5,319	5,315	5,529	5,981	6,142	5,919	6,056	6,529	6,681
Of which: credit to the private sector	4,307	4,644	5,122	5,127	5,302	5,764	5,924	5,701	5,838	6,311	6,463
Other items, net	-3,649	-3,406	-3,279	-3,390	-3,155	-3,045	-3,172	-2,780	-2,493	-2,577	-2,428
Broad money	11,825	12,173	13,648	13,926	14,410	15,224	15,601	16,006	16,303	16,587	16,871
Currency in circulation	874	932	1,026	996	8,947	1,059	1,094	1,034	1,044	1,069	1,173
Foreign currency deposits	4,950	4,732	5,029	5,222	5,464	6,139	6,153	6,172	6,377	6,397	5,568
Local currency deposits	6,002	6,509	7,592	7,708	7,937	8,025	8,354	8,800	8,881	9,121	10,130
Central bank											
Net foreign assets	5,906	6,506	6,550	6,953	6,862	6,941	6,655	6,888	6,692	6,652	6,447
Foreign assets	6,498	7,062	7,059	7,523	7,454	7,536	7,224	7,459	7,265	7,226	7,023
Foreign liabilities	592	556	508	571	592	595	569	571	573	575	576
Net domestic assets	-3,519	-3,892	-3,558	-4,126	-3,667	-3,521	-3,102	-3,459	-3,255	-2,987	-2,645
Domestic credit	-2,475	-3,301	-2,855	-3,402	-2,988	-2,853	-2,398	-2,740	-2,518	-2,208	-1,805
Government (net)	-1,491	-1,979	-2,170	-2,346	-2,046	-2,401	-1,920	-1,795	-1,732	-1,682	-1,670
Commercial banks	-885	-1,180	-610	-871	-853	-270	-296	-764	-604	-344	46
Other (parastatals)	-100	-142	-75	-185	-90	-182	-182	-182	-182	-182	-182
Other items, net	-1,044	-591	-703	-724	-679	-668	-704	-718	-737	-778	-840
Reserve money	2,388	2,614	2,992	2,826	3,194	3,420	3,553	3,429	3,437	3,665	3,802
Currency in circulation	874	932	1,026	996	1,009	1,059	1,094	1,034	1,044	1,069	1,173
Commercial bank reserves (includes cash in vault)	1,514	1,682	1,966	1,830	2,185	2,361	2,459	2,395	2,393	2,596	2,629
Of which: vault cash	144	…	…	…	…	…	…	…	…	…	…
Of which: excess reserves (excl. bank vault cash)	-71	…	…	…	…	…	…	…	…	…	…
Of which: required reserves in foreign currency [2, 3]	555	654	703	701	722	827	829	831	859	861	750
required reserves in domestic currency [2]	886	930	1,061	1,097	1,122	1,158	1,186	1,246	1,258	1,291	1,424
Memorandum items:											
Gross official reserves (millions of U.S. dollars) [4]	463	537	562	551	547	552	526	541	526	521	505
Foreign currency deposits (millions of U.S. dollars)	353	360	372	383	401	449	448	448	461	461	400
Broad money growth (12–month percent change)	26.6	2.9	12.1	7.2	13.2	14.3	14.3	14.9	13.1	9.0	8.1
Credit to the private sector (12–month percent change)	26.2	7.8	10.3	8.1	11.2	15.4	15.7	11.2	10.1	9.5	9.1
Reserve money (end-of-period; 12–month percent change)	13.9	9.5	14.5	4.9	13.5	18.9	18.7	21.3	7.6	7.2	7.0
Reserve money (daily average over quarter; 12–month perce	-14.5	7.2	10.4	8.5	9.9	19.1	18.8	14.6	11.1	7.2	7.0
Money multiplier (broad money/reserve money)	5.0	4.7	4.6	4.9	4.5	4.5	4.4	4.7	4.7	4.5	4.4
Velocity (GDP/broad money; end-of-period)	1.4	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3

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

[1] Negative shows accumulation, positive shows retiring (debt that is not rolled over)

[2] 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.

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

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2012 Q4–2017 Q2[1]

	2012	2013	2014	2015				2016				2017	
	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	(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	25.7	23.4
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	18.3	19.7
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	11.5	10.8
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	13.6	11.0
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	24.7	21.6
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	7.0	6.9
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	36.0	35.6
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	2.5	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	3.4	4.0
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	29.8	36.8
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	61.7	61.6
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	51.4	51.6
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	4.3	5.0
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	-0.9	-1.1
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	57.1	57.5
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	13.1	13.8
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	28.7	40.2
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	47.2	57.2
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	54.1	65
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	53.4	64.1
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	57.1	69.1
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	0.5	-1.9

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 6. Seychelles: Schedule of Reviews Under the Policy Coordination Instrument, 2017–20

Program Review	Test Date	Review Date
Board discussion of a PCI request		December 13, 2017
First Review	December 31, 2017	April 30, 2018
Second Review	June 30, 2018	October 31, 2018
Third Review	December 31, 2018	April 30, 2019
Fourth Review	June 30, 2019	October 31, 2019
Fifth Review	December 31, 2019	April 30, 2020
Sixth Review	June 30, 2020	October 31, 2020

Source: IMF

Annex I. Ex Post Assessment of Longer-Term Program Engagement[1]

Background

1. Seychelles' decades long pursuit of unsustainable policies and rising structural distortions led to the economic and financial crisis in 2008. By late 2008, the gross international reserves' prospective import coverage dropped to ½ month while the public debt to GDP ratio reached almost 200 percent.

2. The medium-term nature of balance of payments problems, coupled with the authorities' comprehensive and ambitious structural reform agenda resulted in a longer-term program engagement with the Fund:

- The 2008–09 Stand-By Arrangement (SBA) addressed foreign exchange distortions, acute balance of payments needs, implemented a fiscal adjustment, and stabilized the macroeconomic environment.
- The 2009–13 Extended Arrangement (EFF) supported the public debt restructuring aimed at reestablishing external sustainability and the second-generation structural reforms aimed at securing macroeconomic stability and raising growth performance.
- The 2014–17 EFF addressed the continuing balance of payments needs arising from difficulties in the face of increasing debt services and helped entrench structural reforms to maintain growth and bolster economic resilience.

Performance Under the Programs

3. Seychelles made considerable progress toward macroeconomic stability under the three consecutive Fund-supported programs. Since the 2008 crisis, the authorities have implemented prudent macroeconomic policies together with bold structural reforms. These led to strong economic growth as well as substantial improvement in fiscal and external positions.

- Structural reforms under the 2008–09 SBA restored fiscal and monetary policy credibility, which paved way for the successful public debt restructuring.
- External public debt restructuring conducted under the 2009–13 EFF reduced the public debt to GDP ratio by around 40 percentage points.

[1] Peer reviewed by the desk team for Sao Tome and Principe.

- Steadfast implementation of the second-generation of structural reforms under the following two EFFs strengthened public finance management, reduced the role of the state in the economy,[2] and bolstered the financial system.

- Underpinned by the prudent macroeconomic policies and robust progress in structural reforms, Seychelles enjoyed strong economic growth while running a large primary fiscal surplus every year since 2009.[3]

- As a result, the public debt to GDP ratio dropped to below 70 percent and reserves' prospective import coverage exceeded 4 months by end-2015.

4. Seychelles observed conditionality established under the programs consistently for the large part of the period:

- As to the quantitative performance criteria, all performance criteria were consistently met under both the 2008-09 SBA and the 2009-13 EFF. Under the 2013-17 EFF, most performance criteria were met, with only one review (fourth review) not concluded on time due to fiscal slippages.

- As to the structural benchmarks, most were met or met with delay under all three programs. While all the structural benchmarks were met under the 2008-09 SBA, more than 90 percent of the benchmarks were met or met with delay under the both EFF programs.

5. Program design under the three consecutive programs was appropriate:

- All the approved amount of access to Fund resources has been withdrawn.

- Except for the fiscal policy slippage in 2016, which led to a delay in completion of the fourth review under the 2014–17 EFF, the authorities consistently met the quantitative performance criteria.

- When social concerns over economic inequality led to fiscal slippage in 2016, the fiscal target was loosened with a view to reconciling the country's social objectives with the program's anchor of the medium-term public debt sustainability.

- The structural agenda advanced broadly in line with the programs. However, deadlines could have benefited from a more feasible timeline, given that most delays were due to

[2] Compared with the period proceeding to the crisis in 2008, employment in the government and SOE sectors has declined by more than 20 percent, which has been offset by the increase in the private sector employment.

[3] Average real GDP growth was 4¼ percent while the average primary surplus to GDP ratio reached 6½ percent during 2009–16.

technical and administrative hurdles, particularly on the measures to strengthen the offshore sector during the 2014–17 EFF.

Lessons Learned

6. The following key lessons can be drawn from the three programs:

- *Strong ownership by the authorities played a key role in successful programs*. During the program period since late 2008, the authorities proactively set the macroeconomic targets and designed the over-arching and ambitious structural reform agenda. Their strong sense of ownership led to steadfast implementation of prudent macroeconomic policies and structural reforms in consecutive years.

- *Social needs and macroeconomic stability need to be carefully balanced.* Social concern over economic inequality led to a temporary program slippage in 2016. In the future, staff are advised to exercise flexibility when the authorities face difficulties in achieving macroeconomic targets in the face of social concern with a view to helping the authorities to find measures to reconcile economic stability and social goals, as illustrated by the 4th and 5th review discussions under the 2014–17 EFF. The structural reform agenda could put more emphasis on measures to enhance inclusive growth.

- *Seychelles could benefit from continued program engagement with the Fund to safeguard macroeconomic stability and promote structural reforms for sustainable and economic growth.*

7. The authorities concurred with the staff's assessment.

Table 1.1. Seychelles: Stand-By Arrangement Approved in November, 2008

Category	Description	Status of Conditionality Dec-08	Apr-09	Jun-09	Sep-09
Tax Reforms and Public Financial Management	Complete tax audits by Seychelles Revenue Commission of the 20 largest companies.				
	Adopt a tax policy reform strategy with FAD TA.				
	Introduce a treasury single account.				
	Adopt public enterprise monitoring and control act.				
	Amend the Business Tax Act in line with the tax reform strategy.				
	Cabinet approval of a customs reform strategy and implementation plan.				
	Submit to National Assembly a new customs management act, including HS codes.				
	Introduce Personal Income Tax.				
	Introduce budget submissions protocols and procedures.				
	Adopt a new chart of account for the 2011 budget.				
Debt Restructuring and Public Debt Management	Submit to the National Assembly a Public Debt Law, defining a legal framework for public debt management, and specifying the roles and responsibilities fo the bodies engaged in contracting and managing public debt.				
Transparency and Good Governance	Parliamentary approval of a Public Procurement Act.				
	Approve a memorandum of understanding, under Article 34 of the CBS act, formalizing the operational terms and conditions under which the CBS acts as agent for the government.				
	Submit to the National Assembly a revision of the CBS act to strenghten governance and operations.				
	Complete CBS procedures manual.				
Financial Sector Development and Stability	Promulgate updated credit classification and provisioning regulations and stregnthened commercial bank capitalization norms.				
	Adopt a modernized and strengthened financial instituions act, with IMF TA support.				
	CBS to publish commercial bank supervision report.				
	Submit to National Assembly a bill creating a national clearing house and settlement system.				
Liberalization of the exchange regime	Establish a foreign reserves management committee and adopt investment guidelines.				
National Statistics	Publish general government fiscal statistics.				

Note:
- met
- met with delay
- not met

Table 1.2. Seychelles: Three-Year Extended Arrangement Approved in December, 2009

Category	Description	Status of Conditionality																							
		Sep-09	Dec-09	Mar-10	Apr-10	Jun-10	Jul-10	Sep-10	Nov-10	Dec-10	Apr-11	Jun-11	Jul-11	Sep-11	Dec-11	Mar-12	Jun-12	Jul-12	Sep-12	Oct-12	Jan-13	Mar-13	Jun-13	Jul-13	Oct-13
Tax Reforms and Public Financial Management	Introduce a treasury single account																								
	Amend the Business Tax Act in line with the tax reform strategy.																								
	Cabinet approval of a customs reform strategy and implementation plan.																								
	Submit to National Assembly a new customs management act, including HS codes.																								
	Introduce Personal Income Tax.																								
	Introduce budget submissions protocols and procedures.																								
	Adopt a new chart of account for the 2011 budget.																								
	Launch a strategic plan for the reform of the social security system.																								
	Cabinet approval of VAT regulations, including rates, exemptions, and thresholds.																								
	Cabinet approval of a new Public Finance Bill extending the national Assembly's oversight on capital expenditure budget.																								
	Reinstate the electricity tariff adjustment for fuel price variation.																								
	Introduce VAT.																								
	Cabinet approval of the public sector investment programme to be used for the 2013 budget planning.																								
	Cabinet approval of financial instructions and accounting manuals in line with new PFM Act and IPSAS standards.																								
Transparency and Good Governance	Complete CBS procedures manual.																								
Financial Sector Development and Stability	CBS to publish commercial bank supervision report.																								
	Submit to National Assembly a bill creating a national clearing house and settlement system.																								
	Cabinet approval of the amendments to Financial Institutions Act.																								
	Introduction of the credit information system.																								
	Creation of the commercial court.																								
	Implementation of Electronic Clearing House system.																								
Public Enterprises Reforms and Private Sector Development	Adopt public enterprise monitoring and control act																								
	Adopt an action plan for house financing policy that limits the role of the public sector.																								
	Commission and complete a study on optimal tariffs for utilities.																								
	Develop a privatization plan for nonstrategic public enterprises, which do not serve public policy goals.																								
	Cabinet approval of new DBS mandates.																								
	Based on the results of optimal tariff study, implement reform of utilities tariffs.																								
	Cabinet approval of the action plan to rebalance utility tariffs.																								
	Approval of leasing bill by National Assembly.																								
	Implement the first step of the utilities tariffs rebalancing.																								
Liberalization of the Exchange Regime	Adopt foreign reserves management investment guidelines.																								
National Statistics	Publish general government fiscal statistics.																								

