INTERNATIONAL MONETARY FUND

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SEYCHELLES

February 2017

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION AND WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

In the context of the fourth and fifth reviews under the extended arrangement and request for modification and waiver of applicability of performance criteria, 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 January 11, 2017, following discussions that ended on November 1, 2016, with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 22, 2017.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Seychelles.

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

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

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
January 11, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth and Fifth Reviews Under the Extended Fund Facility Arrangement for Seychelles, and Approves US$4.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth and fifth reviews under the Extended Fund Facility arrangement (EFF)[1] with Seychelles. The completion of the reviews enables a disbursement of SDR3.27 million (about US$4.4 million), bringing total disbursements under the arrangement to SDR 9.81 million (about US$13.2 million).

In completing the review, the Executive Board also approved the authorities request for modification and waiver of applicability of the performance criterion on fiscal surplus for end-December 2016.

The EFF for the Seychelles was originally approved on June 4, 2014 (see Press Release No. 14/262) for SDR 11.445 million (about US$17.6 million at the time of approval of the arrangement).

At the conclusion of the Executive Board meeting, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Char made the following statement:

"Macroeconomic activity has been robust in 2016. The external current account deficit is estimated to have narrowed, supported by low international commodity prices and strong tourism receipts. Reflecting buoyant tourist arrivals and expanding credit, economic growth for 2016 is projected to reach around 4.5 percent. Year-on-year inflation has been negative since January 2016, largely due to the low commodity prices and stable exchange rates. With strong economic activity, the primary surplus is estimated to reach 3 percent of GDP in 2016, despite the expansionary impact of the fiscal initiatives announced in the State of the Nation Address (SONA) in early 2016. All the program performance criteria up to end-June 2016

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

were met and the program remained broadly on track in the second half of 2016. The economic outlook for 2017 remains positive.

"The authorities' attempts to ensure that the benefits of economic growth are widely shared should be balanced with measures to safeguard hard-earned macroeconomic stability. The SONA initiatives entailed substantial fiscal costs, around 3 percent of GDP on a full-year basis. The 2017 budget, submitted to the parliament, includes some measures to moderate the expansionary impact of the SONA initiatives. However, given that the 2017 budget includes several one-off measures, additional and permanent measures to boost revenue and contain expenditure will be needed to ensure a steady debt reduction over the medium term.

"Implementation of the SONA initiatives could put pressure on domestic inflation and credit growth in coming months. In this context, the Central Bank of Seychelles (CBS) should stand ready to further tighten policy stance if needed to contain inflationary pressures. Given adequate levels of external buffers, the CBS is advised to limit further foreign exchange purchases to the extent needed to maintain the current level of external reserve coverage. The structural agenda should focus on minimizing the fiscal risks arising from state-owned enterprises and avoiding further loss of correspondent banking relationships."

INTERNATIONAL MONETARY FUND

SEYCHELLES

December 22, 2016

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION AND WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA

KEY ISSUES

Context. Completion of the fourth review was delayed after the government announced in early 2016 expenditure and revenue initiatives with estimated annual fiscal costs of 3 percent of GDP. After the opposition won a majority in parliament in September, the President announced his resignation and the Vice President took over. With low commodity prices and strong tourist arrivals, the economic developments since the third review have been favorable and economic outlook for 2016–17 remains positive.

Focus. Discussions centered on the 2017 budget to offset the fiscal initiatives announced in early 2016. The stance of monetary policy and the adequacy of external reserves level were discussed in the context of the strong balance of payments outturn and potential inflationary pressures in coming months arising from the fiscal initiatives. Discussions also covered structural measures to reduce risks and promote growth, including governance of state-owned enterprises (SOEs), improving public financial management, and strengthening the AML/CFT regulations.

Program performance. All performance criteria for end-December 2015 and end-June 2016 were met, and the macroeconomic program remains broadly on track in the second half of the year. The structural agenda is proceeding, albeit with some technical delays. Staff recommends completion of the fourth and fifth reviews under the Extended Arrangement, modification of one performance criterion for end-December 2016, and a waiver of applicability for the end-December 2016 targets.

Policies in the period ahead. The authorities have committed to achieve a primary surplus of 3 percent of GDP, which would reduce public debt below 50 percent of GDP by 2020. Since the 2017 budget is supported by one-off revenues, additional fiscal measures will be needed going forward. Monetary policy aims to stabilize inflation at low levels, while the exchange rate will remain flexible. Planned structural reforms would reduce risks and promote inclusive growth.

Risks. Domestic risks center on fiscal operations: Parliament has not yet passed the 2017 budget fully consistent with the program and the ruling party has lost control of the legislature. External risks stem from growing uncertainty in Seychelles' export markets and global banks' withdrawal of correspondent relationships.

Approved by
David Owen (AFR) and Bob Traa (SPR)

Discussions were held in Victoria October 19–November 1, 2016. The staff team comprised Mr. Samuel (head), Ms. Viseth, and Messrs. Konuki and Thornton (all AFR). Messrs. Johnston and Cafrine (OED) also participated in the mission. The mission met the President, Finance Minister, Governor of the Central Bank, other senior officials, banks, private sector representatives, and parliamentarians. The three-year Extended Arrangement under the Extended Fund Facility (EFF) for SDR 11.445 million (50 percent of quota) expires on June 4, 2017. The program aims to bolster the foundations for sustained and inclusive growth, while addressing remaining vulnerabilities.

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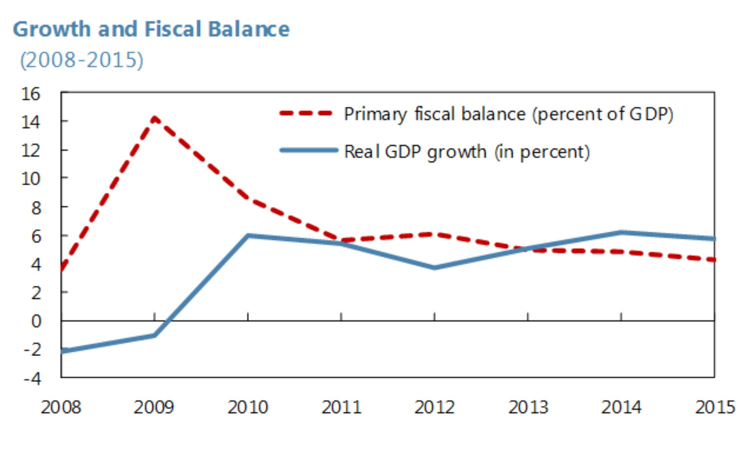
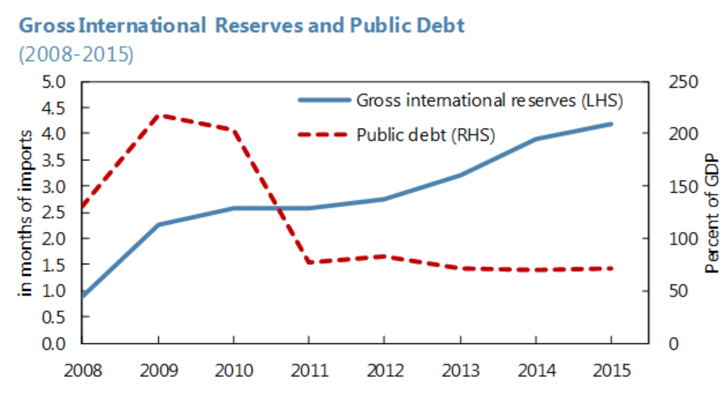
CONTEXT

1. **After seven years of strong economic performance, social concerns came to surface in Seychelles during 2016.** Underpinned by the authorities' prudent macroeconomic policies, Seychelles has recorded significant primary fiscal surpluses for seven consecutive years since 2009, while it has enjoyed buoyant economic growth since 2010 raising per capita GDP to almost $15,000. As a result, the public debt to GDP ratio has almost halved since end-2008. Meanwhile, prospective imports coverage of gross international reserves (GIR) improved noticeably to over 4 months by end-2015 from less than 1 month at end-2008. Despite this impressive macroeconomic performance, the Household Budget Survey (HBS) published in December 2015 indicated that 39 percent of the population were living below the authorities' poverty line (Annex I).





2. **The fourth review under the Extended Arrangement (EFF) was not concluded as scheduled due to fiscal policy slippages**. Following the razor-thin victory in the Presidential Elections in December 2015, as well as the wide spread poverty according to the HBS, President Michel made a series of fiscal commitments in his State of the Nation Address (SONA) in February 2016, which would cost around 2 percent of GDP in 2016 and 3 percent thereafter (Box 1). These measures, intended to reduce poverty, were broad-based: they included a 25 percent increase in the minimum wage, a 40 percent increase in the statutory pension, and the introduction of a progressive income tax (PIT) with an exemption threshold more than double the level recommended in Fund technical assistance (TA). As a result of the changes to the income tax, over half of the population will pay no income tax at all, and a large majority of the population will pay less than under the flat tax. Moreover, the timing of the tax reform provided for parts of the reform being introduced in 2016 and the full system in 2017.[1]

[1] From April 2016, those earning less than the SR8,555.50/month threshold were exempted from paying income tax. For those earning above SR9838.8, the existing 15 percent flat tax continues to apply until the full system is introduced in mid-2017. Those earning between SR 8,555.5 and SR9,838.8, however, effectively face a one hundred percent marginal tax rate until the new system is fully implemented.

Box 1. Fiscal Costs of Measures announced in the SONA

The President Michel's SONA in February committed to various measures listed below, which are not well targeted and would have a negative impact on macroeconomic stability and fiscal sustainability.