Note:
- met
- met with delay
- not met

Panel Figure 1.1 Structural Benchmarks 2009-2013

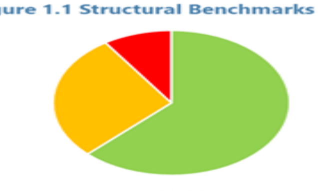


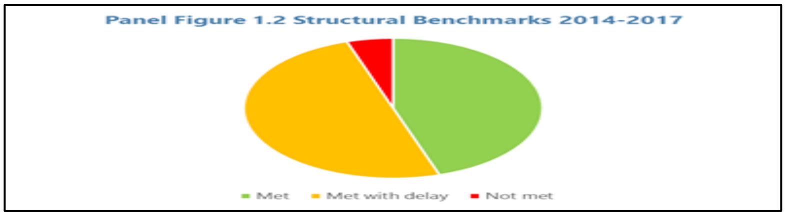
Table 1.3. Seychelles: Three- Year Extended Arrangement Approved in June, 2014

Category	Description	Jun-14	Sep-14	Oct-14	Nov-14	Dec-14	Mar-15	Apr-15	May-15	Jun-15	Sep-15	Oct-15	Dec-15	Jan-16	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Apr-17	Jun-17
		Status of Conditionality																			
Real Sector and Private Sector Development	Cabinet approval of the medium-term national development strategy (MTNDS)				met with delay																
	Submission to National Assembly of (i) amendment of Seychelles Revenue Commission Act to be consistent with international standard; and (ii) ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.							met with delay													
	Cabinet approval of a strategy to reduce restrictive practices at the Port of Victoria.								met												
	Cabinet approval of a revised micro, small and medium enterprise policy.														met						
Financial Sector Development and International Financial Services Sector	Cabinet approval of a strategic plan on financial sector development.				met with delay																
	Approval by the Board of CBS of a framework for macro prudential surveillance.														met with delay						
	Submission to National Assembly of new legislation on International Business Companies consistent with international standards.													met with delay							
	Submission to National Assembly of new legislation on International Corporate Service Providers and Trusts consistent with international standards.													met with delay							
	Development of a CBS strategy to improve financial literacy.[1]																				met with delay
	Cabinet approval of a strategy to tackle AML/CFT risks, drawing on the National Risk Assessment.[1]																				met with delay
Fiscal Policy and Public Financial Management Policy	Cabinet approval of a medium-term fiscal framework (MTFF)				met with delay																
	Establish and publish comprehensive asset register for the following 5 state-owned enterprises (Air Seychelles, Seypec, SCAA, STC, PUC), including state land.					met															
	Enhance collection of business tax by conducting at least 60 tax audits of business from January 2015 to end-September 2015.										met										
	Update and publish on-line a government asset register, including state land.												not met								
	Cabinet approval of public financial management action plan.																		met with delay		
	Cabinet approval of new public private partnership regulation.																	met			
	Submission of 2017 budget consistent with program goals, targeting 3.0 percent primary surplus to National Assembly.																	met			
State-Owned Enterprises (SOEs)	Endorsement by the National Tender Board of the procurement policies of all those state-owned enterprises incorporated under the company act.				met with delay																
	Approval by PEMC Board of a plan for carrying out governance audits of SOEs, including a plan for ensuring sufficient capacity.			met																	
	Approval by Cabinet of a policy to further strengthen supervision of SOEs that operate on commercial terms, includign independent review of large investment plans.								met with delay												
	Conduct governance reviews and operational/business assessments of three SOEs.															met					
	Conduct governance reivews and operational/business assessments of a further three SOEs.																	met			
	Approval by Cabinet of SOE strategy building on results of governance reviews.																			met with delay	

Note:
- met
- met with delay
- not met

[1] To be confirmed by the Authorities.

Panel Figure 1.2 Structural Benchmarks 2014-2017



Annex II. Debt Sustainability Analysis

Despite the slight delay in debt reduction compared with the previous DSA, Seychelles' public debt trajectory is projected to remain on a steadily downward path given the authorities commitment to taking the necessary fiscal measures to ensure primary surpluses of 2½ percent of GDP as envisaged in the PS. Public debt is expected to fall below 50 percent of GDP by 2021 and decline further thereafter. While the heat map indicates substantial vulnerability, the authorities' public debt management and steadfast decline in the level of public debt would improve the heat map significantly over the medium term (see ¶20 of the Staff Report). External private debt remains elevated, but this largely reflects foreign investment in the tourism industry, with the foreign currency earnings of the sector mitigating risks. However, as a small island economy Seychelles remains vulnerable to a number of shocks: gross public and external financing needs remain very high for the foreseeable future, and the large foreign currency-denominated debt remains a key source of risk. Further progress in reducing the public debt stock and extending the maturities of the domestic public debt is therefore warranted.

1. **Evolution of the public debt stock since the previous DSA:** The DSA is broadly in line with the previous DSA conducted for the 4th and 5th reviews under the previous Extended Arrangement (EFF). The public debt stock is slightly higher than previously projected, reflecting: i) a downward revision of the primary surplus after 2018 to 2–2½ percent of GDP from 3 percent of GDP in the previous DSA; and iii) a marginally larger-than-projected domestically-guaranteed public borrowing during 2016.

2. **Macroeconomic and fiscal assumptions:** The assumptions underpinning the DSA are those of the baseline scenario of this Staff Report. Real GDP growth is projected at around 4¼ percent in 2017, falling to around estimated potential growth of around 3 to 3½ percent in the medium term—similar to estimates in the previous DSA. Inflation is projected at around 3 percent over the medium term. The program primary fiscal surplus is expected to be 2½ percent of GDP from 2018 onwards, in line the authorities' revised target.[1]

3. **The definition of public debt in this DSA includes:** (i) central government debt as reported by the authorities; (ii) government guarantees issued for loans extended to state-owned enterprises; and (iii) obligations to the IMF. In view of the structural excess liquidity in the Seychelles, debt issued by the central government for monetary purposes is included in the public debt stock in this analysis: while there is an offsetting unremunerated deposit in the central bank, the debt does impose an interest cost and rollover need for the public sector.[2] However, a

[1] The program primary surplus includes net lending to SOEs, reflecting the consideration that the PUC's tariff structure is insufficient to cover its capital costs.

[2] To illustrate the impact of excluding debt issued for monetary purposes, the "net public debt" figures shown in the tables consist of gross debt less the government deposits held at the central bank as a counterpart to the sterilization operations.

portion of this monetary debt is projected to unwind as the central bank develops other instruments for managing monetary policy.

4. **The DSA framework suggests that Seychelles' public debt (including government guarantees) is currently around the high-risk benchmark, but is falling rapidly provided that the authorities implement fiscal consolidation to be envisaged under the forthcoming PCI.** The DSA suggests that although debt was still high at around 72 percent of GDP at end-2016, around the indicative threshold used in the DSA framework to highlight high risk debt levels (red in the standardized heat map). However, assuming the authorities' commitment to debt reduction and fiscal discipline remains unchanged, while the economy suffers no major negative shocks, the debt level is projected to fall significantly over the medium term under the baseline scenario, falling below 50 percent by 2021, or by 2019 if the domestic debt issued for monetary purposes is excluded. Given that the red (high vulnerability) blocs of the Heat Map arise from the high level of public debt stock (and resulting high gross financing needs), the authorities are urged to implement the fiscal consolidation steadfastly to reduce public debt vulnerability. They would also need to extend the maturities of the domestic debt where possible to mitigate the risks arising from the high gross financing needs.

5. **Realism of baseline assumptions.** With forecast errors for real GDP growth over the period 2006–14 broadly centered around the median, staff projections have been fairly unbiased in the past, suggesting little tendency towards over optimism. While the projected primary balances imply a relatively high fiscal surplus, Seychelles' strong performance in the past means that this does not require any further fiscal adjustment.

6. **The debt path remains below the high-risk benchmark under most shock scenarios, but remains vulnerable to a real exchange rate shock.**[3] Under the real exchange rate shock, the debt-to-GDP ratio would peak at around 80 percent in 2018 and fall thereafter, but would remain around 16 percentage points above the 50 percent target for 2021. Other one-time shocks to the primary balance and the real interest rate would merely moderate the pace of the fall in the debt-to-GDP ratio, but could delay the authorities' attainment of their debt reduction goal by several years. The asymmetric fan chart, however, highlights that a persistently looser fiscal position would keep debt at an elevated level and could prevent the authorities' debt target from being attained in the foreseeable future.

7. **A combined macro-fiscal shock would send the debt-to-GDP ratio well above the critical value of 70 percent.** The combined macro-fiscal shock is an aggregation of the shocks to real growth, the interest rate, the primary balance and the exchange rate. To reduce the currency risks on public debt, the government will conduct a liability management exercise to swap current US dollar obligation into euros in coming months (see ¶20 of the Staff Report).[4] Under this

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[3] The negative residuals are accounted for by the amortization of the publicly-guaranteed debt and the repayment of debt to the IMF (which is a liability of the CBS).

[4] The liability management exercise, which will reduce the currency risks and could save interest costs but will not change the level of public debt, is not included in the baseline.

scenario, the debt-to-GDP ratio would peak at around 120 percent before falling very gradually thereafter, while the debt-to-revenue ratio would increase to almost 300 percent.

8. The baseline scenario and the numerous shocks produced by the DSA template indicate that, while Seychelles remains very vulnerable to exogenous shocks, continued strong policy implementation should see these risks diminish over the medium term. Under the baseline, gross financing needs fall over the projection period but remains elevated at over 20 percent in 2022, reflecting the short tenor of the large majority of domestic debt. Moreover, gross financing needs increase significantly under various shocks, especially under the combined macro-fiscal shock or the real GDP growth shock, and remain above the indicative threshold even under the baseline. While the steadfast implementation of fiscal consolidation will help to reduce gross financing needs, further measures to extend the average maturity of domestic issuance wherever possible would also reduce rollover risks (see ¶20 of the Staff Report).

9. The existence of substantial debt contracted by state-owned enterprises requires careful analysis of the potential risks. Preliminary analysis suggests additional debt liabilities of the SOEs total around 13 percent of GDP, most of which is owed by SEYPEC and Air Seychelles. While these debts do not benefit from an explicit government guarantee, in the past such obligations have at times been assumed by the government. In 2012, for example, the government assumed liabilities and obligations of Air Seychelles amounting to around 5 percent of GDP. This DSA therefore provides a scenario where external debts of a similar magnitude are assumed by the government in 2020. Under this scenario, the government's goal of reducing the debt below 50 percent of GDP would be delayed by one year, highlighting the need to monitor such debts carefully with a view to mitigating any risk of SOEs' obligations migrating to the government balance sheet.

10. The results of the updated external DSA reveals that debt remains elevated at around 98 percent of GDP. However, the risks continue to be mitigated by the composition of external debt and maturity profile: Seychelles' debt stock consists largely of borrowing by the public and tourism sectors. As of end 2016, about one third of the country's external debt is medium to longer-term government borrowing, largely from official sources and at favorable interest rates and maturities, and a further third is FDI-related borrowing, largely to the hotel sector, with less than 20 percent of the debt being short-term, largely trade credits and other lines of credit.

11. Standardized stress tests confirm that the country's external debt is particularly sensitive to currency depreciation shocks. A 30 percent real depreciation of the domestic currency would lead to a spike in external debt-to-GDP ratio to about 160 percent in 2018 and nearly 168 percent by 2022, compared to about 88 percent under the baseline scenario. The interest rate, growth and current account shocks would have a relatively lower, yet significant effect on the country's external debt profile. A permanent ½ standard deviation shock to real interest rate, growth, and the current account (excluding interest payments) would lead to a gradual increase in the external debt-to-GDP ratio to nearly 140 percent by the end of the projection period.

12. The authorities agreed with the assessment of Staff's DSA.

Seychelles: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

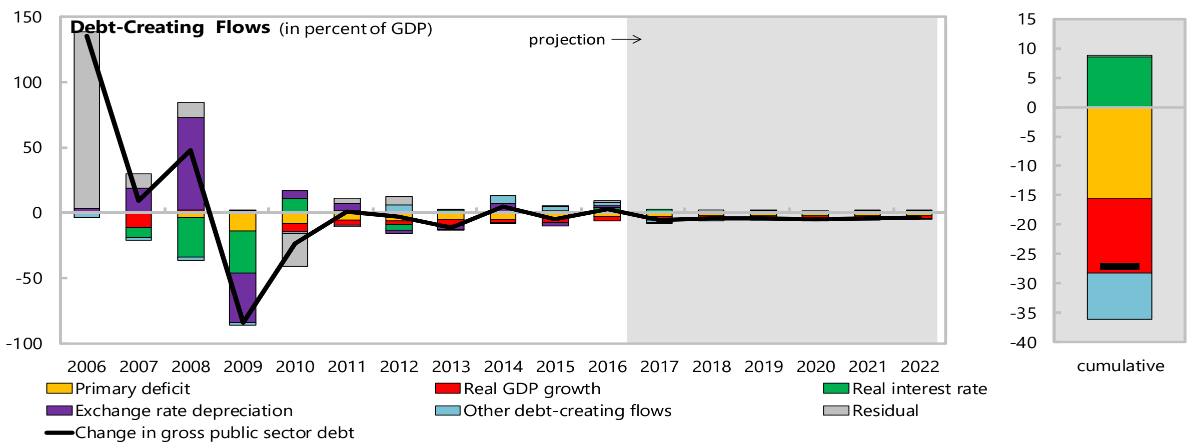
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	108.3	69.7	72.6	66.9	62.7	58.3	53.6	49.4	45.4
Of which: guarantees	1.5	2.4	4.0	3.4	3.2	3.0	2.8	2.7	2.5
Public gross financing needs	26.7	24.3	32.3	32.9	31.4	30.1	29.1	25.6	22.9
Net public debt		56.1	56.5	53.0	50.9	48.1	44.8	41.9	39.1
Real GDP growth (in percent)	4.7	5.0	4.5	4.2	3.3	3.3	3.3	4.1	4.0
Inflation (GDP deflator, in percent)	10.1	2.0	-0.7	2.2	3.8	3.0	2.7	2.6	2.7
Nominal GDP growth (in percent)	14.9	7.1	3.8	6.6	7.2	6.4	6.1	6.8	6.8
Effective interest rate (in percent) [4/]	5.3	4.6	5.8	6.4	5.3	5.1	5.0	5.2	5.3