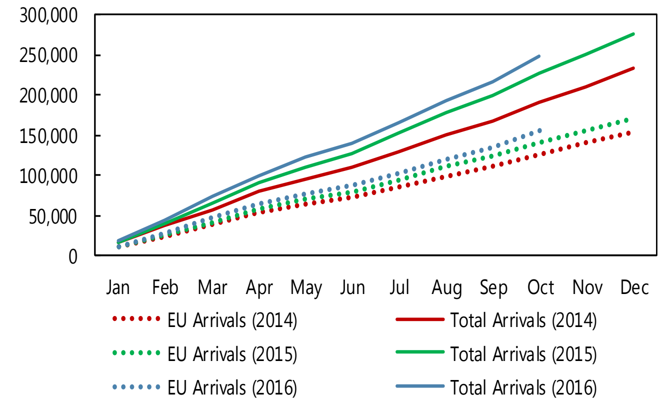
	Approximate annual cost in percent of GDP
Social Programs	
Increase in Retirement Benefit and Invalidity benefit rate from SR. 3,600 and 3,450 respectively to SR. 5,050	0.5
Increase in Home Carers allowance for full day carers to SR. 5,772 and half day carers to SR. 3,607.50	0.18
Increase in welfare weights and maximum levels of assistance	0.29
Travel subsidies for students, patients and pensioners	0.04
Reduction of 25% on the price of PMC houses to support home ownership	0.08
Home Improvement/ Re-roofing Loan for Pensioners through HFC	0.07
Wages and Salaries	
Increase in Government Gratuity Scheme	0.01
Payment of pensions for Ministers and Members of National Assembly only from the age of 63	(0.07)
Taxes	
Progressive Income Tax exemption from January 2017	1.90
First-time Home Buyers Stamp Duty exemption	0.04
New Entities	
Special Court should be set up to hear all drug offences	0.01
Setting up an Anti-Corruption Commission	0.01
Housing repair work and Seed Financing for Property Management Company	0.22
Estimated Annual Financing Implications	**3.2**

Sources: Seychelles authorities and IMF staff estimates.

3. **As a result of the recent elections, the government and the National Assembly are controlled by different parties.** Although President Michel was re-elected in the closely contested presidential election, the opposition alliance won a majority in the National Assembly for the first time in 40 years in September. While the President's party continues in government, it is weakened by its loss of control of the legislature. President Michel announced his resignation and the then Vice President Faure took over the position in mid-October.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Cumulative Tourist Arrivals, 2014-2016 [1]

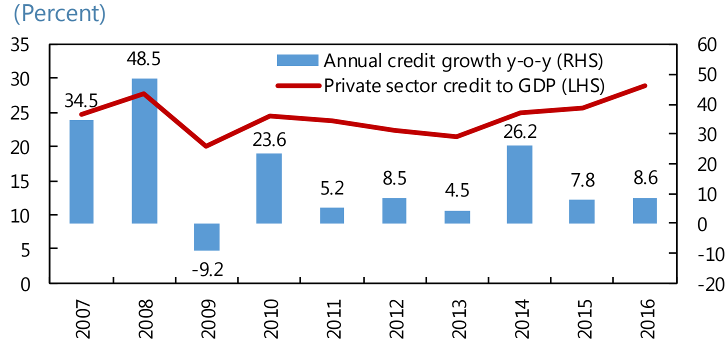


Source: Seychelles authorities and IMF staff estimates.
[1] as of October 2016

4. **Economic conditions have been favorable since late 2015** (Figures 1 and 2, Tables 1–4). Economic growth reached 5¾ percent in 2015 buoyed by strong tourism performance. Tourist arrivals continue to be strong in 2016—they grew by 8¼ percent through September. Nominal exchange rates have been stable since March 2016 while the gross international reserves (GIR) have been in line with the staff's projection at the time of the third review under the EFF. While the Central Bank of Seychelles (CBS) refrained from foreign exchange purchases during the first half of 2016, it resumed purchases in July and August in the context of strong tourism arrivals.

5. **Tight monetary policy, supported by favarable BOP developments, has helped to contain inflation and moderate credit growth.** The CBS tightened its monetary policy stance in March 2016 in anticipation of the effects of the fiscal expansion following the SONA announcement. As a result, the rate on one-year T-bills rose to 8.3 percent in October from just over 5 percent in March. Supported by the tight monetary policy and low international fuel and food prices, the year-on-year CPI inflation has been negative up to October. Private sector credit growth has been moderate: hovering between 7 and 10 percent in recent months, significantly down from 26.2 percent at end-2014. Financial soundness indicators suggest that banks remain adequately capitalized and liquid (Table 5).

Credit Growth Dynamics, 2007-2016[1]
(Percent)



Sources: Seychelles authorities; and IMF staff estimates.
[1] as of September 2016.

6. **Fiscal outturns so far have been strong due to buoyant revenue and under execution of capital expenditure.** In 2015, the primary surplus reached 4¼ percent of GDP, exceeding the target by ½ percent of GDP, due to tax revenue over performance and under spending on capital expenditure. Strong growth appears to continue buoying revenues and the primary surplus in the first half of 2016, helping meet the mid-year primary surplus target (¶8).

7. **The near-term macroeconomic outlook is benign, though with some downside risks stemming from the external environment and expansionary impact of SONA measures.** Real GDP is estimated to be growing at around 4½ percent in 2016 supported by strong tourism and investment. The growth momentum is expected to be carried over to 2017 with tourist arrivals

buoyed by new flights, before easing to the potential rate of around 3½ percent after 2018. The low international fuel and food prices and strong tourism arrivals appear to be offsetting the effects of the large increases in the minimum wage and pensions without significant pressure on the balance of payments and inflation so far. However, the external balance could be negatively affected by a weakness of euro against the US dollar as the large part of Seychelles' tourism sector's receipts are in euro.[2] Meanwhile, inflation and exchange rate pressures could surface in coming months as the expansionary impact of the fiscal measures boost domestic demand. In addition, in the context of a general move by international banks to reduce the risks faced by correspondent banks, Seychelles' financial sector could potentially be affected by these global trends.

PROGRAM PERFORMANCE

Implementation of the EFF-supported program has proceeded, with all the quantitative PCs met up to end-June and the program broadly on track for end-December. The structural agenda progressed with some technical delays.

8. All end-December 2015 and end-June 2016 PCs were met (MEFP Table 1), the macroeconomic program remains on track in the second half of 2016, the authorities request a waiver of applicability of end-December 2016 PCs (¶24), and the structural agenda is proceeding, albeit with technical delays (MEFP Table 2).

- **The December 2015 and June 2016 fiscal primary surplus targets were met with substantial margins.** The end-2015 primary surplus target was met by a margin of ½ percent of GDP (¶6). With the full impact of the SONA commitments only taking effect in the course of the second quarter, the end-June 2016 target for the primary balance was exceeded by around 1 percent of GDP. Most of the over-performance in the first half of 2016 was due to a perennial problem of under-execution of the capital budget, which more than offset higher-than-projected expenditure on wages. Tax revenue was slightly above projections, supported by the solid economic growth.

- **The net international reserve (NIR) targets were also exceeded.** NIR at end-2015 exceeded the target by US$14 million, supported by low international fuel and food prices. Although the CBS abstained from foreign exchange purchases during February through June 2016, citing concerns over the potential negative BOP impact of the SONA measures, NIR at end-June 2016 still exceeded the target by US$10 million as BOP developments continued to be favorable.

- **The reserve money targets on daily average were achieved in the fourth quarter of 2015 and the first half of 2016.** Reserve money slightly exceeded the third review projections throughout the period, albeit with a slight tightening stance, but stayed within the prescribed upper band and met the targets.

- **The structural agenda continues to advance, albeit with some technical delays**. The governance reviews of 6 SOEs (3 of which pertain to the December 2016 benchmark) were completed on schedule with the assistance of the World Bank, and a revised SME policy was approved by the Cabinet. The Public Expenditure and Financial Accountability (PEFA) assessment,

[2] Weak global growth as highlighted in the World Economic Outlook published in October 2016 could also dampen tourism performance.

an essential precursor to the Public Financial Management (PFM) Action Plan, was originally planned for the first quarter of 2016. However, due to administrative issues with the donor financing, the assessment has been pushed back to the second half of the year. The National Assembly approved the enactment of a new International Business Companies Act in July, and legislation on International Corporate Service Providers and Trusts has been gazetted. The framework for macro prudential surveillance was approved by the CBS board in March 2016. In addition, some progress has been made on financial literacy, with the hiring of a consulting firm in April to conduct a baseline survey on financial literacy, though finalization of the strategy requires more time than the end-September 2016 deadline proposed in the third review. Similarly, the National Risk Assessment on AML/CFT issues is being finalized, but the approval of the resulting strategy may be delayed to early 2017 (MEFP Table 2).

POLICIES IN THE PERIOD AHEAD

After making commendable progress in building buffers and reducing debt for the past seven years, the authorities felt it necessary to relax the fiscal stance to help alleviate social pressures. Nonetheless, they are committed to credible policy measures to counterbalance the expansionary impact of the SONA initiatives. Such measures will help buttress debt sustainability and reduce the country's perennial external vulnerability.

A. Fiscal Policy

9. The authorities are committed to the program's goal of a steady reduction of public debt while addressing the country's social priorities. The original program's macroeconomic framework was anchored on the authorities' goal of reducing the public debt-to-GDP ratio below 50 percent by 2018. However, with the measures contained in the SONA in February entailing a permanent fiscal cost of around 3 percent of GDP, and with the authorities' strong performance on reserves necessitating a significant issuance of monetary debt to sterilize the resulting liquidity[3], the fiscal measures that would be required to attain the original target are not now feasible or advisable. The fiscal contraction required would undermine the authorities' social goals, constrain the necessary investment in critical infrastructure, or hamper the private sector's role as the engine of growth.