As of February 10, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	B+	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	8.3	-4.9	2.9	-5.7	-4.2	-4.4	-4.7	-4.2	-4.0	-27.2	
Identified debt-creating flows	-7.7	-5.5	1.7	-4.9	-5.5	-4.6	-4.2	-4.3	-4.1	-27.6	
Primary deficit	-5.1	-4.3	-3.3	-3.0	-2.5	-2.5	-2.5	-2.5	-2.5	-15.5	-1.6
Primary (noninterest) revenue and gra	37.4	34.2	37.8	40.1	38.8	37.7	37.0	36.9	36.9	227.5	
Primary (noninterest) expenditure	32.3	30.0	34.5	37.1	36.3	35.2	34.5	34.4	34.4	212.0	
Automatic debt dynamics [5/]	-2.5	-4.3	2.3	-0.1	-1.2	-0.8	-0.6	-0.8	-0.7	-4.2	
Interest rate/growth differential [6/]	-9.8	-1.8	1.3	-0.1	-1.2	-0.8	-0.6	-0.8	-0.7	-4.2	
Of which: real interest rate	-6.7	1.7	4.3	2.8	0.9	1.2	1.2	1.2	1.2	8.5	
Of which: real GDP growth	-3.1	-3.5	-3.0	-2.9	-2.1	-1.9	-1.8	-2.1	-1.9	-12.7	
Exchange rate depreciation [7/]	7.3	-2.5	0.9	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	3.0	2.7	-1.7	-1.8	-1.3	-1.1	-1.0	-0.9	-7.9	
Privatization Proceeds (negative)	-1.5	-0.3	-0.4	-0.5	-0.7	-0.4	-0.3	-0.2	-0.2	-2.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic debt issuance for monetary	1.3	3.3	3.1	-1.2	-1.1	-0.9	-0.8	-0.8	-0.7	-5.5	
Residual, including asset changes [8/]	16.0	0.6	1.3	-0.9	1.4	0.2	-0.5	0.1	0.1	0.4	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as .

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

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

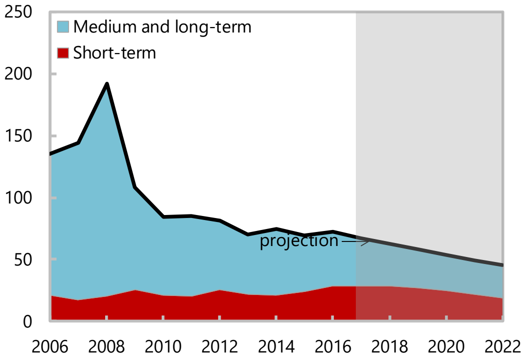
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Seychelles: Public DSA – Compilation of Public Debt and Alternative Scenarios

Composition of Public Debt

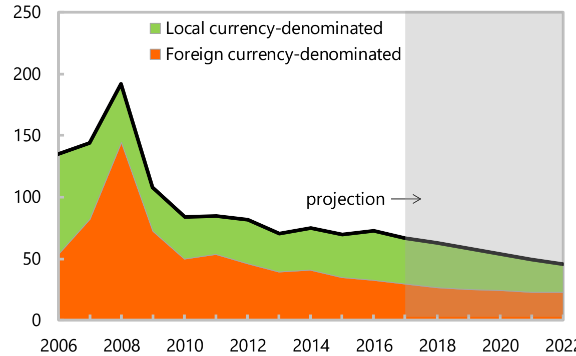
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

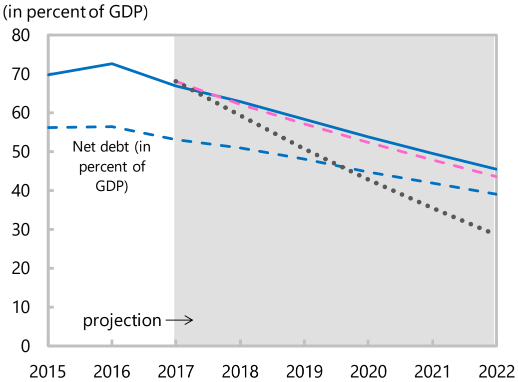


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

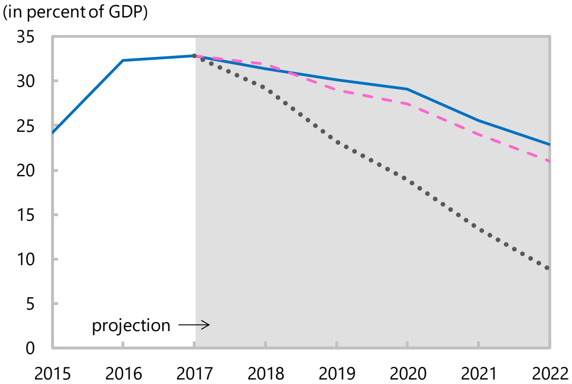
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

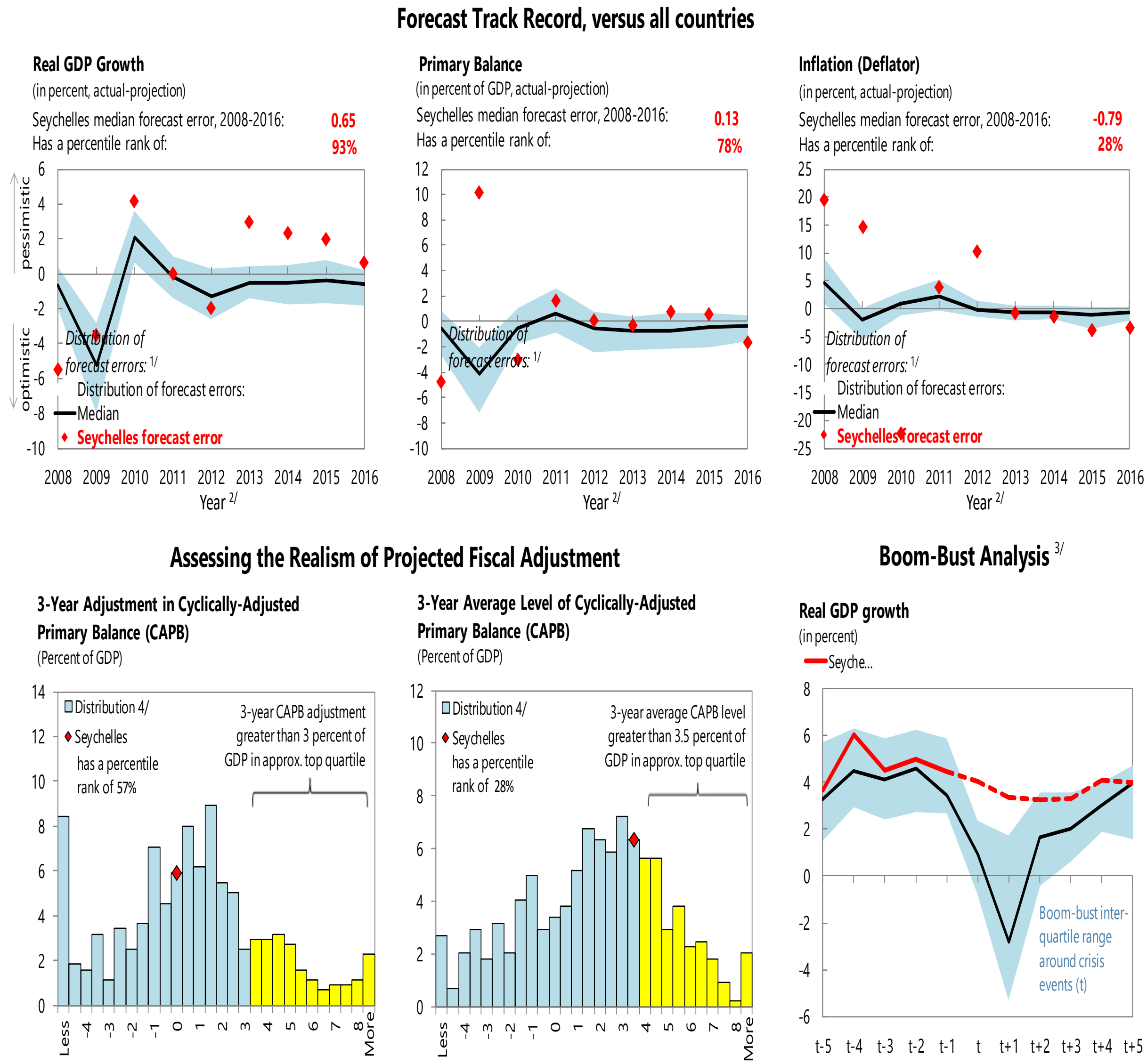
(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	4.2	3.3	3.3	3.3	4.1	4.0
Inflation	2.2	3.8	3.0	2.7	2.6	2.7
Primary Balance	3.0	2.5	2.5	2.5	2.5	2.5
Effective interest rate	6.4	5.3	5.1	5.0	5.2	5.3
Constant Primary Balance Scenario						
Real GDP growth	4.2	3.3	3.3	3.3	4.1	4.0
Inflation	2.2	3.8	3.0	2.7	2.6	2.7
Primary Balance	3.0	3.0	3.0	3.0	3.0	3.0
Effective interest rate	6.4	5.2	5.2	5.1	5.2	5.4

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	4.2	4.2	4.2	4.2	4.2	4.2
Inflation	2.2	3.8	3.0	2.7	2.6	2.7
Primary Balance	3.0	5.4	5.4	5.4	5.4	5.4
Effective interest rate	6.4	5.2	3.9	3.9	4.0	4.3

Source: IMF staff.

Seychelles: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

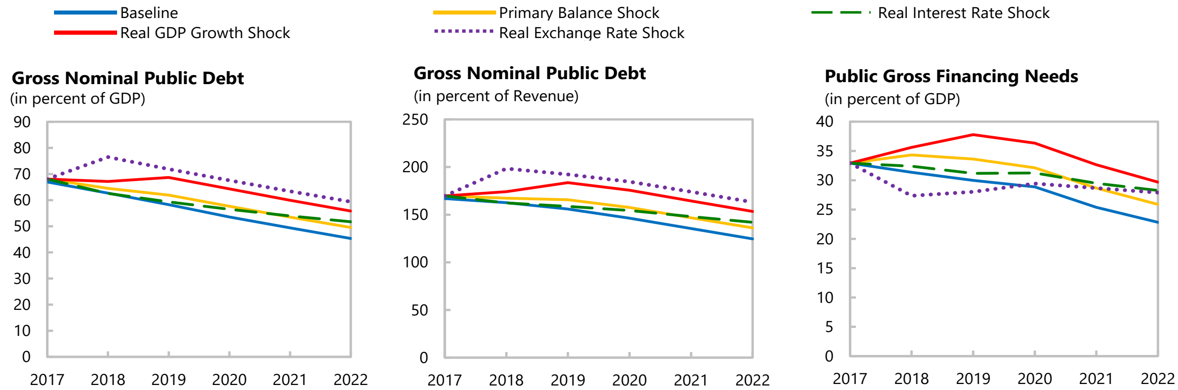
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Seychelles has had a positive output gap for 3 consecutive years, 2014-2016. For Seychelles, t corresponds to 2017; for the distribution, t corresponds to the first year of the crisis.

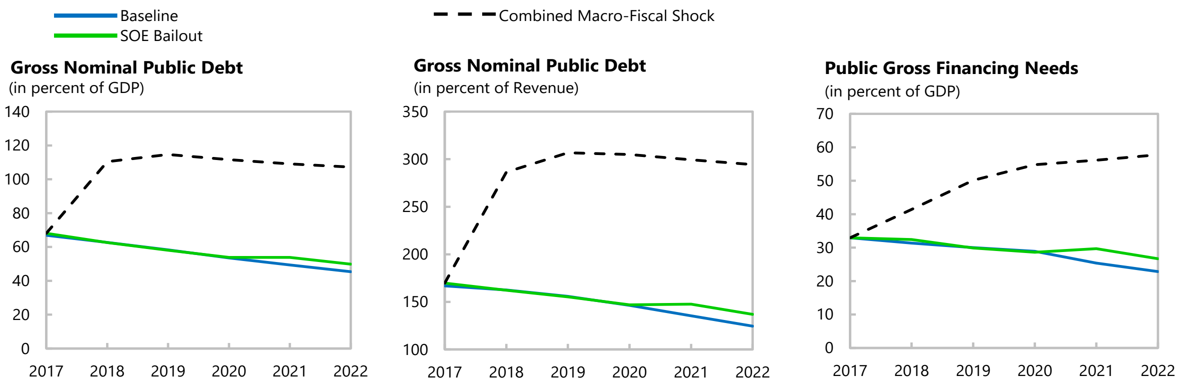
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Seychelles: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2017	2018	2019	2020	2021	2022
Primary Balance Shock						
Real GDP growth	4.2	3.3	3.3	3.3	4.1	4.0
Inflation	2.2	3.8	3.0	2.7	2.6	2.7
Primary balance	3.0	0.6	0.6	2.5	2.5	2.5
Effective interest rate	6.4	5.2	5.2	5.1	5.0	5.2
Real Interest Rate Shock						
Real GDP growth	4.2	3.3	3.3	3.3	4.1	4.0
Inflation	2.2	3.8	3.0	2.7	2.6	2.7
Primary balance	3.0	2.5	2.5	2.5	2.5	2.5
Effective interest rate	6.4	5.2	7.5	7.6	8.3	8.7
Combined Shock						
Real GDP growth	4.2	-0.2	-0.3	3.3	4.1	4.0
Inflation	2.2	2.9	2.1	2.7	2.6	2.7
Primary balance	3.0	0.6	-0.7	2.5	2.5	2.5
Effective interest rate	6.4	7.7	6.2	6.5	7.2	7.7

	2017	2018	2019	2020	2021	2022
Real GDP Growth Shock						
Real GDP growth	4.2	-0.2	-0.3	3.3	4.1	4.0
Inflation	2.2	2.9	2.1	2.7	2.6	2.7
Primary balance	3.0	0.9	-0.7	2.5	2.5	2.5
Effective interest rate	6.4	5.2	5.2	5.1	5.0	5.2
Real Exchange Rate Shock						
Real GDP growth	4.2	3.3	3.3	3.3	4.1	4.0
Inflation	2.2	39.5	3.0	2.7	2.6	2.7
Primary balance	3.0	2.5	2.5	2.5	2.5	2.5
Effective interest rate	6.4	7.7	4.6	4.6	4.6	4.6

Source: IMF staff.