10. In this context, the authorities' have expressed their commitment to reduce the debt-to-GDP ratio below 50 percent by 2020, two years later than the original target. The authorities have agreed measures to achieve a primary surplus of 3 percent of GDP in 2016 and 2017, slightly less ambitious than the previously-agreed target of around 3¾ percent of GDP. The revised primary surplus target would be sufficient to keep the debt on a firm downward trend and preserve economic

[3] Large foreign exchange purchases by the CBS during 2009–10, aimed at rebuilding the depleted reserves buffer, resulted in structural excess liquidity in the banking system. Starting in 2014, the CBS and the Ministry of Finance conducted an ambitious sterilization program comprising of the issuance of Treasury bonds to mop up the excess liquidity, which resulted in a rapid increase in the level of government debt issued for monetary policy purposes. (See Box 1 and Annex II, Country Report No. 16/15.)

stability (see debt sustainability analysis (DSA) in Annex II), striking a balance between preserving economic stability and addressing vital social and investment needs.[4]

11. For 2016, the primary surplus is expected to reach 3 percent of GDP. The cost of partial implementation of the SONA measures in 2016 is estimated at 2 percent of GDP. However, tax revenues have been boosted by the strong tourism performance, while at the same time, non-tax revenue over performed, supported by the significantly improved SOEs' financial performance which allowed for higher-than-projected dividend payments.

12. The authorities have also submitted a 2017 budget to the National Assembly targeting a primary surplus of 3 percent of GDP. This includes a number of measures designed to bolster revenues, including a 10 percent increase in the excise on beer and wine, and a 0.5 rupee/liter increase in the excise on petroleum (excluding that used the PUC and SPTC, Box 2). However, these measures account for only around a quarter of the cost of the SONA measures, and the 2017 outturn is expected to be supported by a large one-off stamp duty payment (just over 1 percent of GDP) resulting from foreign acquisition of a local telecoms company, as well as by a delay in the full implementation of the progressive income tax until mid-2017. Going forward, additional permanent measures will be needed to buttress tax collections if the authorities are to meet their goal of reducing the debt to GDP ratio below 50 percent by end-2020.

13. The authorities continue to pursue innovative debt management strategies aimed at limiting risks and attaining sustainable growth. In February 2016, an agreement was finalized with the Paris Club under which the Nature Conservancy facilitated loans and grants to allow Seychelles to buy back over 90 percent of the debt maturities falling due to the Paris Club between 2015 and 2021 at a small discount. In the second phase of the operation, the government issued obligations of a similar amount to the Seychelles Conservation and Climate Adaptation Trust (SCCAT), a local trust created to fund and manage a marine conservation and climate adaptation initiative.[5] The authorities are also considering an additional liability management exercise to swap the current dollar-denominated debt obligations under its outstanding Eurobond into Euros, which could entail interest savings while better matching the currency of the majority of the country's foreign exchange earnings.

14. Over the medium term, the authorities should seek further opportunities to reduce debt-related risks. Seychelles has accumulated significant debt as a consequence of the need to sterilize the counterpart to the rapid build-up of external reserves since the crisis (¶10). Over the medium term, as the CBS' monetary policy framework and tools evolve and its balance sheet strengthens, some unwinding of this debt should be possible. The authorities should also seek opportunities to lengthen the maturities of domestic debt with a view to reducing rollover risks and gross financing needs.

[4] As in the previous Staff Report (Country Report No. 16/15), some unwinding of monetary debt is assumed over the medium term as global interest rates normalize, allowing the CBS to bear more of the costs of monetary policy directly. In light of the persistence of low interest rates, however, this unwinding has been pushed back by a year to 2018 and 2019.

[5] See Box 3, Country Report 15/201, for a detailed explanation for this debt buyback operation.

Box 2. Fiscal Saving Measures to Partially Offset Cost of SONA Initiatives

The authorities agreed with the staff to incorporate the following set of measures in the 2017 budget, which are estimated to generate revenues of around ¾ percent of GDP from 2017 onwards.

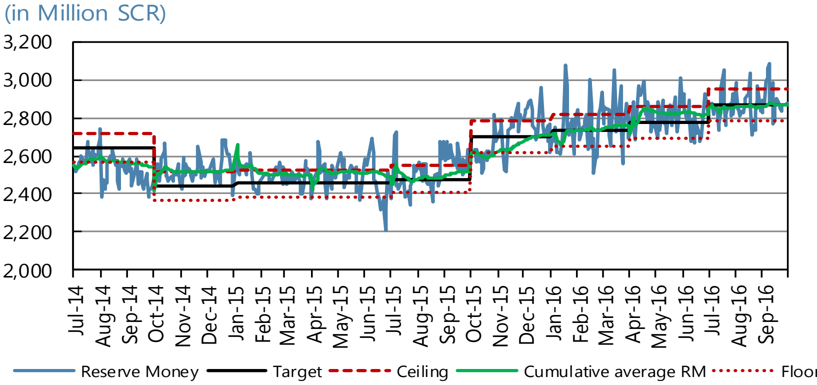
Measures	Estimated amount generated (SR)	(percent of GDP)
0.5 SCRs on excise for fuel excluding PUC and SPTC	33 million	0.16
10 percent increase in excise on sub-16 percent alcohol	16 million	0.08
10 percent increase in excise on tobacco	14 million	0.07
Increase in License Fees	14 million	0.07
Increase in Port Fees	10 million	0.05
Increase in Passenger Service Fee for non-residents	20 million	0.10
Revise excise tax on hybrids to 25 to 100 percent (based on engine capacity) of current rate for non-hybrids	10 million	0.05
Property tax	10 million	0.05
Enforcement of penalty fees, introduction of new fees by Registration Division	7 million	0.03
Total measures	140 million	0.69

Source: Seychelles authorities and IMF staff estimates.

B. Monetary and Exchange Rate Policy

15. While inflation and private sector credit growth are contained, the CBS stands ready to tighten the monetary policy stance in light of the concerns about the expansionary impact of SONA initiatives in coming months. A tight reserve money target maintained through the first half of 2016 has helped contain inflation and moderate private sector credit growth. However, with higher than expected growth in foreign currency deposits during the second quarter, the CBS slightly revised up the reserve money target, while keeping the monetary stance broadly unchanged. Since the revisions, the reserve money path has remained well within the prescribed bands, and the staff expects that the end-2016 reserve money would be broadly in line with the target set at the time of

Reserve Money
(in Million SCR)



Sources: Seychelles authorities; and IMF staff estimates.

the third review (Table 4 and MEFP Table 1).[6] Nonetheless, the additional spending contained in the SONA and incentive schemes in the real estate sector could put pressures on domestic inflation and credit growth going forward. Meanwhile, the recent increase in electricity tariffs and the planned increases in several excises to enhance fiscal revenue in early 2017 (¶12) would push up inflation in coming months. Therefore, the CBS stands ready to tighten monetary policy in order to contain demand-pull inflationary pressures or second-round effects of the tariff and excise adjustments.

16. NIR has exceeded the targets set at the time of the third review so far, keeping Seychelles' reserves coverage at a comfortable level. Strong tourist arrivals and lower international commodity prices have helped NIR overperform against the targets up to September, and the end-2016 NIR target set at the time of the third review would be achieved without further foreign exchange purchases by the CBS**.** The end-2016 NIR target set at the time of the third review implies a reserves coverage at 3¾ months of prospective imports (about 170 percent of the ARA metric) at end-2016, above the adequate level estimated in the last Article IV consultation (see Annex 4, Country Report No. 15/201).[7] In this context, the staff agreed with the CBS to refrain from foreign exchange purchases for the rest of 2016 and would propose that the end-2016 NIR target remain unchanged with a view to allowing the exchange rate to move in line with economic fundamentals. Going forward, sterlization costs would remain high due to the still wide spread between domestic and international interest rates, and further substantial reserves accumulation could compromise the medium-term debt target.Therefore, the staff advised that the CBS should continue purchasing international reserves only to the extent necessary to preserve import coverage at around the current level.

17. The CBS is encouraged to continue its efforts to modernize the monetary policy framework. The absence of a monetary policy rate has created volatility in short-term interest rates and uncertainty regarding the correct rate to follow and bid. An interest rate corridor around an appropriate policy rate, as advised by the recent TA by AFRITAC, would help provide guidance for other short-term interest rates, reduce volatility in short-term interest rates, and enhance monetary policy transmission from short-term money market rates to lending rates. A functional interest rate corridor could encourage the development of interbank activities and money markets, which currently do not exist.

C. Financial Stability

18. The authorities have made progress in setting up a framework for macro prudential surveillance. A Financial Stability Committee (FSC), whose objective is to maintain financial stability, became operational in March 2016. The committee comprises members from the CBS, the Ministry of Finance, the Financial Services Authorities (FSA), and the Financial Intelligence Unit (FIU), and is scheduled to meet every quarter. While most of the foreign currency loans are hedged, the rise in unsecured lending remains a source of concern. Although the CBS does not currently have macro-prudential tools at its disposal to address such concerns, revisions to the CBS Act allowing the CBS to

[6] The reserve money corridor is +/- 3 percent, with the upper limit constituting a performance criterion under the program. The reserve money target is the quarterly average reserve money.

[7] Projected amount of end-2016 Seychelles' reserves is comfortable by the Fund's composite reserve adequacy metric (see Figure 1), as well as the other commonly used rules of thumb.

enforce micro-prudential ratios including loan to value, debt to income and debt service to income ratios are currently underway. Furthermore, the CBS will also have an enhanced toolkit over the medium term as the migration to Basel II takes place. The authorities have also requested technical assistance from STA on the collection of housing price index data that would be useful to gauge the implied level of financial stability risk.