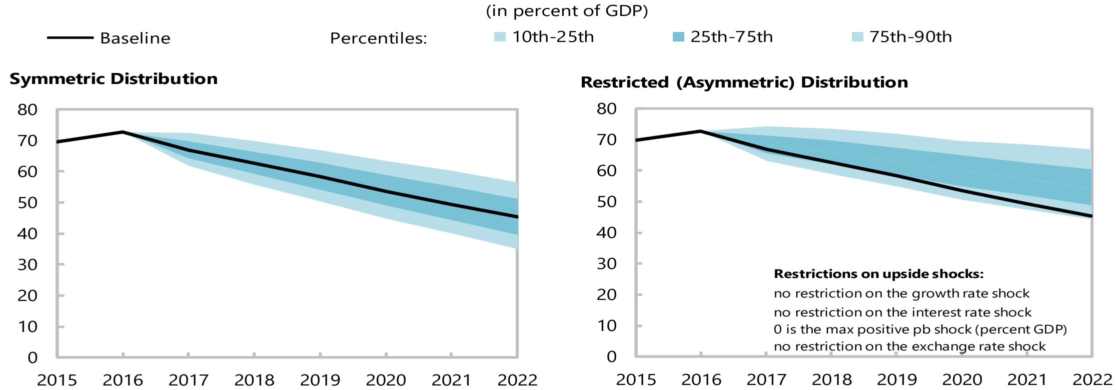
Seychelles: Public DSA Risk Assessment

Heat Map

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

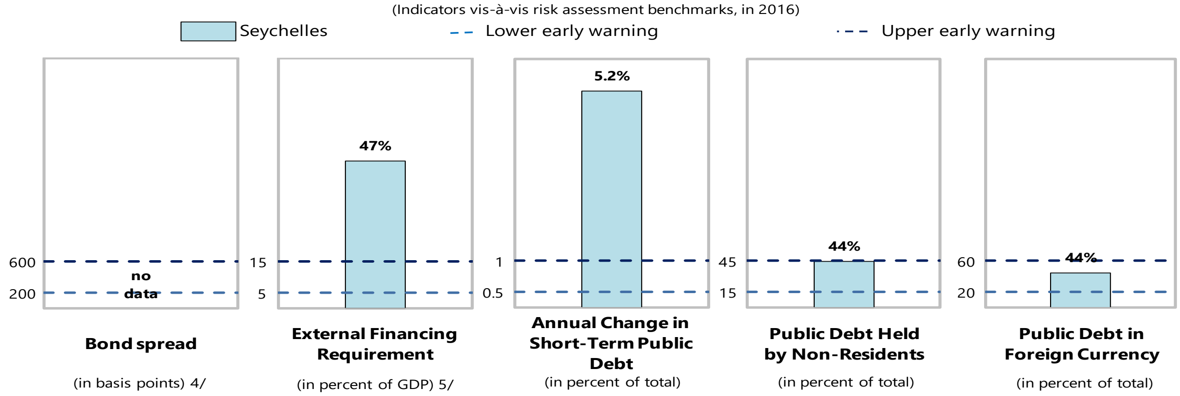
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 12-Nov-14 through 10-Feb-15.

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

Seychelles: External Debt Sustainability Framework, 2011 – 2022

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	182.9	167.8	125.2	118.2	99.6	98.3	**98.4**	**96.7**	**93.5**	**91.1**	**89.3**	**88.3**	**-14.2**
2 Change in external debt	12.0	-15.2	-42.5	-7.0	-18.6	-1.4	0.2	-1.7	-3.2	-2.4	-1.8	-1.0	
3 Identified external debt-creating flows (4+8+9)	25.7	-0.1	-29.5	0.3	8.2	10.6	1.0	0.5	-0.4	0.1	1.7	1.2	
4 Current account deficit, excluding interest payments	21.9	19.9	10.8	22.1	18.1	16.9	14.7	12.8	12.4	12.3	13.4	14.5	
5 Deficit in balance of goods and services	-216.8	17.3	6.9	15.7	9.0	10.2	6.5	4.9	4.4	4.3	6.0	5.5	
6 Exports	100.2	105.2	94.7	102.2	94.2	94.7	96.6	95.0	92.0	89.3	87.1	88.6	
7 Imports	-116.6	122.5	101.5	118.0	103.2	104.9	103.1	99.9	96.4	93.6	93.1	94.1	
8 Net non-debt creating capital inflows (negative)	10.9	-14.1	-7.5	-21.4	-7.5	-4.0	-10.8	-10.3	-11.0	-10.4	-9.3	-11.1	
9 Automatic debt dynamics 1/	-7.0	-5.9	-32.7	-0.4	-2.4	-2.3	-2.9	-2.0	-1.9	-1.8	-2.4	-2.3	
10 Contribution from nominal interest rate	1.1	1.2	1.2	1.0	0.5	1.3	1.1	1.1	1.1	1.2	1.2	1.1	
11 Contribution from real GDP growth	-8.8	-6.5	-8.1	-5.6	-5.7	-4.3	-4.0	-3.1	-3.0	-2.9	-3.6	-3.4	
12 Contribution from price and exchange rate changes 2/	0.6	-0.6	-25.8	4.2	2.8	0.7	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-13.8	-15.1	-13.1	-7.3	-26.8	-12.0	-0.8	-2.2	-2.8	-2.5	-3.5	-2.2	
External debt-to-exports ratio (in percent)	182.5	159.5	132.3	115.6	105.8	103.8	101.9	101.8	101.6	102.0	102.5	99.7	
Gross external financing need (in billions of US dollars) 4/	794.5	830.9	772.2	828.7	848.3	674.4	630.1	622.0	640.7	662.8	707.6	760.3	
in percent of GDP	78.0	78.4	58.2	61.7	61.6	47.2	42.4	39.7	38.6	37.9	38.3	39.2	
Scenario with key variables at their historical averages 5/							**105.8**	**116.2**	**128.0**	**139.6**	**145.8**	**152.9**	-7.5
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	5.4	3.7	6.0	4.5	5.0	4.5	4.2	3.3	3.3	3.3	4.1	4.0	
GDP deflator in US dollars (change in percent)	-0.4	0.4	18.2	-3.2	-2.3	-0.7	-0.3	2.1	2.4	2.0	1.4	1.0	
Nominal external interest rate (in percent)	0.7	0.7	0.9	0.8	0.4	1.4	1.2	1.2	1.2	1.3	1.4	1.3	
Growth of exports (US dollar terms, in percent)	12.2	9.2	12.8	9.2	-5.5	4.3	6.1	3.7	2.5	2.3	3.0	6.8	
Growth of imports (US dollar terms, in percent)	13.2	9.3	3.9	17.5	-10.3	5.5	2.2	2.2	2.1	2.3	5.0	6.2	
Current account balance, excluding interest payments	-21.9	-19.9	-10.8	-22.1	-18.1	-16.9	-14.7	-12.8	-12.4	-12.3	-13.4	-14.5	
Net non-debt creating capital inflows	-10.9	14.1	7.5	21.4	7.5	4.0	10.8	10.3	11.0	10.4	9.3	11.1	

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

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

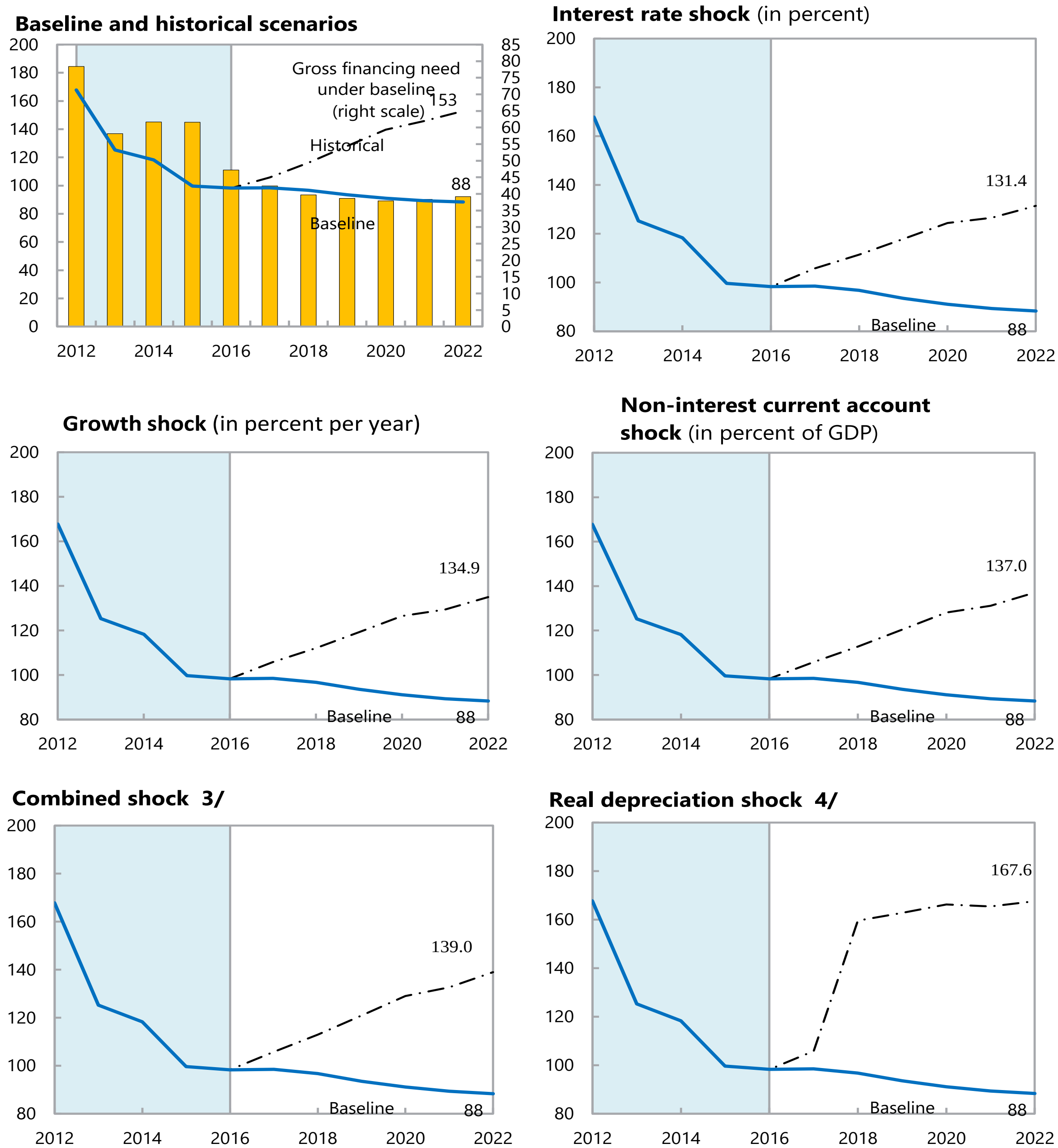
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Seychelles: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Annex III. Unwinding of Monetary Debt

Unwinding monetary debt to achieve Seychelles' longer-term debt target has macro-fiscal implications. On the one hand, inflationary pressures could result from the reinjection of liquidity back into the banking system. The CBS would have to incur the costs associated with the management of this liquidity. On the other hand, reducing the pace of unwinding monetary debt would require more fiscal effort. In line with the modernization of the monetary policy framework, the CBS will resume the use of reverse repurchase operations to support the unwinding of monetary debt without threatening its income position.

1. **Seychelles' stock of monetary debt stood at 16.2 percent of GDP at end-2016, resulting from issuance of government securities needed to mop up excess liquidity.** The economy of Seychelles has been characterized by structural excess liquidity in the banking system for many years, partly due to unsterilized purchases of foreign exchange by the CBS as it progressively built its reserves buffer. Since 2012, the CBS agreed with the government for the Ministry of Finance to issue T-Bills and T-Bonds to mop up excess liquidity resulting from the unsterilized CBS's intervention in the foreign exchange market. For each fiscal year, an annual limit is agreed between the two institutions. This quasi monetary policy transferred the sterilization costs from the CBS to the Ministry of Finance. The monetary debt is fully backed by blocked deposits at the CBS.[1]

2. **Unwinding the stock of monetary debt has macro-fiscal implications**. The authorities intend to progressively reduce the stock of monetary debt by not rolling over part of the existing government securities issued for the monetary policy purposes. While this would not incur any cost to the CBS, it would result in the injection of liquidity back into the banking system, potentially creating more inflation. Staff recommended that the authorities retire about 1.3 billion rupees of monetary debt over 2018-2022 (about 45 percent of the existing stock). Such an unwinding together with a primary surplus of 2.5 percent of GDP, would result in an increase in broad money by about 6 percent on average over this period and in reaching the debt target, below 50 percent of GDP, by 2021. Assuming a constant velocity, the unwinding would result in a 1 percentage points increase in inflation.

3. **The retirement of some monetary debt could be supported by other options to cushion the adverse macro-fiscal impacts.** In line with the process of modernization of the monetary framework, the CBS will use the existing stock of Government securities at the CBS in

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[1] By accounting convention, government deposits are not shown in the Monetary Survey and Central Bank Accounts (Table 4). Although government deposits are liabilities to the Central Bank, they are instead directly netted out from the claims on the government. The value of government deposits at December 2016 stood at 3.2 billion rupees. The value of government securities held by the CBS amounted to 1.2 billion rupees, resulting in net credit to government of -2.0 billion rupees, consistent with Table 4. See CBS Financial Statements for the Year Ended 31 December 2016, note 17, page 42 and Note 10 pages 37-38. The latest CBS Financial Statements are available at http://www.cbs.sc/Publications/finstatement.jsp.

Reverse Repo operations.[2] In such operations, the CBS would mop up liquidity by selling the government securities it owns to commercial banks and with an agreement to repurchase the same securities at a specified price at a specific time in the future.[3] The cost to the CBS will be the repo rate which will depend on the difference between the lending and repurchasing prices and the CBS will continue to earn investment income from its stock of Government securities.[4]

4. Minimizing interventions on the foreign exchange market, only to the extent needed to preserve reserve coverage at around the current level, is essential to avoid further sterilization need and monetary debt accumulation. Excess liquidity arises in large part from unsterilized purchases of foreign currencies by the CBS. Allowing exchange rate flexibility would reduce the need for the CBS to intervene in the foreign exchange markets and sterilize such intervention. If more reserves buffer is needed, the CBS could clearly communicate its plan to purchase foreign currencies at a market rate, and for reserve buildup only, thereby not affecting the exchange rate.

[2] The reverse repurchase operations would be possible even though the Master Repurchase Agreement is still pending.

[3] See CBS Financial Statements for the Year Ended 31 December 2016, Note 10, pages 37-38.

[4] Staff estimate the cost to be about 10 million rupees per year.

Annex IV. External Sector Assessment

Seychelles' exchange rate appears broadly in line with fundamentals. Although the formal quantitative analysis continues to not provide a definitive exchange rate assessment, other indicators point to a relatively strong external sector.

1. **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.

2. **Immediate risks to external stability appear contained.** The level of reserves stood at around 180 percent of the ARA-EM metrics at end-2016 and is projected to remain above adequate level, marking a steady improvement in comparison to the early post-crisis years. Currently, GIRs cover around four months of prospective imports and exceed the amount of external public and private short-term debt.

3. **Updated exchange rate assessment based on the EBA-lite approach gives mixed results.** The external current account deficit narrowed significantly over the 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.

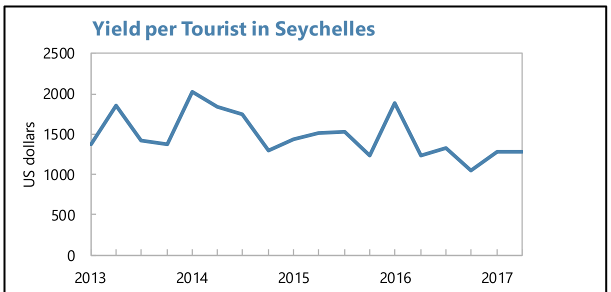
Estimated REER Misalignment1	
Current Account Model	26.6
Real Effective Exchange Rate Index	-23.3

1 In percent. Overvaluation (+), undervaluation (-)
Source: Staff estimates

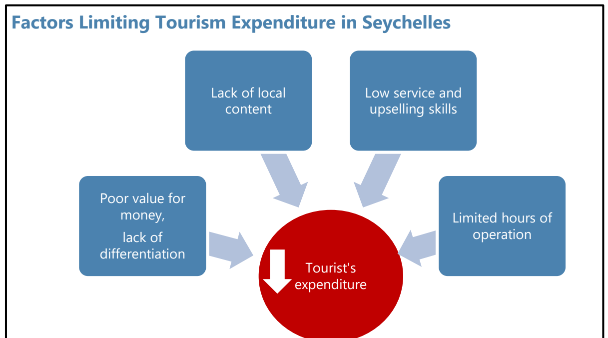
4. **To complement the EBA-lite approach, a qualitative approach was applied, as part of the 2017 Article IV consultation, by comparing Seychelles to a group of small island economies dependent on tourism.** The tourism sector, the main source of foreign exchange earnings in Seychelles, continues to perform well. 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 partly due to challenges in collecting tourism earnings' data and to the recent years' depreciation of the euro against the US dollar, as the most of Seychelles' tourism receipts are in euros. Inward FDIs to Seychelles largely followed a trend as those to peer countries.

Annex V. Upgrading the Tourism and Fisheries Sectors to a Sustainable Footing

1. **Foreign-exchange receipts from tourism failed to keep pace with the surge of tourist arrivals, only about a 6 percent increase as of early 2017**. The surge of tourism arrivals in the third quarter of 2017, up by 20 percent compared to the same period of 2016, echo a trend that began in 2015 and continued in 2016. However, an increase in budget-conscious tourists, coupled with a lack of local content and other structural bottlenecks, has resulted in a downward pressure to tourism yields starting 2016. This trend could also be explained by the affordable package tours that are becoming increasingly common in other countries and the expensive marketing strategies that continue to weigh on the sector's receipts. Uncaptured foreign exchange transactions, particularly associated with SMEs and guesthouses, also adds to this trend. Seychelles' strong performance in terms of visitor numbers masks a low repeat visit rate of around 12 percent, compared to 28 percent for the Maldives, 37 percent for Mauritius and around 50 percent for Aruba (World Bank Systematic Country Diagnostic (SCD) Report 2017).



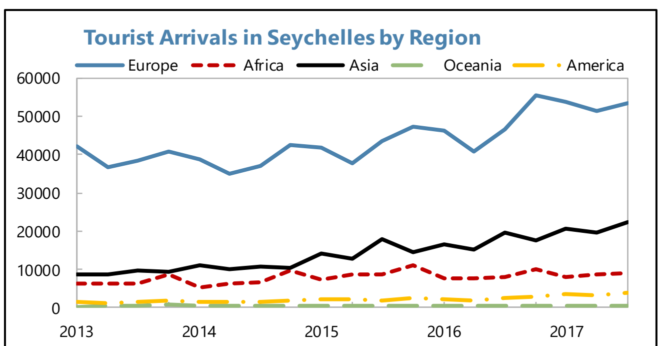
Sources: CBS; National bureau of statistics; and IMF staff calculations.
Note: Yield per tourist is estimated by dividing tourism earnings by tourist arrivals.



Source: World Bank SCD report for Seychelles 2017.

2. **The current tourism product mix suffers from lack of diversification, innovation, and value for money.** Areas requiring further attention include:

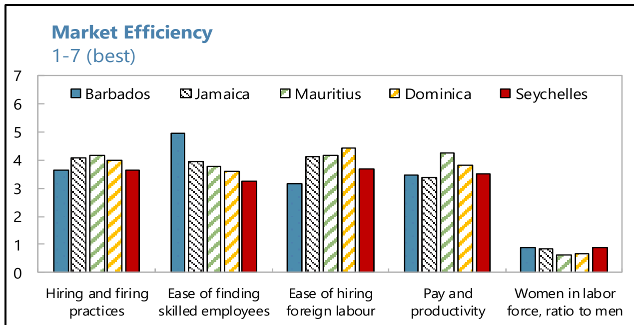
Market diversification. Europe remains by far Seychelles' main market (60.1 % of total arrivals during the third quarter of 2017), leaving the country vulnerable to economic fluctuations and exchange rate risk amounting from the region. Another source of concern is the current level of overall quality of tourism sector's services may pose risk to the stability of the overall sector and to the good reputation of Seychelles as leading tourist destination (World Bank Systematic Country Diagnostic (SCD) Report 2017). Against this backdrop, the authorities continue efforts to diversify tourism markets away from the traditionally targeted ones. In this regard, the authorities



Source: Seychelles National Bureau of Statistics.

are committed to scaling up infrastructure investments to accommodate the needs of previously underexploited markets and enhance the overall business climate.

Human capital development and market efficiency. Limited human resources, coupled with prevalent skills mismatch and widespread reluctance among young Seychellois to join the industry, have resulted in the predominance of expatriate labor in the industry, further exacerbating foreign exchange leakages from the sector. Relative to comparator countries, Seychelles lags in terms of the ease of finding skilled labor. The authorities intend to reform the existing hotel school and increase private sector participation in such reforms to conform to the international standards. Increased skills availability in the local pool of tourism workers will also minimize dependence upon expatriate labor, which, combined with increased Seychellois tourism equity holdings, will significantly enhance foreign currency retention in the economy.



Source: Travel and Tourism Competitiveness Report 2015/16.

Data adequacy. The authorities lack the capacity to collect high quality market intelligence specific to the tourism sector, which in turn hampers surveillance and policy design (World Bank SCD report 2017).

Renewed focus on innovation in the SME sector. Widespread, undifferentiated small businesses prevail in all sub-sectors of the industry, including accommodation, transport, retail and excursions. Short-term gains are often prioritized over quality and distinctiveness, as evidenced by the dominant sale of low-end imported goods. Most small tourism businesses fail to purchase public liability insurance while access to online, mobile, digital and social trends remain limited. The authorities plan to step up their efforts to create a favorable and responsive environment that allows small Seychellois investors to fully grasp the benefits and unleash the untapped potential of the industry.

3. The authorities enacted a Tourism Master Plan (2012-2020) with the aim to consolidate the industry and to make tourism development an integral and coherent part of the blue economy. The authorities remain committed to sustainable and responsible tourism at each step of the tourism supply chain with the balanced objectives of economic empowerment, environment preservation, and socio-cultural integration. The Master Plan articulates a series of reforms to tackle structural bottlenecks associated with the industry and these include:

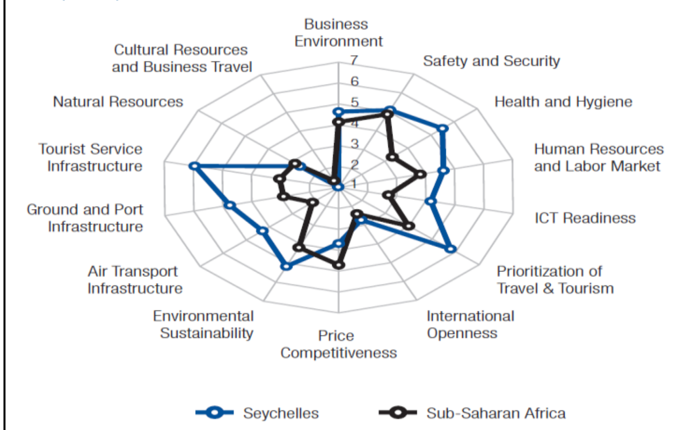
- To determine Seychelles' carrying capacity on an island by island basis considering shortages of local labor, water, energy, waste and sewage capacity and not withstanding traffic density, coastal erosion and biodiversity degradation.
- To qualify and quantify constraints associated with the tourism supply chain.
- To engage stakeholders in the formulation of actionable, policy-relevant recommendations to address these issues.

- To coordinate and align marketing and promotion strategies (as elaborated by the Seychelles Tourism Board) with the Tourism Master Plan and value chain analysis to better promote local content and unlock untapped markets.

A Tourism Value Chain Analysis recently conducted by the Commonwealth Secretariat identified three specific areas for policy interventions: (i) increasing the supply of local agricultural produce to the tourism sector; (ii) engineering related training for mature students; and (iii) additional support to micro and small businesses in tourism. These recommendations are yet to be implemented under the Tourism Master Plan.

Travel and Toursim Competitiveness Index, 2015/16

1-7 (Best)



Source: Travel and tourism competitiveness report, 2015/16.

4. Notwithstanding the authorities' comprehensive reforms to improve international openness, the longstanding challenges of developing local product and price competitiveness remain areas of concern. Seychelles' tourism is highly competitive relative to the sub-Saharan Africa experience. However, the country lags in terms of the availability of cultural resources intended in a broad sense including archaeological sites, entertainment facilities and conferences. Weak price competitiveness continues to weigh on the attractiveness of Seychelles in the international market, particularly for the Millennial segment. The authorities are committed to improving the business environment and expand the tourism product to complement the traditional focus on natural tourism.

5. The SWIOFish3 project, recently approved by the World Bank, aims at improving the management of marine areas and fisheries in targeted zones and to strengthen fisheries value chains in the Seychelles. The project is part of the broader SWIOFish program launched by the World Bank in 2015, which adopts a regional and longer-term approach to supporting the South West Indian Ocean countries in sustainably developing their fisheries sector. The major infrastructure development around the port in Victoria, together with the SWIOfish3 project, would help upgrade the industrial fishing sector in a sustainable footing.

6. Several measures would be necessary to promote sustainable economic growth in the fisheries sector. These include increasing the diversity of fish species targeted by the local fishing fleet, improving fishing methods, and developing the capacity of the local fishing fleet through the assistance of institutions. The authorities adopted a policy package to: (i) enhance and promote the strengths of Seychelles' fisheries sector and tackle its weaknesses; (ii) conduct a comprehensive evaluation of the recently introduced Indian Ocean Tuna Commission's quota on the yellowfin tuna catch on the economic growth of the fisheries industry; (iii) explore the potential of additional markets for Seychelles' fisheries products; and (iv) develop an effective communications strategy to enhance community awareness and ownership of the fisheries sector.

Seychelles: SWIOFish3 Project

Component	Purpose	Description	Total Budget	Budget Breakdown
1	Expanded Sustainable-Use Marine Protected Areas	Support the government effots to protect an increasing share of its maritime space	$4.15 million	$2.65 million (GEF grant) $1.5 million (Blue Bond proceeds)
2	Improved Governance of Priority Fisheries	Finalize and implement the Mahé Plateau fisheries management plan and other management initiatives. Reinforce the sector's governance by an array of targeted investments.	$4.15 million	$2.65 million (GEF grant) $1.5 million (Blue Bond proceeds)
3	Sustainable Development of the Blue Economy	Help finance the sustainable development of the Seychelles blue economy and support increased value-addition in fishing and processing sectors Compensate fishers for any reduced access to the resource resulting from marine and Foster adherence to the management agenda.	$16 million	$4 million (IBRD grant) $12 million (Blue Bond proceeds)
4	Project Management and Coordination	Support the coordination and implementation of the project. Support the operation of the Project Implementation Unit (PIU) and steering committee	$1 million	$1 million (IBRD loan)

Source: Seychelles Ministry of Finance, Trade and Economic Planning.