19. The authorities should step up efforts to safeguard the offshore financial sector. Significant steps are being taken to improve governance in the offshore sector: the new International Business Corporations (IBC) Act recently took effect while the revised draft Act to improve the regulation of trusts and International Corporation Service Providers (ICPS Act) will be shortly submitted to the Cabinet. However, the offshore sector still faces significant headwinds in the context of a trend towards withdrawal of correspondent banking relationships and intense global interest in money laundering and terrorist financing issues. While the loss of correspondent banking relationships (CBRs) has been limited so far, Seychelles' banks face pressures in maintaining these relationships. In response, the authorities are currently drafting an action plan to reduce financial sector risks and avoid further loss of CBRs. The proposed strategy focuses on ensuring that the banks' AML/CFT framework is in line with international standards and on enhancing cooperation with relevant jurisdictions. Meanwhile, a comprehensive and cohesive strategy to tackle AML/CFT risks drawing on the National Risk Assessment, which is currently conducted by the World Bank, will be articulated in coming months.[8]

D. Structural Agenda

20. Progress is underway on overhauling revenue collection efforts. Administration of the bonded warehouse scheme has been tightened after audits revealed substantial weaknesses in controls. The implementation of the Progressive Income Tax will pose fresh challenges for the revenue administration. In this context, ensuring adequate staffing levels at the Seychelles Revenue Commission should be a key focus in view of the very large number of unfilled vacancies.

21. The authorities' efforts to further improve PFM continues. A PEFA assessment is currently being drafted which will form the basis of a new PFM Action Plan (Structural Benchmark). Good progress has been made in recent years following the previous PEFA assessment, and the current work will allow Seychelles to assess progress against the evolving benchmarks and identify the key areas for improvement. The authorities have also developed a framework for implementing Public Private Partnerships with the assistance from the African Development Bank. (Structural Benchmark).

22. While most of the SOEs are currently profitable, they remain a key source of fiscal risk. TA from AFRITAC found that at an aggregate level, with the exception of the transport sector, profitability appears low compared with international benchmarks. Moreover, SOEs' non-guaranteed debt—estimated at around 13 percent of GDP—constitutes a sizable implicit contingent liability, which requires more careful reporting and analysis. World Bank-assisted governance reviews of SOEs have also suggested areas

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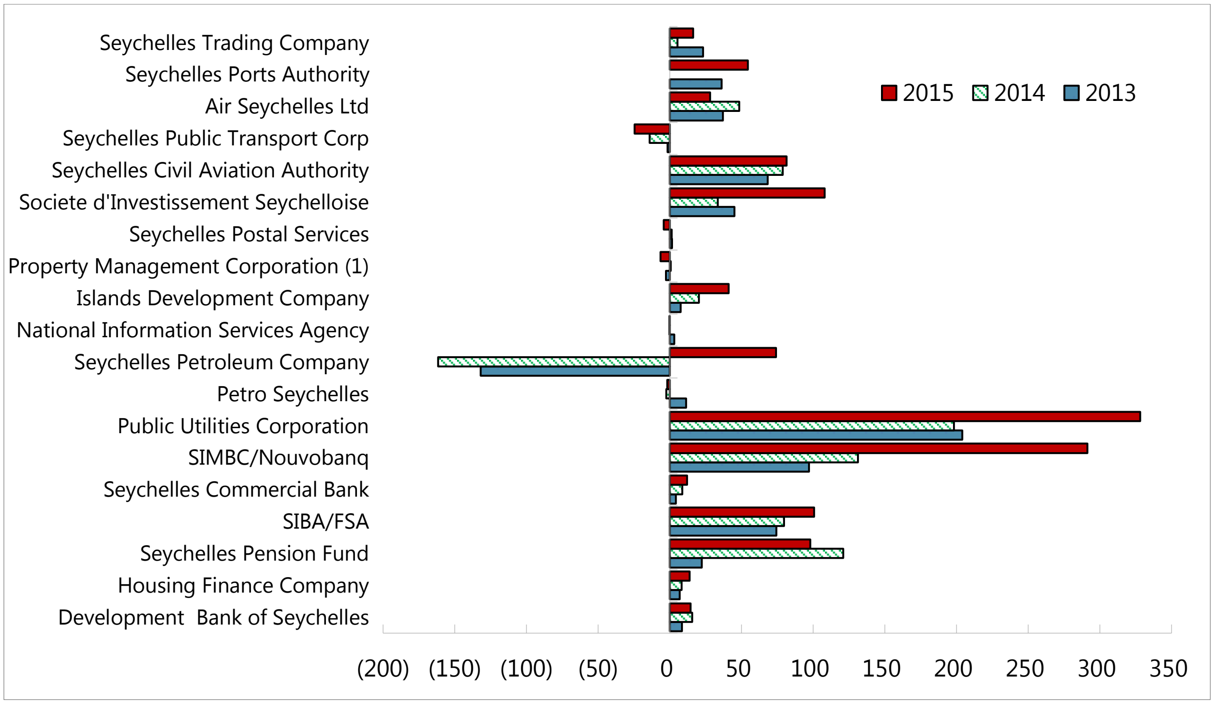
[8] As the completion of the National Risk Assessment by the World Bank, which will form the basis of an AML/CFT strategy, has been delayed, the relevant structural benchmark has not been met and being rescheduled to early2017.

for improvement: the first three reviews were completed by June, and a further three (covering the Ports Authority, Nouvobank, and the Seychelles Pension Fund) were presented to the authorities in December 2016 (Structural Benchmark). The reviews have made a number of recommendations for better assessment of the financial and social viability of the SOEs' new business lines, and measures to streamline information reporting requirements and impose sanctions for non-compliance with such rules.

Profit and Loss of SOEs

(in millions of Seychelles rupees)



Source: Seychelles authorities.

23. The Public Enterprise Monitoring Commission and Ministry of Finance will submit an Action Plan to Cabinet for approval by March 2017 to address the key weaknesses identified in the TA (structural benchmark). The action plan will propose a timeline for implementing full fiscal risk analysis of the SOE sector in the context of the country's budget documents, as well as clarifying and strengthening data requirements and analysis of investment and debt decisions by SOEs.

PROGRAM MONITORING AND RISKS

24. While the program will continue to be monitored on a semi-annual basis, submission to the National Assembly of a 2017 budget consistent with the program is a prior action. The authorities request reducing the end-December 2016 fiscal primary surplus target given the SONA initiatives, while the NIR and reserve money targets will be kept unchanged. With a view to anchoring the medium-term debt reduction target, submission of a budget consistent with the primary surplus target of 3 percent of GDP in 2017 to the National Assembly is a prior action for the Board discussions to complete the fourth and fifth reviews. The LOI also proposes the establishment of structural benchmarks for the remaining period of the arrangement (MEFP Table 2). Staff supports the authorities' request for a waiver of applicability for the end-December performance criteria, as the relevant data are not yet available, the program's goals remain likely to be met, and there is no clear evidence that the performance criteria will not be met.

25. While Seychelles' capacity to repay the Fund remains strong, downside risks to the program stems from the fiscal operation in 2017, as well as external factors. With international reserves adequate and credible policies in place, the country's obligations to the Fund remain small relative to its exports and reserves (Table 6). However, the economy remains vulnerable to external shocks (¶7). Internal risk factors center on the fiscal operation in 2017. Although the opposition leaders expressed a willingness to support continued fiscal discipline when the mission met with them in the field, it might be a challenge for the authorities to pass a 2017 budget fully consistent with the program in light of the opposition parties' control of the National Assembly. In case that a budget fully consistent with the program cannot be passed by the National Assembly, the government will take measures to achieve the primary surplus target through its executive powers, such as through delaying non-priority expenditures. Additional fiscal measures will also be required going forward to ensure a sufficiently strong primary balance to reduce the debt-to-GDP ratio below 50 percent by 2020. An updated assessment of the CBS, completed in September 2014, confirmed that the CBS has made further progress in developing its governance and control framework and that its operations are subject to independent oversight and accountability. However, efforts are needed to strengthen the internal audit capacity.

STAFF APPRAISAL

26. Staff concurs with the authorities on the need to ensure that the benefits of economic growth are shared by all, while at the same time safeguarding hard-earned macroeconomic stability. In light of the widespread concern over poverty, the government announced a number of social initiatives in early 2016. While the need to address social concerns is understandable, the announced initiatives were not well targeted and entailed substantial permanent fiscal costs—around 3 percent of GDP on a full-year basis. Without credible measures to counterbalance the SONA measures, Seychelles would risk squandering the gains achieved through the bold reforms implemented since the 2008 crisis.

27. Staff welcomes the authorities' commitments to the goal of a steady reduction of public debt over the medium term reflected in the draft 2017 budget. The authorities' 2017 budget includes a number of measures to buttress revenue and attain a surplus of 3 percent of GDP. Staff's updated DSA indicates that, if the authorities implement additional measures to ensure a surplus of this magnitude from 2018 onwards, the revised primary surplus target would allow the authorities to meet their goal of reducing the public debt-to-GDP ratio below 50 percent by 2020, two years later than the originally planned. This revised goal, in the view of staff and the authorities, strikes an appropriate balance between attaining social objectives while preserving economic stability. However, given the relatively limited revenue measures proposed for 2017, additional, permanent measures to boost revenues and containing government expenditures, in particular wage growth, will be needed to attain this debt reduction target.

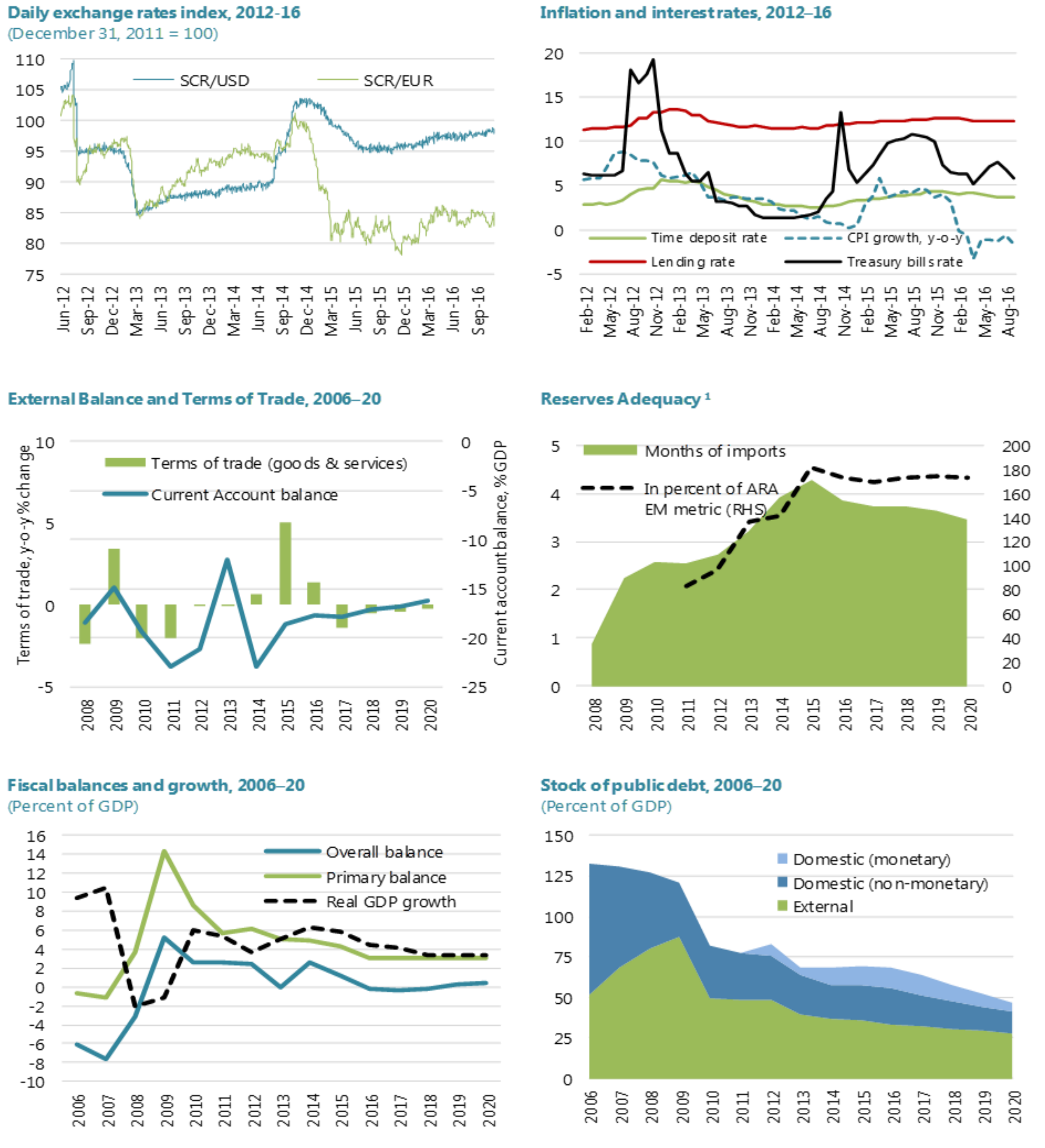
28. The CBS should stand ready to further tighten the monetary policy if needed, while preserving the international reserves coverage at around the current level. The balance of payments has strengthened, supported by low international commodity prices and strong tourist arrivals. Inflation has been subdued, supported by favorable food and fuel prices and a tight monetary policy stance, while credit growth remains moderate. Nonetheless, the implementation of the SONA initiatives could put pressures on domestic inflation and credit growth going forward. Meanwhile, the recent increase in electricity tariffs and the planned increases in several excises could push up inflation in coming months. Therefore, the CBS should be ready to further tighten policy stance if needed to contain inflationary pressures. With external buffers adequate and the costs of sterilization still high, foreign exchange purchases should be limited to maintaining the current level of reserves coverage of imports.

29. The authorities should continue efforts to strengthen the legal and regulatory framework regarding AML/CFT. Seychelles banking sector lost some CBRs in recent years, reflecting intense global interest in money laundering and terrorist financing issues. The authorities are urged to firm up an action plan, which is currently being drafted, to reduce financial sector risks and avoid further loss of CBRs. The proposed strategy focuses on ensuring that banks' AML/CFT framework is in line with international standards and on strengthening cooperation with relevant jurisdictions.

30. The authorities should focus on the structural agenda to minimize the fiscal risks stemming from the SOEs and further improve PFM. While most of the SOEs are profitable, the large size of their non-guaranteed debt should require closer monitoring by the government. The authorities should come up with a concrete action plan to address the key weaknesses in the SOE sector identified by the recent TAs, including better assessment of the viability of new business lines of SOEs and implementation of full fiscal analysis of the SOE sector. The ongoing PEFA assessment would provide a good basis for a new PFM action plan to be formulated in coming months.

31. In light of the authorities' continued program implementation, staff supports the authorities' request for the completion of the fourth and fifth reviews under the Extended Arrangement, the modification of the quantitative performance criterion for end-December 2016, and the waiver of applicability of the quantitative performance criteria for end-December 2016.

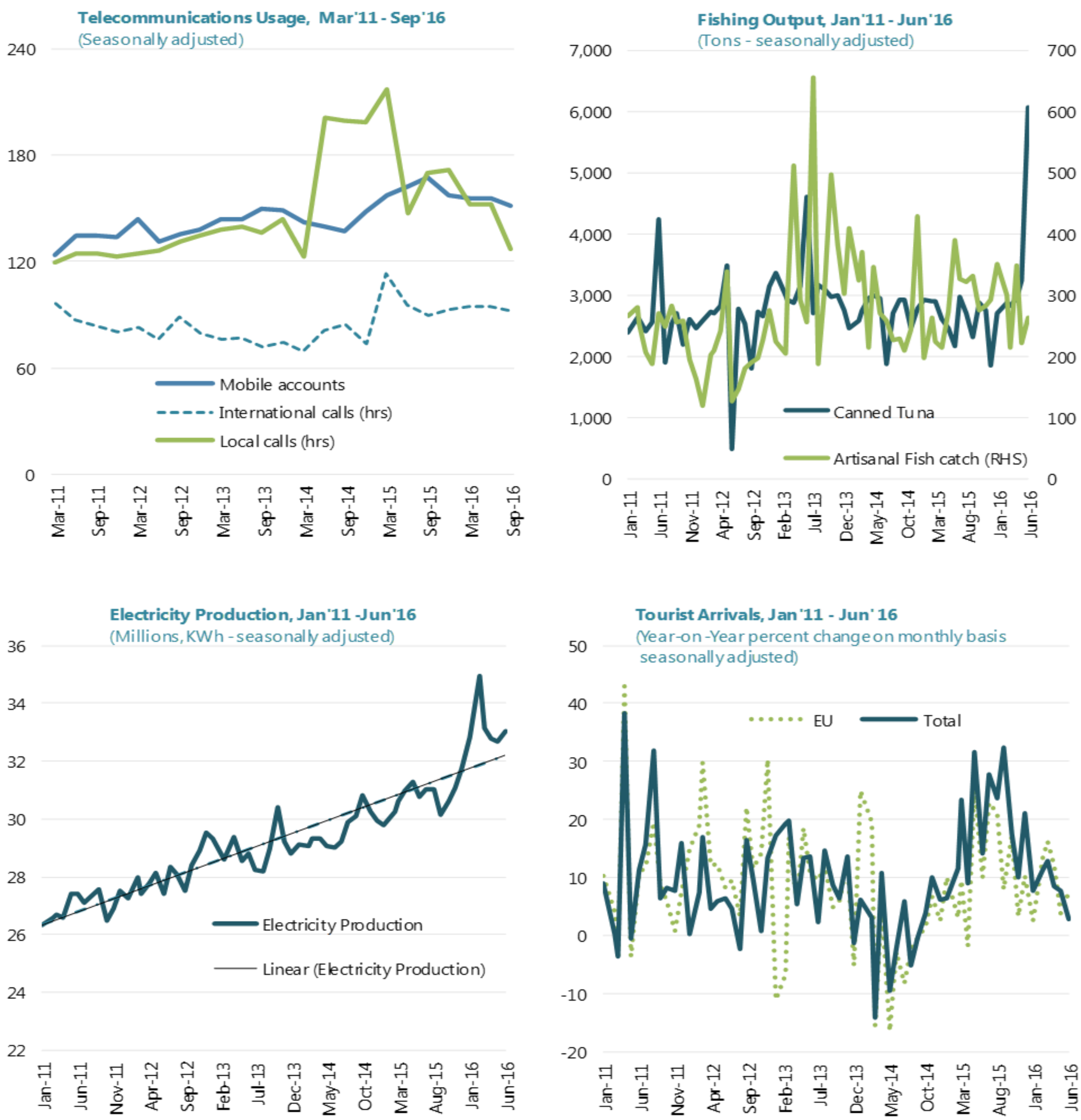
Figure 1. Seychelles: Macroeconomic Developments and projections