Appendix I. Program Statement

Victoria,
November 28, 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Madame Managing Director:

The government of the Republic of Seychelles requests approval of a new macroeconomic and structural reform program supported by the Policy Coordination Instrument (PCI) for the period December 2017–December 2020. In support of this request, this Program Statement (PS) sets forth the government's short- and medium-term objectives and policies under this new program.

The new program is intended to guide the government of Seychelles in implementing its medium-term economic and development strategy which relies on sustainable and inclusive growth while safeguarding macroeconomic stability and debt sustainability. Reforms are aimed at improving the efficiency and quality of government spending to enhance human and physical capital, increase the efficiency and equity of the tax system, enhance the governance of public enterprises, promote the diversification of the economy and the modernization of the financial system, and continue to improve the business environment for private-sector development.

The government believes that the policies and measures set forth in this PS are appropriate for achieving the objectives of the PCI-supported program. Given its commitment to macroeconomic stability, the government will promptly take any additional measures needed to achieve the program objectives. It will consult with the IMF—at its own initiative or whenever the Managing Director requests such consultation—before adopting any such measures or in advance of revisions to the policies contained in this PS. Moreover, the government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the program objectives.

In line with our commitment to transparency, we request that the IMF publish this letter, the attached statement, and the Staff Report. We will simultaneously publish these documents in Seychelles.

Sincerely yours,

Louis René Peter Larose /s/
Minister of Finance, Trade, and Economic Planning

Caroline Abel /s/
Governor,
Central Bank of Seychelles

Attachment: - Technical Memorandum of Understanding (TMU)

Program Statement for the Period December 2017–December 2020

I. Background and Recent Economic Developments

1. **The Government of Seychelles has since 2008 embarked on a comprehensive economic and financial program aimed at restoring macroeconomic stability, ensuring debt sustainability and promoting inclusive growth and economic diversification.** The program has been supported by a stand by arrangement in 2008-10 and two successive three-year arrangements under the Extended Fund Facility, in 2010-13 and 2014-17. During this period a satisfactory growth performance has been achieved, the rate of inflation has been maintained at a very low level, gross international reserves of the central bank have risen from 2.2 months of imports at end-2009 to 4 months of imports at end- 2016, and public debt has been curtailed from 106% of GDP at end-2009 to 72% at end 2016 (including debt issued for monetary control purposes), and to 56 % excluding such debt.

2. **Under the 2014-17 program, the real growth rate has been robust (4.7% on average), sustained by strong performance in the tourism sector in addition to construction, water and electricity, telecommunication and financial services.** Consumer price inflation was negative in 2016 and rose to about 3% in 2017. The government budget recorded a large primary surplus, (4.5% on average in 2014-15 and 3.2% in 2016 -17), as revenue performance was strong, and offset in part the expansionary expenditure measures taken in early 2016, when current expenditure was boosted by the decision to raise the minimum wage, and various benefits for the unemployed, the disabled and the elderly in order to reduce poverty. Balance of payments developments remained favorable, allowing the central bank to increase gross international reserves significantly in 2015to above 4 months of imports; they declined modestly in 2016 and 2017.

3. **The 2014-17 program aimed at strengthening the reform program with measures to reinforce public financial management, combat tax evasion, improve the governance of public enterprises, and modernize the financial system.** Key measures included the adoption of a medium term fiscal framework, the introduction of performance program based budgeting in some ministries, and the strengthening of tax administration, in particular at customs. Governance of the public enterprises was improved with governance audits and operational assessment of the six major enterprises, carried out in 2016-2017 with the World Bank assistance. To strengthen the financial system, a new Financial Service Authority (FSA) was established in 2014 with the task to supervise the non-bank financial sector, including global business corporation, and in 2016 a new international business corporation act was prepared to bring practices of the offshore sector in line with international best practices. In the banking and payments area, core elements of Basel II and III are in the process of being adopted, steps were taken to modernize the national payments system with studies undertaken to establish a central security depository and a real time gross settlement system, and legislation on financial consumer protection was prepared.

II. Macroeconomic Policies and Structural Reforms for 2017-20.

A. Program Objectives for 2017-20

4. Seychelles has made considerable progress in securing economic stability and sustained growth under successive Fund arrangements. In order to secure the gains of the economic reforms achieved so far, the Government has decided to pursue a successor program supported by the IMF's Policy Coordination Instrument (PCI). The PCI supported program will have four key objectives to be achieved through the various performance targets.

- Addressing medium term fiscal sustainability
- Enhancing public investment efficiency and the quality of public services
- Minimizing the fiscal risk of State Owned Enterprises (SOEs)
- Modernizing the financial system and ensuring financial sector stability

5. Macroeconomic objectives. The program aims at maintaining strong fiscal discipline, with an annual budget primary surplus target during the program period of 2.5% of GDP, in order to reduce the public debt –GDP ratio to 50 % by2020. Excluding the public debt issued for monetary purpose, the debt ratio will fall to close to 41%. The program is directed at achieving a broad-based growth with real GDP growth in the range of 3 to 3.5 percent, sustained by the tourism sector, the blue economy, water and electricity, telecommunication and financial services. The development of the blue economy, with diversification of fishery related activities while protecting the natural resources will be enhanced, with the support of the World Bank, and the issuance of an international blue bond. The rate of consumer price inflation is projected at close to 3 percent. The strong balance of payment and external reserves position will be preserved. With continuing strong growth in the tourism sector, the external current account deficit is expected to remain broadly stable, and gross international reserves should remain at a comfortable level above 3½ months of imports.

6. National Vision and Development Strategy. A National development strategy for 2018-22 is under preparation which is building on the milestones achieved so far, and will articulate the sectoral programs and projects, to be implemented within frameworks of new and/or modified sector policies and strategies as well as the medium term fiscal framework. This strategy will build on the strategic plans that all ministries and agencies have been requested to prepare by October 2017.

7. 2018 Budget. The 2018 budget will be in line with the macroeconomic objective of strong fiscal discipline and an annual budget primary surplus target during the program period of 2.5% of GDP. In order to attain these objectives, the 2018 budget will be focused on providing more support to revenue collecting institutions namely:

- Seychelles Revenue Commission, Registrar General, Seychelles Maritime Safety administration (SMSA), Public Enterprises Monitoring Commission and Financial Services Agency (FSA).

- Support will also be given to Ministries, Departments, Agencies (MDA's) that facilitate ease of doing business and protect consumers, namely: Seychelles Bureau of Standards, Fair Trading Commission, Seychelles Licensing Authority, Public Health Commission and Department of Information, Communication and Technology.

- The 2018 budget will also introduce certain costs savings measures. One of the most important one is the consolidation of functions. Certain areas are perceived to have considerable overlap in duties. Merging them allows considerable sums to be reduced in posts of CEO's and support staff. Furthermore, it frees up technical staff for Government.

- There are also certain schemes which will be revisited such as the fuel and ice Incentive Scheme for fishery industry. It would not be practical to totally remove the ice subsidy, given that a regular and adequate supply of ice remains a major challenge for the domestic fishing industry and given the dynamic changes in the industry, ice supply is becoming a more important issue. The aim should be to encourage more private entrepreneurs to engage in this service but however price should not be regulated. From the 2018 budget, the Government will reduce the Fuel Subsidy by SR 5 million to ensure the wastages are eliminated and the scheme are used more efficiency to the targeted group.

- Rationalizing Social Welfare to a more targeted approach is another element of the 2018 budget. The Agency for Social Protection is paying around SR 1 billion for several benefits and approved programs per year. The expenditures keep on increasing on an annual basis. Thus GOS will need to work on a strategy to rationalize the Social Welfare system to a more targeted approach.

- Welfare outlays will also be contained, with more targeted identification of eligible recipients, in particular for the large home carer scheme administered by the Agency of Social Protection, which provides assistance at home for the disabled and elderly. Government has already gazetted the legal instrument that from the 1st of January 2018, the universal retirement pension of SR 5,050 paid by Agency of Social Protection will be applicable to retirees at the age of 63 compare to today which is from the age 60 based on early retirement. The fiscal savings annually will be around SR 30 million.

- Government had previously announced that it will be moving towards the setting up of District Councils. The establishment of which in the lead up to elections is proving to be an expensive exercise. A review of the decision will be undertaken as it is currently not clear how District Councils will be assessed; what existing problem they are meant to solve; how they will solve it; and whether their existence eliminates the need for certain existing structures. Such review will bring about a fiscal savings of SR 15 million. The government will also introduce a stricter rule on official travels in 2018, which will bring about a savings of SR 5million.

- The UN Climate Change Conference in Bonn is the next step for governments to implement the Paris Climate Change Agreement and accelerate the transformation to sustainable, resilient and climate-safe development. The Paris Agreement entered into force last November and the era of implementation has begun.

- Renewable Energy is an unstoppable energy revolution; Seychelles must make sure as a nation we profit from the technological advances being made. And to achieve energy security we clearly need to shift away from fossil fuel and embrace energy efficiency and renewable energy on a large scale as this will enable us to meet our energy needs, lower our carbon emissions and mitigate the adverse effects of climate change, provide energy to our population at affordable prices and achieve UN SDG 7 on access to affordable, reliable, sustainable and modern energy for all. The month of October was named by the Ministry of Environment, Energy and Climate as the month to celebrate and promote sustainable energy and to achieve energy security with the following initiatives:

  - A programme called 'Smart Energy in Public Spaces' or SEIPS was launched which focus on investing in energy efficiency in government buildings and street lighting. Our target is to install 10,000 LED street lamps across Mahé, Praslin and La Digue by 2020 and complement these with 800 solar lamps across the country. The same programme will also provide all the public schools with solar photovoltaic panels and other accessories for them to meet the schools' energy needs. We will expand the programme to cover health centres and old people's homes. In regard to energy efficiency in government buildings government allocated SR1 million in its budget, earlier this year, for the Seychelles Energy Commission to develop a comprehensive energy efficiency programme.

  - A programme called 'SMART Energy in Homes and Businesses' (SEIHB) where PUC will allocate the contracts to two successful companies to build the first two solar farms on the reclaimed island of Romainville. This will be a 5MW PV solar farm financed by IRENA and the Abu Dhabi Fund. In addition, PUC will also be awarding a contract for the 1MW solar PV Democratisation farm, which is being financed by the Indian government to the tune of US $3.4 million. This project will provide free energy to 300 Seychellois families currently reliant on social welfares.

- Rationalization of social welfare spending, procurement reforms, and streamlining of public agencies mentioned below would help create space for climate change related spending over the medium term. The government is exploring possibility of additional revenue measures discussed at the time of the 2017 Article IV consultation in the medium term. The will seek concessional external financing for climate change related action to the extent possible.

8. Measures to be taken from 2019 onwards

- **Rationalization of current expenditures and better targeting of the welfare system.** The government is committed to contain the growth of current expenditures, through the consolidation of certain government functions performed by different agencies, and limitation on travel.

- As part of the process, a staffing and recruitment committee has been set up. This is to ensure that posts in the public service are planned on an annual and medium terms basis and that funds allocated for such a purpose is used promptly. In that context, the Committee will:
  - Approve annually the posts to be recruited to, via a Recruitment Plan;
  - Budgeted posts are recruited to and funds not left dormant;
  - Advise on any unused funds for personnel emoluments are redirected for other priority positions in government.

- The Ministry of Finance, Trade and Economic Planning and Department of Public Administration will work further with all Ministries, Departments, Agencies (MDA's during the first half of 2018 to ensure a proper assessment of the existing structure and ensure synergy where necessary.

- Maintaining a presence in a number of countries comes at considerable expense to the Government. It is hoped that the number of tourism offices will be re-looked with the aim of finding more effective way of tourism marketing. Embassies, currently numbering 8, are also extremely expensive. Further benefits of reducing the number of embassies would be the freeing up of skilled individuals (e.g. Ambassadors) to assist with pushing forth Government's agenda locally at a time when we are short on Human Resources in Seychelles. A thorough analysis should be undertaken by the Department of Foreign Affairs of the costs and benefits of each foreign embassy.

- The Procurement Goods and services constitute a substantial amount of public spending annually. A savings of at least 5%, would liberate funds for other programs, or for capital expenditure. Publishing analytics of the contracts that are awarded would increase transparency, and make it evident which Ministry has issues in the tendering of projects.

III. The Structural Reform Program

B. Strengthening Public Finances to Address Medium Term Sustainability and Improve Investment Efficiency and Public Service Quality

9. A strong public finance reform program is at the center of the economic strategy for the medium term to ensure fiscal sustainability. The objective is to improve the efficiency of spending, render the tax system more equitable and allow a gradual reduction of public debt. This program is centered on the following components: (i) increase the efficiency of public spending, with rationalization of current expenditures and better focused welfare assistance; (ii) better selection, preparation and monitoring of the investment program; (iii) tax reforms concerning the personal and business tax, the property taxes, and maritime service taxes; (iv) reorganization of the Seychelles Revenue Commission; (v) improvement in public debt management.

10. Better selection and preparation of investment projects and improved monitoring. The Public Investment Management Unit (PIM Unit) established in 2015 within MFTEP has been strengthened to ensure more effective spending in capital investment of the Government. The PIM Unit has elaborated with technical assistance from the World Bank a Public Investment Management Manual which was introduced in early 2017 with the purpose to facilitate the co-ordination of public investment management for all public ministries, departments and agencies (MDAs). It sets out the required steps to identify, screen, prepare, approve, select, budget, implement, monitor and evaluate public investment projects in order for these investments to promote economic and social development and growth.