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, 2013–21

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

	2013	2014	2015		2016		2017	2018	2019	2020	2021
	Est.	Est.	3rd Rev.	Est.	3rd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices	(Percentage change, unless otherwise indicated)										
Nominal GDP (millions of Seychelles rupees)	15,864	17,199	19,348	18,102	20,456	18,819	20,322	21,787	23,181	24,694	26,291
Real GDP	5.0	6.2	4.3	5.7	3.3	4.4	4.1	3.4	3.3	3.3	3.3
CPI (annual average)	4.3	1.4	4.3	4.0	2.5	-0.7	3.7	3.7	3.0	3.1	3.0
CPI (end-of-period)	3.4	0.5	4.4	3.2	3.0	1.5	3.9	3.4	3.0	3.1	3.0
GDP deflator average	4.0	2.1	2.3	-0.5	2.3	-0.4	3.8	3.7	3.0	3.1	3.0
Money and credit											
Broad money	23.7	26.6	6.7	2.9	5.7	10.4	...	...	...	...	...
Reserve money (end-of-period)	15.4	13.9	13.1	9.5	6.5	13.3	...	...	...	...	...
Reserve money (average of last quarter)	...	-14.5	6.9	7.2	6.5	9.4	...	...	...	...	...
Velocity (GDP/broad money)	1.7	1.5	1.5	1.5	1.5	1.4	...	...	...	...	...
Money multiplier (broad money/reserve money)	4.5	5.0	4.6	4.7	4.6	4.5	...	...	...	...	...
Credit to the private sector	4.5	26.2	12.6	7.8	10.6	10.6	...	...	...	...	...
Savings-Investment balance	(Percent of GDP)										
External savings	12.1	23.0	14.4	18.8	15.3	17.7	17.9	17.5	16.9	16.4	16.0
Gross national savings	26.5	14.7	18.4	15.0	19.8	14.9	17.4	15.9	16.6	17.6	17.9
Of which : government savings	5.6	6.9	6.4	6.0	7.1	5.3	5.8	6.1	7.0	8.8	9.2
private savings	20.9	7.7	12.0	9.0	12.7	9.6	11.7	9.9	9.6	8.8	8.7
Gross investment	38.5	37.7	32.7	33.9	35.1	32.6	35.3	33.4	33.5	33.9	33.9
Of which : public investment [1]	9.5	6.7	5.7	4.9	7.8	7.4	8.4	7.4	7.3	7.5	7.4
private investment	29.0	31.0	27.0	29.0	27.3	25.2	26.9	26.0	26.2	26.4	26.5
private consumption	39.8	50.9	49.6	47.3	49.5	43.7	42.5	45.1	45.6	46.4	46.3
Government budget											
Total revenue, excluding grants	34.2	34.1	31.7	33.9	32.6	37.8	37.0	36.8	37.0	37.2	37.5
Expenditure and net lending	38.6	34.5	31.5	33.2	34.3	40.3	40.7	39.6	38.8	37.6	37.5
Current expenditure	28.6	27.9	25.8	28.3	26.5	32.9	32.4	32.2	31.5	30.8	30.2
Capital expenditure [1]	10.0	6.6	5.7	4.9	7.8	7.4	8.4	7.4	7.3	7.5	7.3
Overall balance, including grants	0.3	2.1	1.2	0.9	1.3	0.0	-0.4	-0.3	0.1	0.4	0.7
Program primary balance	5.0	4.9	3.8	4.3	3.8	3.0	3.0	3.0	3.0	3.0	3.0
Total government and government-guaranteed debt [2]	70.8	70.5	66.6	70.6	62.7	70.5	67.9	61.4	55.4	49.7	45.9
Domestic (including debt issued for monetary purposes)	31.2	33.4	30.3	34.9	28.0	37.4	36.3	31.2	26.6	21.5	18.5
Domestic (excluding debt issued for monetary purposes)	26.1	22.4	19.2	21.3	15.2	24.4	24.2	21.1	18.8	15.8	13.2
External	39.6	37.1	36.3	35.7	34.7	33.1	31.6	30.2	28.8	28.2	27.4
External sector											
Current account balance including official transfers	-12.1	-23.0	-14.4	-18.8	-15.3	-17.7	-17.9	-17.5	-16.9	-16.4	-16.0
Total external debt outstanding (millions of U.S. dollars) [3]	1,663	1,588	1,786	1,371	1,876	1,439	1,560	1,634	1,724	1,828	1,925
(percent of GDP)	126.4	117.7	122.7	100.9	122.3	101.9	104.7	104.2	104.4	104.7	104.7
Terms of trade (-=deterioration)	-0.1	0.6	...	5.0	...	1.4	-1.4	-0.5	-0.4	-0.3	0.0
Real effective exchange rate (average, percent change)	17.7	-3.2	...	11.5	...	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	425	463	521	537	517	513	520	544	559	571	582
Months of imports, c.i.f.	3.2	3.9	4.8	4.3	4.5	3.8	3.7	3.7	3.7	3.5	3.5
Exchange rate											
Seychelles rupees per US$1 (end-of-period)	12.1	14.0	...	13.2	...	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	12.1	12.7	...	13.3	...	...	...	...	...	...	...

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

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

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

[3] Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2013–21

	2013	2014	2015		2016		2017	2018	2019	2020	2021
		Est.	3rd Rev.	Est.	3rd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of US Dollars)										
Current account balance (+ surplus; - deficit)	-159	-310	-209	-256	-235	-250	-266	-275	-279	-286	-294
(percent of GDP)	-12.1	-23.0	-14.4	-18.8	-15.3	-17.7	-17.9	-17.5	-16.9	-16.4	-16.0
Balance of goods and services (+ surplus; - deficit)	-91	-211	-111	-124	-154	-125	-135	-146	-150	-153	-156
Exports of goods	629	539	427	449	449	472	525	558	590	624	658
Of which: oil re-exports	202	193	127	147	129	131	161	178	195	211	228
Of which: tuna exports	351	318	270	239	289	275	295	307	319	332	345
Imports of goods	1,024	1,081	912	922	991	968	1,043	1,108	1,183	1,244	1,299
Of which: oil imports	269	282	185	170	187	159	196	226	245	270	295
FDI-related	100	91	83	51	117	55	115	151	155	140	133
grants- and loans-related	127	84	60	61	90	52	92	89	90	98	96
other	528	624	585	640	598	702	640	643	693	736	775
Exports of services	628	834	675	848	706	909	939	970	1,010	1,058	1,101
Of which: tourism earnings[1]	430	398	404	392	424	422	434	448	467	490	510
Imports of services	324	504	300	498	318	538	556	565	568	591	616
Balance on primary income (+ surplus; - deficit)	-82	-102	-94	-105	-79	-104	-106	-111	-110	-107	-111
Of which: interest due	32	42	56	27	37	35	35	35	37	39	40
transfers of profits and dividends	17	16	15	18	15	18	16	16	17	18	19
Balance on secondary income (+ surplus; - deficit)	15	3	-4	-27	-1	-21	-25	-17	-19	-26	-27
Of which: general government, net	52	57	33	38	34	18	20	28	27	27	28
Capital account	71	39	30	34	50	38	59	44	36	24	23
Financial account	-235	258	234	240	180	189	212	261	265	282	288
Direct investment, net [1]	-162	216	127	110	172	95	170	228	228	208	200
Abroad	8	-71	8	-5	9	-5	-5	-5	-5	-5	-5
In Seychelles	170	145	127	106	171	90	165	223	223	203	196
Of which: offshore sector	0	0	8	0	10	0	0	0	0	0	0
Portfolio investment, net	7	-13	26	36	-17	-1	-10	-10	-10	-11	0
Other investment, net	-80	55	-81	94	25	96	53	43	47	84	88
Government and government-guaranteed	1	22	-5	-14	24	-8	10	18	18	33	26
Disbursements	24	21	15	0	43	30	38	44	45	68	67
Project loans	11	3	8	0	23	10	28	34	45	68	67
Program loans	20	27	7	10	20	20	10	10	0	0	0
Amortization	-34	-16	-20	-24	-29	-45	-36	-35	-36	-44	-50
Private sector [2]	-81	32	-76	108	2	103	42	26	30	51	62
Net errors and omissions	-31	50	0	54	0	0	0	0	0	0	0
Overall balance	116	36	55	72	-5	-23	5	31	21	20	17
Financing	-116	-36	-55	-72	5	23	-5	-31	-21	-20	-17
Change in net international reserves (increase: –)	-116	-36	-55	-72	5	23	-5	-31	-21	-20	-17
Change in gross official reserves (increase: –)	-118	-38	-58	-74	4	24	-7	-24	-14	-12	-11
Liabilities to IMF, net	2	1	3	2	1	-1	2	-6	-7	-7	-6
Other net foreign assets (increase: –)	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Exports G&S growth, percent	12.8	9.2	-6.8	-5.5	4.8	6.5	6.0	4.3	4.8	5.1	4.6
Tourism growth, percent	10.8	-7.6	1.5	-1.3	5.1	7.6	2.7	3.3	4.3	4.8	4.1
Exports of goods volume growth, percent	23.6	-4.8	-8.7	-12.0	5.4	9.7	5.1	3.4	3.4	3.5	3.6
Imports G&S growth, percent	3.9	17.5	-13.3	-10.3	7.9	6.0	6.1	4.6	4.7	4.8	4.3
Imports of goods volume growth, percent	7.3	8.6	0.1	0.7	8.9	12.2	2.8	4.7	5.4	3.8	4.4
Exports G&S, percent of GDP	96	102	76	95	75	98	98	97	97	96	96
Imports G&S, percent of GDP	102	117	83	105	85	107	107	107	106	105	104
FDI, percent of GDP [3]	12.3	-16.0	8.7	-8.1	11.2	-6.7	-11.4	-14.5	-13.8	-11.9	-10.9
Gross official reserves (stock, e.o.p.)	425	463	521	537	517	513	520	544	559	571	582
Of which: program definition [4]	395	433	491	507	486	483	490	514	528	541	552
(Months of imports of goods & services)	3.2	3.9	4.8	4.3	4.5	3.8	3.7	3.7	3.7	3.5	3.5
Percentage of IMF reserve adequacy metric	136	142	159	182	159	173	170	174	175	174	178
Government and government-guaranteed external debt	521	501	528	485	533	467	471	474	476	492	503
(Percent of GDP)	39.6	37.1	36.3	35.7	34.7	33.1	31.6	30.2	28.8	28.2	27.4
GDP	1,315	1,349	1,455	1,359	1,534	1,412	1,490	1,568	1,651	1,747	1,839

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

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

[2] Includes parastatals for which data are available.

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

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

Table 3. Seychelles: Consolidated Government Operations, 2013–18[1]

	2013	2014	2015		2016								2017	2018
					Q1		Q2		Q3		Q4			
	Act.	Act.	3rd Rev.	Act.	3rd Rev.	Act.	3rd Rev.	Act.	3rd Rev.	Prel.	3rd Rev.	Proj.	Proj.	Proj.
	(Millions of Seychelles rupees; cumulative from the start of the year)													
Total revenue and grants	6111	6413	6422	6276	1638	1599	3404	3337	5247	5278	7199	7566	8219	8499
Total revenue	5420	5870	6133	6132	1508	1512	3143	3203	4855	5032	6670	7116	7527	8026
Tax	4676	5294	5508	5557	1388	1404	2841	2862	4359	4433	5941	6147	6579	7003
Personal income tax	754	878	951	948	262	239	524	496	785	727	1047	922	847	920
Trade tax	411	376	325	326	69	76	140	156	217	251	298	365	334	347
Excise tax	652	858	980	962	234	271	479	516	744	811	1019	1135	1291	1451
Goods and services tax (GST) / VAT [2]	1623	1803	1785	1803	446	456	911	954	1415	1456	1939	1931	2139	2301
Business tax [3]	816	782	756	757	212	180	423	411	635	658	846	987	1008	1080
Corporate Social Responsibility Tax (CSR) [3]	44	84	80	79	21	20	43	41	64	62	85	84	91	97
Marketing Tourism Tax (MTT) [3]	22	40	47	45	16	10	32	21	48	32	64	45	63	68
Other	354	472	584	637	129	152	289	266	450	436	643	678	807	738
Nontax	744	576	625	575	120	109	303	342	496	599	729	969	948	1023
Fees and charges	297	347	339	322	88	84	175	221	273	348	364	470	469	509
Dividends from parastatals	402	151	252	228	22	11	108	102	194	219	325	446	424	455
Other	46	78	34	25	10	14	20	19	30	32	40	53	55	58
External grants	691	543	289	144	130	87	261	134	392	247	528	450	693	473
Expenditure and net lending	6111	5981	6158	6057	1679	1478	3369	3206	5156	5150	6937	7598	8300	8570
Current expenditure	4536	4798	4990	5130	1338	1262	2658	2813	3981	4323	5425	6189	6575	7008
Primary current expenditure	3746	4393	4528	4566	1211	1146	2405	2532	3601	3891	5071	5114	5882	6291
Wages and salaries	1129	1229	1143	1161	289	337	577	663	904	993	1255	1268	1383	1484
Goods and services	1218	1288	1034	1017	201	209	423	516	705	847	1007	1183	1171	1255
Transfers	1366	1855	2322	2360	714	584	1390	1331	1971	2021	2628	3103	3293	3514
Social program of central government	307	343	363	418	36	43	72	70	108	102	144	130	132	142
Transfers to public sector from central government	663	1070	1502	1484	533	424	1027	929	1427	1378	1902	2140	2281	2428
Benefits and programs of Social Security Fund	396	442	457	458	146	117	291	332	437	540	582	833	880	944
Other	31	21	29	29	7	17	14	22	21	30	29	33	35	37
Interest due	790	404	462	564	127	117	253	281	380	432	506	603	693	716
Foreign interest	189	175	213	181	57	26	114	81	171	137	228	224	226	243
Domestic interest	601	229	249	383	69	91	139	200	208	295	278	378	467	473
Capital expenditure	1508	1011	1028	801	310	198	649	344	1082	756	1388	1319	1482	1309
Domestically financed	770	656	736	651	107	109	241	207	469	480	670	803	649	672
Foreign financed	738	355	292	150	203	88	408	137	614	275	718	515	833	637
Net lending	6	120	110	77	22	11	45	32	67	46	89	59	219	219
Contingency	62	53	30	49	9	6	18	17	26	25	35	31	25	35
Primary balance	790	836	726	783	85	238	288	412	470	560	767	571	612	645
Overall balance, commitment basis [4]	0	431	264	219	-41	121	35	131	91	128	261	-32	-81	-71
Change in float	51	-70	-35	-48	0	38	0	-149	0	38	0	38	0	0
Overall balance, cash basis (after grants)	51	361	229	171	-41	159	35	-18	91	166	261	6	-81	-71
Financing	22	-361	-229	-171	41	-159	-35	18	-91	-166	-261	-6	81	71
Foreign financing	112	8	-62	-84	227	-163	402	-179	622	-221	181	-183	23	125
Disbursements	277	230	200	102	195	135	269	202	344	297	567	412	520	611
Project loans	152	4	105	6	74	2	148	3	223	30	300	145	383	472
Program/budget support	125	226	95	96	121	133	121	200	121	266	267	266	136	139
Scheduled amortization	-165	-222	-262	-186	-32	-298	-133	-382	-278	-517	-386	-595	-496	-486
Of which Paris Club buy-back	...	...	...	...	...	-269	...	-269	...	-269	...	-269	...	...
Domestic financing, net	-121	-412	17	136	-19	-52	-44	265	-71	-433	-442	226	-43	-256
Bank financing	339	-873	15	-165	0	-151	0	126	0	-468	-748	203	-39	-231
CBS	-56	-1076	-390	-488	0	-54	0	-381	0	-468	-350	-300	0	250
Commercial banks	395	203	405	323	0	-96	0	506	0	0	-398	503	-39	-481
Nonbank financing	-460	461	2	302	-19	98	-44	139	-71	35	-44	23	-4	-26
Privatization and long-term lease of fixed assets	53	77	36	46	0	15	0	21	0	30	0	40	101	202
Transfer of SSF deposits to SPF	...	...	-176	-176	0	0	0	0	0	0	...	...	...	...
Statistical discrepancy	-94	-34	-44	-92	0	41	0	-88	0	-88	0	-88	0	0
Memorandum item:														
Pension Fund contribution	145	180	194	196	51	50	101	99	152	148	202	200	212	225
Pension Fund benefits payment	133	77	163	85	42	29	84	75	126	112	167	148	160	176
Pension Fund operating expenses	0	21	31	36	8	11	18	24	28	34	30	30	31	33
External debt service due	354	397	475	367	89	323	247	463	449	655	614	819	722	729

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

Table 3. Seychelles: Consolidated Government Operations, 2013–18 [1] (concluded)