11. To improve selection and monitoring of capital projects the Government has also formally set up a Development Committee in January 2017 within the Ministry of Finance, Trade and Economic Planning. The committee plays a key role in overseeing the vetting, screening and approving of capital project proposals from Ministries, Departments and Agencies prior to them being considered for financing within the government's Public Sector Investment Program (PSIP). The committee submits quarterly reports to the cabinet of Ministers based on its deliberations. In addition, a report on the cost-benefit analyses of public investment projects with a cost above SR 10 million will now also be submitted to the Cabinet (second review RT).

12. Program Performance Based Budgeting (PPBB). The PPBB was launched for 5 ministries for the 2017 budget, and will be widened to three more for the 2018 budget and to all ministries for the budget 2019 with technical assistance from the World Bank. In preparing 2018 budget submissions (PPBB statements), MDA's will need to improve the quality of performance indicators (where applicable), and put in place appropriate processes and systems to record, collect, report and use the information.

13. Tax reforms. The progressive income tax reform under preparation in early 2017 is now close to be finalized, and the new regime will enter in effect in July 2018; it provides for a zero-rate bracket, and three progressive rates of 15%, 20% and 30%. In addition, some reforms of the business tax are envisaged for the 2018 budget, to reduce disparity in the treatment of productive sectors and arbitrage possibility with the personal income tax. A property tax on foreign owned immovable properties with a rate of 0.25% is scheduled to enter into effect in 2018 (revenue impact: SCR 40 million); it will supplement the current stamp duty and sanction duty on property transfers. The taxation of vessels registered with the Seychelles Maritime Safety Administration (SMSA) will be aligned with international standards as of 2018 (revenue impact SCR 30 million). The tax advantages associated with the certificate issued under the Tourism Investment Act and granted to construction of hotels and other tourism related facilities will expire at end of 2018; this will put an end to the generous accelerated depreciation benefits provided under the existing certificates and will produce additional revenue starting 2019.

14. Reorganization of the Seychelles Revenue Commission (SRC), sector based audits and other specific actions. In order to improve the work of the Customs division and to increase morale, a new structure for SRC will be adopted, which will allow the Customs division greater autonomy in its handling of administrative issues. Hence, the SRC Act will be amended to establish a Board of Directors for overseeing the work of the Revenue Commission. In addition, the post of Customs Commissioner will be introduced and the person will report to the board of directors. The 2017 and 2018 budget has also made provision for SRC to recruit an additional 70 staff in total. In addition, the Ministry of Finance, Trade and Economic Planning has allocated Euro 2.5 million through the 11th EDF for the development, installation and operationalization of a new tax system, and customs software including capacity building of SRC staff to address the effectiveness of collection of taxes. Furthermore Euro 1 million has been allocated from the same program for upgrading the ASYCUDA World and the creation of a Single Window System. To improve compliance in certain key sectors, such as construction, import/wholesale trade and tourism, where noncompliance has been detected, 40 comprehensive business audits will be conducted in these sectors in 2018. Customs procedures will be enhanced in 2018 with the upgrading of the ASYCUSA World system to include an excise module which will facilitate the calculation of excise taxes on domestic production, and accelerate rebates of excise tax on some export. Also, a cargo targeting software system will be introduced to improve risk assessment and permit targeted inspections, while speeding legitimate trade.

C. Improved Public Debt Management

15. Blue Bond. The Government is issuing a US$ 15 million Blue Bond in the first quarter of 2018 that will accelerate the implementation of fisheries management plans specifically for the Mahe' Plateau as part of its initiative to develop a sustainable blue economy. The Bond will be guaranteed by the World Bank in combination with GEF resources to support the need to secure attractive terms. The proceeds from the Blue Bond will finance part of the Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFISH 3). A Blue Investment Fund, which will be administered by the Development Bank of Seychelles, will be created for commercial loans for projects consistent with the provisions of the fisheries management plans. 80% of the bond proceeds will be utilized by the Blue Investment Fund. The remaining 20% of the bond proceeds will be transferred to Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) to establish the Blue

Grants Fund for grants to be made available to the public and private entities on a project proposal basis.

16. Debt currency swap. With regards to the existing US$ 154 million bond which matures in 2026, Government has decided to carry out a liability management operation, which will involve a straight currency swap of the bond from US$ dollars to Euros. This will reduce sizably interest costs and reduce the foreign exchange risk as Seychelles earns most of its foreign exchange in Euros.

17. Lengthening of maturity profile for domestic debt. The current maturity profile indicates that 93% of the country's domestic debt is short term, made up mostly of Treasury Bills. This indicates significant exposure to rollover and refinancing risks. The government's debt management strategy over the medium term is to reduce this exposure by lengthening the maturity of the domestic debt. The Ministry of Finance, Trade and Economic Planning will work with CBS to have improvement in the debt management strategy in ensuring that the public debt target of 50% of GDP is achievable by 2020. This will be part of the Medium Term Fiscal Framework 2018 to 2022 which we expect to submit to Cabinet of Ministers by the second quarter of 2018.

D. Minimizing the Fiscal Risk of State Owned Enterprises (SOE's)

18. Governance and operational assessments of six major SOEs were conducted in 2016 with the World Bank assistance[1]. The objective was to identify areas of improvement in operational and financial performance and in the enterprises' current corporate governance practices to support efforts in building resilience and reducing the companies' exposure to external risks. On this basis, an implementation plan for governance and operational review of public enterprises 2017 to 2019 was prepared and approved by the Cabinet of Ministers (SOE Action Plan). To improve transparency and risk management, the Commission will be preparing a Fiscal Risk Statement to be included in the budget document to show the effect of the performance of Public Enterprises on the 2019 budget (Third Review RT). In order to achieve this, the Commission will be coordinating an exercise to calculate the cost of social obligations being absorbed by Public Enterprises by December 2018. (Third Review RT).

19. The strengths and shortfalls of corporate governance practices are very similar across enterprises. There are a series of corporate governance areas, in which all non-financial enterprises do not comply fully with international guidelines (OECD Guidelines), namely in financial controls, reporting, transparency and disclosure. One reason for this is that the national legislations are not necessarily aligned with international guidelines, hence there is no obligation for the companies to comply. Provisions covering corporate governance in public enterprises are contained in a number of laws and regulations some of which are in need of updating. These include the Companies Act of 1972, the Public Financial Management Act of 2013, the Public Enterprise Monitoring Commission

[1] Seychelles Petroleum Company Limited (SEYPEC), Public Utilities Corporation (PUC), Seychelles Trading Company Limited (STC), Seychelles Ports Authority (SPA), Seychelles Pension Fund (SPF), and Seychelles International Mercantile Banking Corporation Limited (Nouvobanq).

Act of 2013 (PEMC Act), and various laws and regulations governing specific public enterprises. These laws are not harmonized and provide room for compliance arbitrage. The first assessment included a review of the national legislation against international benchmarks and made recommendations for closing the identified gaps. There is a need for comprehensive legal reviews to update all the laws and regulations with provisions for corporate governance of non-financial public enterprises to bring them up-to-date and make them consistent and coherent with each other and with international good practice. On this basis, Government will submit a new Code of Governance for all non-financial SOEs based on OECD guideline to the National Assembly for enactment by September 2018. (Third Review RT).

20. Recognizing the importance of the tourism industry work is underway with the support of UNWTO to prepare a roadmap to reach an efficient and dynamic system of tourism statistics with a view to developing a Tourism Satellite Account (TSA) for the country. Being the main tool for the economic measurement of tourism, the introduction of the TSA will allow for the harmonization and reconciliation of tourism statistics from an economic perspective. In November 2017, the electricity tariff rebalancing which had started then put on hold will recommence. This will further ensure the sustainability of the PUC. In order to further improve the human capital, work is ongoing for the development of a Human Resource Development Strategy. This latter will provide a consistent and complementary approach to identifying and addressing the HRD challenges with well-considered strategic priorities and actions. The strategy encompasses both public and private providers and emphasis will be placed on individuals and organizations assisting government in meeting the HRD needs of the country. The strategy is expected to be launched late December 2017.

E. Modernizing the Financial System And Ensure Financial Sector Stability

21. The financial sector modernization policy is being pursued in the context of the Financial Sector Development Implementation Plan (FSDIP) approved at end- 2013 which aims at fostering an enabling environment for private sector investment, increased participation and deepening of the financial services sector to facilitate economic growth and strengthening the regulatory oversight of Seychelles financial sector.

22. The project consists of the following components: (i) strengthening the financial system's legal and regulatory framework; (ii) the financial infrastructure and capital markets development; (iii) consumer protection and financial literacy. The FSDIP contains a number of actions for which technical assistance is required, on the basis of which the Seychelles authorities have requested assistance from the Investment Climate Facility for Africa (ICF), African Development Bank (AfDB) and the World Bank under the Reimbursable Advisory Service (RAS).

23. The areas where consultancy work has been finalized are as follows: review of the Mutual Fund and Hedge Fund Act 2008; preparation of a new Trust Act, amendments to the International Corporate Service Providers Act; review of the Authorization and Post-

Authorization Processes & Systems for Collective Investment Schemes and Capital Market business. In addition, the development of a Risk-Based Supervision Framework for the regulation of Pensions and Insurance is almost finalized. This will open the prospect of an expansion of financial sector activity in the area of wealth management. Also, a Financial Consumer Protection Act is being drafted.

24. The OECD's Global Forum on Transparency and the Exchange of Information for Tax Purposes, found in August 2015 that the country is largely compliant. The financial services industry continues to undertake the necessary measures to ensure the sector remains compliant to international best practice. This includes further work on Base Erosion and Profit Shifting (BEPS) and the adoption of the common reporting standards. In this context, the International Business Companies Act was amended in late 2016, which now requires international business companies to keep a register of the beneficial owners in Seychelles. Similarly, the International Corporate Service Providers Act and the International Trusts Act are being reviewed. The Global Corporation Act under preparation, which aimed at replacing the Companies Special Act, was reviewed against BEPS requirement and was found inconsistent. On the 7th of June 2017 in Paris, Seychelles joined the other 70 countries in the signing ceremony of the Multilateral Instrument (MLI). The Government is now working towards the ratification of the MLI to ensure that BEPS measures are effectively implemented in the number of tax treaties.

IV. Monetary Policy and Price Stability

25. Monetary policy continues to ensure domestic price stability is maintained, consistent with the primary objective of the Central Bank. Monetary Policy has been cautiously loosened in the third quarter of 2017 to boost domestic economic activity given expectation of modest inflationary pressures. Although the domestic currency has weakened against its main counterparts while inflation has picked up in 2017 compared to the previous year to reach 3.2 per cent year-on-year in September 2017, the depreciation of the rupee vis-à-vis the US dollar has been less than initial expectations whilst global commodity prices are anticipated to remain broadly weak. As a result, inflation pressures in coming months are expected to be modest, providing the basis for the Central Bank to maintain such policy stance for the remainder of 2017. However, the Central Bank stands ready to adjust the stance of monetary policy, should the need arises.

26. Since July 2017, monetary policy implementation by the Central Bank is placing more emphasis on short-term interest rates. As of the third quarter in 2017, the CBS Board has approved the positioning of an interest rate corridor. While an adequate policy rate remains to be defined, the standing credit facility and standing deposit facility that form the ceiling and floor of the corridor provide guidance to the financial market on the appropriate evolution of short-term money market interest rates that is consistent with the forecasted level of economic conditions. Hence, the focus of monetary policy implementation is being shifted away from meeting the reserve money as an operational target.

27. The Central Bank and Ministry responsible for Finance will continue to ensure proper coordination of monetary and fiscal policies. Taking consideration of the system-wide level of structural excess liquidity and cognisant of government's debt target, the Ministry will closely coordinate the net issuance of government securities for monetary policy purposes as needed in line with monetary policy objectives. The volume of such instruments, which is to be held at the Central Bank until maturity should be such that it does not compromise the target of the government to reduce public debt to 50 per cent of GDP by 2021. However, in order to provide the Central Bank capacity to pursue its monetary policy objectives, the use of reverse repurchase agreements as additional tools to remove excess liquidity, is to resume.

F. External Stability

28. The current account balance is projected to remain stable in 2017 with a slight improvement projected in 2018. The tourism sector continues to be the main driver for economic growth. The year-to-date statistics up to August 2017 show growth of above 20 per cent in visitor arrivals. The rebound of the European economies is expected to continue to support the growth in visitor arrivals for the rest of the year and going into 2018, enabling the country to remain a net exporter of services. In terms of trade in goods, adverse movement in global commodity prices particularly that of oil, coupled with a projected decline in tuna exports would worsen the terms of trade and trade balance. FDI in the tourism sector is expected to maintain its downward trend until end-2020, when the moratorium on large hotel projects will be lifted.

29. Gross international reserves are forecasted to remain at around 4 months of imports which should provide for adequate buffer against external shocks and is consistent with the IMF calculated metrics on foreign reserves adequacy. The Central Bank is to continue with its policy to purchase reserves from the market whenever the opportunity arises.

30. The Central Bank continued to build its capacity to manage international reserves. At the start of 2017, CBS completed a comprehensive revision of its Investment Policy and Guidelines for foreign reserves management. This exercise was largely to reflect the new approach adopted with regards to the CBS' strategic asset allocation and to achieve the optimal reserves composition in light of various policy and resource constraints. Moreover, as part of the Reserves Advisory and Management Programme provided by the World Bank, the CBS currently benefits with the Portfolio Analytics Tool (PAT2). This software allows for straight-through-processing of trades over the front, middle and back offices, hence, enforcing the principles of good governance and segregation of duties.

Financial Stability

31. Pressures on correspondent banking relationship remains the most significant threat to financial stability. At present, most banks have only one correspondent banking relationship in major currencies such as the US Dollar. To address this issue**,** a high-level committee has been set up composed of representatives from relevant Government ministries/agencies and private sector to ensure the implementation of the recommendations endorsed by the cabinet of ministers. As part of its strategy the authorities are committed to reviewing the model of the offshore sector whereby the aim is to move away from the current IBC model to a more transparent and internationally acceptable model, which includes compliance with international standards on access by competent authorities to beneficial ownership information. To this end, the Ministry of Finance has set up a financial services committee to formulate a new strategy for the offshore sector by end December 2017.

32. The authorities are also prioritizing efforts to strengthen the AML/CFT framework and ensure its effective implementation. To this end, the National Risk assessment against AML/CFT risk has been completed in October 2017. This will serve as a basis for the formulation of a National AML/CFT strategy. It is anticipated that cabinet will approve the strategy by June 2018. In addition, the country is currently undergoing a Mutual Evaluation against the FATF recommendations, which put emphasis on a risk-based approach to supervision and effectiveness of implementation of the AML/CFT framework. The authorities will review and amend the AML/CFT legal and institutional framework in line with international standards and best practices. In particular, in line with FATF recommendations 24 to 30, they will ensure that the competent authorities can timely obtain accurate beneficial ownership information on legal persons and arrangements created in Seychelles, and that AML/CFT institutions are strengthened (RT Second Review). The authorities will have started to implement a risk-based approach to the supervision of banks and company service providers consistent with FATF immediate outcome 3, by end-December 2018 (RT Third Review).

33. CBS pursues efforts to enhance its resolution framework. CBS is undertaking the review of the Financial Institutions Act, 2004 to strengthen the framework and it is expected that the amendments will be effected in the legislature by December 2018. The main focus of the amendments will be to formulate a new resolution framework for the banking sector. The aim is to ensure that the resolution authority has adequate powers and tools to ensure it is capable to deal with problematic banks without leading to financial stability issues. IMF TA has been received in this regard and work is ongoing towards implementation of the recommendations. It is expected that further TA will be required to finalise the framework. It is anticipated that the new resolution framework will come into effect before end December 2018. (RT Third review).

34. CBS is committed towards ensuring its regulatory framework is in line with international standards. To that effect, work on implementation of Basel II and III is ongoing. The implementation of Pillar 1 of Basel II is anticipated by end December 2017. TA was received from the IMF in 2017 with focus on the Pillar 2 component of Basel II. CBS expects to enlist the assistance of a consultant towards the beginning of 2018 to assist in developing its framework for Pillar 2 of Basel II and has taken the position to adopt the definition of capital for Basel III, as relevant. It is expected that the full framework will be in place by end December 2018.

35. **The Central Bank acknowledges that cybercrime has emerged as one of the most significant threat to the financial sector.** CBS recognizes the need for greater resource dedication to ensure that as much as possible, this risk does not become one that actually undermines financial stability**.** CBS is currently engaging the services of a reputable international firm with the aim of formulating a Cyber Security Framework for CBS, as well as introducing a set of guidelines for financial institutions within its supervisory purview. The guidelines will serve to introduce minimum standards for financial institutions to adhere to with regards to safeguarding their IT infrastructure. The intent is that both of these will be finalised and submitted to CBS before the end of 2017. CBS also intends to collaborate with other stakeholders to formulate a national cyber security framework.

36. **In collaboration with relevant stakeholders, the authorities plan to formerly adopt a National Financial Inclusion strategy in 2019.** The endeavour is to have a national strategy setting the context on the way forward to enhance financial inclusion focusing on areas such as SME access to finance; enhancing competition in the financial services sector; access and usage of electronic payment systems and reduction in the use of cash for payments. The Central Bank further aims to work in collaboration with the Ministry of Finance to increase the number of Government payments, being the largest payer/receiver of payments, effected through electronic payment channels. In light of its endeavours, the Central Bank aims at strengthening the regulatory framework to further promote the use of innovative payment channels in the country.

37. **The Central Bank and the FSA are taking the lead to implement a national financial education strategy in line with the objective to enhance financial inclusion**. Further to the completion of a financial literacy baseline survey in 2016, the Central Bank in collaboration with the FSA are finalizing the drafting of a National Financial Education Strategy by the end of 2017. The rationale for the strategy is based on the concept that the impact of financial education and improved levels of financial capability would translate into greater understanding and usage of financial products and services and ultimately positively impacting financial stability. In collaboration with various stakeholders in the country, it is thus expected that the necessary will be done to begin implementation of the Strategy in 2018.

38. **The Central Bank and the FSA undertake to promulgate a specific legal framework for the protection of financial consumers by June 2018.** With the ever-increasing demand from the public to enforce financial consumer protection and in line with the broader objective of the Financial Sector Development Implementation Plan (FSDIP), the aim of the Financial Consumer Protection Law is to address challenges faced in the financial sector and promote its development. This will be achieved by giving the CBS and the FSA, explicit mandate for financial consumer protection. The law will further aim at promoting equitable and fair treatment of consumers; increased transparency; responsible lending; prevention of over-indebtedness; responsible pricing; appropriate products; data privacy as well as a mechanism to resolve financial complaints. Further to the promulgation of the Law, the Competent Authorities will publish regulations, amongst others, to set out the standards and guidelines on fair treatment and prohibited practices; for complaints

handling to set out the requirements/procedures in relation to dispute resolution and regulations for the protection of users of payment services.

39. Work is ongoing in regards to further modernisation and development of the national payment system. The banking community is working towards the implementation of a national payment switch such that local rupee financial transactions undertaken using instruments such as debit cards will be cleared locally instead of being routed through international networks such as VISA, helping to reduce transaction costs and improve convenience of such payment channels. There is also plan to introduce a Central Securities Depository to facilitate the holding of securities in dematerialized form and transactions performed in real-time mitigating the risks currently faced with paper certificates. It has moreover been deemed beneficial to establish a Real Time Gross Settlement system that will assist in reducing settlement risk whereby payment transactions can be effected and settled in real time thus further guaranteeing faster payments. Additionally, the Credit Information System is being redesigned to enhance its features as well as to expand participation to selected lenders not regulated by the CBS. Concurrently, a new Credit Reporting Act is expected to be promulgated before the end of 2018. Furthermore, work is ongoing to review and develop the legal framework surrounding the National Payment System and its oversight functions, not only to modernise the legislations but also to align them with the Financial Institutions Act, 2004. This is expected to be effected by December 2018. It is to be noted that these initiatives are also part of the deliverables of the FSDIP.

G. Internal Audit

40. Following the internal audit transformation engagement provided by an audit firm in March 2017, the external Quality Assurance review initially planned during the second half of 2017, has been rescheduled to September 2018. The Audit and Risk Committee has guided that the internal audit staff use this time to implement the recommendations. Performing this review will (i) evaluate the quality and practices of the internal audit function and compare the results against the IIA Standards, (ii) provides examples of best practice and (iii) checks the Internal Audit Division's overall efficiency and effectiveness.

Program Monitoring

41. Quantitative targets for end-December 2017, end-June 2018 and end-December 2018 are proposed (Table 1 of the PS). The government, the CBS, and IMF staff also agreed on the reform targets shown in Table 2 of the PS. The first review is scheduled to be completed by April 30, 2018, the second review by October 31, 2018, the third review by April 30, 2019, fourth review by October 31, 2019, fifth review by April 30, 2020, and sixth review by October 31, 2020.

Table 1a. Seychelles: Quantitative Targets (QT) Under the proposed Policy Coordination Instrument, December 2017- December 2018[1]

	2017	2018			
	December	March	June	September	December
	QT		QT		QT
	Proposed		Proposed		Proposed
Quantitative Targets					
Net international reserves of the CBS, millions of U.S. dollars (floor) [2]	391	406	393	389	375
Reserve money target (ceiling on daily average during the quarter) [3]	3,766	3,635	3,643	3,885	4,030
Primary balance of the consolidated government (cumulative floor)	615	115	284	571	538
Accumulation of external payments arrears by the public sector (ceiling) [4]	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Nominal public debt (millions of Seychelles Rupees) [2]	13,536	13,740	13,692	13,595	13,534
Program accounting exchange rates [5]					
SR/US$ (end-of-quarter)	13.67	13.67	13.67	13.67	13.67
US$/Euro (end-of-quarter)	1.19	1.19	1.19	1.19	1.19
US$/UK pound (end-of-quarter)	1.29	1.29	1.29	1.29	1.29
US$/AUD (end-of-quarter)	0.79	0.79	0.79	0.79	0.79
US$/CAD (end-of-quarter)	0.80	0.80	0.80	0.80	0.80
US$/CNY (end-of-quarter)	0.15	0.15	0.15	0.15	0.15
US$/SDR (end-of-quarter)	1.41	1.41	1.41	1.41	1.41

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

[1] March and September 2018 indicators are not QTs and do not form part of program conditionality.

[2] Measured at program accounting exchange rate. The NIR floor is adjusted as defined in the TMU.

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

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

[5] Program exchange rates have been set according to prevailing market rates at the latest available update.

Table 1b. Seychelles: Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions
- Not to introduce or modify multiple currency practices
- Not to conclude bilateral payments agreements that are inconsistent with Article VIII
- Not to impose or intensify import restrictions for balance of payments reasons

Table 2. Seychelles: Reform Targets (RTs) Under a New PCI, 2017– 18

Actions	Timing	Objective
Fiscal and Public Financial Management. Policy		
Submit a report on cost-benefit analyses of public investment projects with a cost above 10 million rupees to the Cabinet.	End June 2018	Enhance public investment efficiency.
State-Owned Enterprises (SOEs)		
Publish a report by central government annually that quantifies and consolidates information on all significant contingent liabilities and other fiscal risks of central government for the 2019 budget.	End December 2018	Minimize fiscal risks arising from SOEs.
Calculate the cost of social obligations of SOEs and provide that information in the budget document for the 2019 budget.	End December 2018	Minimize fiscal risks arising from SOEs. Improve economic efficiency.
Submit the new Code of Governance for the SOEs based on OECD Guideline to the National Assembly for enactment.	End September 2018	Reinforce the monitoring and oversight of SOEs.
Financial Sector Stability		
Review the AML/CFT legal and institutional framework and submit the amended framework to the Cabinet, in line with the FATF standard, particularly regarding entity transparency and AML/CFT institutions.	End June 2018	Reduce AML risks in financial and off-shore sectors.
Implement a risk-based approach to the supervision of banks and trusts and company service providers, consistent with the FATF standard.	End-December 2018	Reduce AML risks in financial and off-shore sectors.
Submit draft legislation to National Assembly to solidify the legal framework for crisis management, bank resolution, and safety nets.	End-December 2018	Buttress the financial sector stability.

Attachment I. Technical Memorandum of Understanding

1. **This technical memorandum of understanding presents the definitions of variables included in the quantitative targets and continuous targets set out in the Program Statement (PS), 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 targets, the continuous targets, and the reforms targets for 2017 and 2018 are listed in Tables 1 and 2 attached to the PS, respectively. The quantitative targets and reform targets are listed in Tables 1 and 2 respectively. Reviews will assess quantitative targets as of specified test dates. Specifically, the first review will assess end-December 2017 test date, the second review will assess end-June 2018 test date and the third review will assess end-December 2018 test date.

2. **Program exchange rate:** For the program, the exchange rates of the Seychellois Rupee (SCR) to the U.S. dollar will be SCR13.6735 per US$1 for 2017 and 2018. Similarly, the exchange rates of the US$ to other currencies for 2017 and 2018 are as follows (US$/1 other currency).

EUR	1.19
GBP	1.29
SDR	1.41
AUD	0.79
CAD	0.80
ZAR	0.08
CNY	0.15

I. QUANTITATIVE AND CONTINUOS TARGETS

A. Net International Reserves of the CBS (Floor)

Definition

3. **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

4. 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

5. Semiannually, at each test date for program quantitative targets, 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

6. 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.

Quarterly Projections: December 2017 – December 2018 (millions of US$)[1]

	2017	2018			
	Dec.	March	June	Sept.	Dec.
External non-project loan	0.0	0.0	0.0	0.0	0.0
External non-project cash grants	0.0	0.0	0.0	0.0	0.0
External debt service payments	52.1	5.1	28.2	34.9	54.1

[1] Cumulative from the beginning of each year.

B. Reserve Money and Reserve Money Band (Ceiling)

Definition

7. 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 six percent in both directions. The upper bound of the band serves as quantitative 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

8. **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 quantitative targets, 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. If the observed quarterly average reserve money falls outside the lower or upper bands specified in the QT table for end-December 2017, end-June 2018 and end-December 2018 test dates, the authorities will complete a consultation with the IMF staff which would focus on: (i) the stance of monetary policy; (ii) the reasons for deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary.

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

9. **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 longer-term lease income receipts) less all noninterest (primary) expenditures and net lending of the government and social security fund.** For program purposes the transfer of assets from the Social Security Fund to the Seychelles Pension Fund planned for 2015 will be excluded from expenditures.

D. Ceiling on the Overall Stock of Public Debt (Memorandum Item)

10. **The ceiling applies to the overall stock of public debt). Public debt includes (i) central government debt; (ii) government guarantees issued for loans extended to state-owned enterprises; and (iii) obligation to the IMF.** It will be defined for the purposes of the program as total outstanding gross debt liabilities. It will include, but not be limited to, liabilities in the form of securities and loans. It will exclude accounts payable. Debt will be measured at nominal value. The program exchange rate will apply to all non-SCR denominated debt. External debt is defined on a residency basis.

11. **For the purposes of this memorandum item, the definition of debt is set out in Point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.**

(a) the term "debt" will be understood to mean a current, i.e., not 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 point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows;

(i) loans, i.e., 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);

(ii) suppliers' credits, i.e., 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

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, 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.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

E. External Arrears of the Public Sector

12. The no accumulation of arrears to external creditors will be a continuous target 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.

DATA AND INFORMATION

13. The Seychelles authorities (government and CBS) will provide Fund staff with the following data and information according to the schedule provided.

The CBS will report

Weekly (within one week from the end of the period)

- Daily reserve money data.

- Foreign exchange reserves position.
- A summary table on the foreign exchange market transactions.
- The results of the liquidity deposit auctions, primary Treasury bill auctions, and secondary auctions.

Monthly (within four weeks from the end of the month)

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

The Ministry of Finance will report

Monthly (within four 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.