	2013	2014	2015		2016								2017	2018
					Q1		Q2		Q3		Q4			
		Act.	3rd Rev.	Act.	3rd Rev.	Act.	3rd Rev.	Act.	3rd Rev.	Prel.	3rd Rev.	Proj.	Proj.	Proj.
	(Percent of GDP; cumulative from the start of the year)													
Total revenue and grants	38.5	37.3	33.2	34.7	8.0	8.5	16.6	17.7	25.7	28.0	35.2	40.2	40.4	39.0
Total revenue	34.2	34.1	31.7	33.9	7.4	8.0	15.4	17.0	23.7	26.7	32.6	37.8	37.0	36.8
Tax	29.5	30.8	28.5	30.7	6.8	7.5	13.9	15.2	21.3	23.6	29.0	32.7	32.4	32.1
Personal income tax	4.7	5.1	4.9	5.2	1.3	1.3	2.6	2.6	3.8	3.9	5.1	4.9	4.2	4.2
Trade tax	2.6	2.2	1.7	1.8	0.3	0.4	0.7	0.8	1.1	1.3	1.5	1.9	1.6	1.6
Excise tax	4.1	5.0	5.1	5.3	1.1	1.4	2.3	2.7	3.6	4.3	5.0	6.0	6.4	6.7
Goods and services tax (GST) / VAT [2]	10.2	10.5	9.2	10.0	2.2	2.4	4.5	5.1	6.9	7.7	9.5	10.3	10.5	10.6
Business tax	5.1	4.5	3.9	4.2	1.0	1.0	2.1	2.2	3.1	3.5	4.1	5.2	5.0	5.0
Corporate Social Responsibility Tax (CSR)	0.3	0.5	0.4	0.4	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4
Marketing Tourism Tax (MTT)	0.1	0.2	0.2	0.3	0.1	0.1	0.2	0.1	0.2	0.2	0.3	0.2	0.3	0.3
Other	2.2	2.7	3.0	3.5	0.6	0.8	1.4	1.4	2.2	2.3	3.1	3.6	4.0	3.4
Nontax	4.7	3.3	3.2	3.2	0.6	0.6	1.5	1.8	2.4	3.2	3.6	5.1	4.7	4.7
Fees and charges	1.9	2.0	1.8	1.8	0.4	0.4	0.9	1.2	1.3	1.8	1.8	2.5	2.3	2.3
Dividends from parastatals	2.5	0.9	1.3	1.3	0.1	0.1	0.5	0.5	0.9	1.2	1.6	2.4	2.1	2.1
Other	0.3	0.5	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3
External grants	4.4	3.2	1.5	0.8	0.6	0.5	1.3	0.7	1.9	1.3	2.6	2.4	3.4	2.2
Expenditure and net lending	38.5	34.8	31.8	33.5	8.2	7.9	16.5	17.0	25.2	27.4	33.9	40.4	40.8	39.3
Current expenditure	28.6	27.9	25.8	28.3	6.5	6.7	13.0	14.9	19.5	23.0	26.5	32.9	32.4	32.2
Primary current expenditure	23.6	25.5	23.4	25.2	5.9	6.1	11.8	13.5	17.6	20.7	24.8	27.2	28.9	28.9
Wages and salaries	7.1	7.1	5.9	6.4	1.4	1.8	2.8	3.5	4.4	5.3	6.1	6.7	6.8	6.8
Goods and services	7.7	7.5	5.3	5.6	1.0	1.1	2.1	2.7	3.4	4.5	4.9	6.3	5.8	5.8
Transfers	8.6	10.8	12.0	13.0	3.5	3.1	6.8	7.1	9.6	10.7	12.8	16.5	16.2	16.1
Social program of central government	1.9	2.0	1.9	2.3	0.2	0.2	0.4	0.4	0.5	0.5	0.7	0.7	0.7	0.7
Transfers to public sector from central government	4.2	6.2	7.8	8.2	2.6	2.3	5.0	4.9	7.0	7.3	9.3	11.4	11.2	11.1
Benefits and programs of Social Security Fund	2.5	2.6	2.4	2.5	0.7	0.6	1.4	1.8	2.1	2.9	2.8	4.4	4.3	4.3
Other	0.2	0.1	0.1	0.2	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Interest due	5.0	2.4	2.4	3.1	0.6	0.6	1.2	1.5	1.9	2.3	2.5	3.2	3.4	3.3
Foreign interest	1.2	1.0	1.1	1.0	0.3	0.1	0.6	0.4	0.8	0.7	1.1	1.2	1.1	1.1
Domestic interest	3.8	1.3	1.3	2.1	0.3	0.5	0.7	1.1	1.0	1.6	1.4	2.0	2.3	2.2
Capital expenditure	9.5	5.9	5.3	4.4	1.5	1.1	3.2	1.8	5.3	4.0	6.8	7.0	7.3	6.0
Domestically financed	4.9	3.8	3.8	3.6	0.5	0.6	1.2	1.1	2.3	2.6	3.3	4.3	3.2	3.1
Foreign financed	4.6	2.1	1.5	0.8	1.0	0.5	2.0	0.7	3.0	1.5	3.5	2.7	4.1	2.9
Net lending	0.0	0.7	0.6	0.4	0.1	0.1	0.2	0.2	0.3	0.2	0.4	0.3	1.1	1.0
Contingency	0.4	0.3	0.2	0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2
Primary balance	5.0	4.9	3.8	4.3	0.4	1.3	1.4	2.2	2.3	3.0	3.8	3.0	3.0	3.0
Overall balance, commitment basis [3]	0.0	2.5	1.4	1.2	-0.2	0.6	0.2	0.7	0.4	0.7	1.3	-0.2	-0.4	-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	0.0	0.0	0.0
Change in float	0.3	-0.4	-0.2	-0.3	0.0	0.2	0.0	-0.8	0.0	0.2	0.0	0.2	0.0	0.0
Overall balance, cash basis (after grants)	0.3	2.1	1.2	0.9	-0.2	0.8	0.2	-0.1	0.4	0.9	1.3	0.0	-0.4	-0.3
Financing	0.1	-2.1	-1.2	-0.9	0.2	-0.8	-0.2	0.1	-0.4	-0.9	-1.3	0.0	0.4	0.3
Foreign financing	0.7	0.0	-0.3	-0.5	1.1	-0.9	2.0	-1.0	3.0	-1.2	0.9	-1.0	0.1	0.6
Disbursements	1.7	1.3	1.0	0.6	1.0	0.7	1.3	1.1	1.7	1.6	2.8	2.2	2.6	2.8
Project loans	1.0	0.0	0.5	0.0	0.4	0.0	0.7	0.0	1.1	0.2	1.5	0.8	1.9	2.2
Program/budget support	0.8	1.3	0.5	0.5	0.6	0.7	0.6	1.1	0.6	1.4	1.3	1.4	0.7	0.6
Scheduled amortization	-1.0	-1.3	-1.4	-1.0	-0.2	-1.6	-0.7	-2.0	-1.4	-2.7	-1.9	-3.2	-2.4	-2.2
Of which Paris Club buy-back	...	...	...	...	...	...	0.0	-1.4	0.0	-1.4	0.0	-1.4	...	...
Domestic financing, net	-0.8	-2.4	0.1	0.8	-0.1	-0.3	-0.2	1.4	-0.3	-2.3	-2.2	1.2	-0.2	-1.2
Bank financing	2.1	-5.1	0.1	-0.9	0.0	-0.8	0.0	0.7	0.0	-2.5	-3.7	1.1	-0.2	-1.1
CBS	-0.4	-6.3	-2.0	-2.7	0.0	-0.3	0.0	-2.0	0.0	-2.5	-1.7	-1.6	0.0	1.1
Commercial banks	2.5	1.2	2.1	1.8	0.0	-0.5	0.0	2.7	0.0	0.0	-1.9	2.7	-0.2	-2.2
Nonbank	-2.9	2.7	0.0	1.7	-0.1	0.5	-0.2	0.7	-0.3	0.2	-0.2	0.1	0.0	-0.1
Privatization and long-term lease of fixed assets	0.3	0.4	0.2	0.3	0.0	0.1	0.0	0.1	0.0	0.2	0.0	0.2	0.5	0.9
Transfer of SSF deposits to SPF	...	...	-0.9	-1.0	...	...	...	...	...	...	...	...	...	...
Statistical discrepancy	-0.6	-0.2	-0.2	-0.5	0.0	0.2	0.0	-0.5	0.0	-0.5	0.0	-0.5	0.0	0.0
Memorandum items:														
Nominal GDP (millions of Seychelles Rupees)	15,864	17,199	19,348	18,102	20,456	18,819	20,456	18,819	20,456	18,819	20,456	18,819	20,322	21,787
Transfer of assets of SSF to SPF														
Pension Fund contribution	0.9	1.0	1.0	1.1	0.2	0.3	0.5	0.5	0.7	0.8	1.0	1.1	1.0	1.0
Pension Fund benefits payment	0.8	0.4	0.8	0.5	0.2	0.2	0.4	0.4	0.6	0.6	0.8	0.8	0.8	0.8
Pension Fund operating expenses	0.0	0.1	0.2	0.2	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Public domestic debt (% GDP) [4]	29.2	31.5	29.9	33.3	26.1	24.6	26.0	28.8	24.2	32.0	28.0	35.3	32.5	28.0
Excluding t-bills issued for monetary purposes	24.1	20.6	18.8	19.8	17.6	20.3	17.4	18.8	13.9	20.6	15.2	22.3	20.4	17.9
Publicly guaranteed domestic debt (% GDP)	2.0	1.8	0.4	1.6	0.3	1.7	0.2	1.7	0.0	1.5	0.0	2.1	3.8	3.2

Sources: Seychelles authorities and IMF staff estimates and projections.

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

[2] VAT replaced GST in January 2013.

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

[4] Includes debt issued by the Ministry of Finance for monetary purposes, excludes guarantees.

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

	2013	2014	2015		2016							
					Mar.		Jun.		Sep.		Dec.	
			3rd Rev.	Est.	3rd Rev.	Est.	3rd Rev.	Est.	3rd Rev.	Est.	3rd Rev.	Proj.
	(Millions of Seychelles rupees)											
Monetary survey												
Net foreign assets	7,247	9,657	9,453	9,349	9,796	10,053	9,650	9,984	9,798	10,183	9,672	9,926
Central bank	4,580	5,906	6,231	6,506	6,549	6,729	6,379	6,542	6,503	6,684	6,351	6,388
Deposit money banks	2,667	3,751	3,222	2,844	3,247	3,324	3,271	3,442	3,296	3,499	3,320	3,537
Net domestic assets	2,093	2,169	3,089	2,823	2,926	2,933	3,252	2,746	3,283	3,181	3,589	3,516
Domestic credit	5,825	5,818	6,353	6,229	6,380	6,186	6,431	6,259	6,537	6,397	6,117	6,690
Net claims on the government	2,335	1,414	1,429	1,309	1,429	1,171	1,429	1,246	1,429	1,122	681	1,325
Credit to the economy	3,490	4,404	4,924	4,920	4,951	5,015	5,002	5,013	5,108	5,274	5,435	5,365
Of which : credit to the private sector	3,412	4,307	4,827	4,644	4,854	4,744	4,905	4,767	5,011	5,045	5,339	5,136
Other items, net	-3,732	-3,649	-3,264	-3,406	-3,453	-3,252	-3,180	-3,513	-3,254	-3,215	-2,527	-3,174
Broad money	9,340	11,825	12,542	12,172	12,722	12,987	12,902	12,731	13,081	13,365	13,261	13,442
Currency in circulation	757	874	933	932	891	939	895	948	901	961	987	969
Foreign currency deposits	2,948	4,950	4,465	4,732	4,542	5,410	4,620	5,143	4,699	5,353	4,778	5,514
Local currency deposits	5,635	6,002	7,144	6,509	7,289	6,638	7,386	6,639	7,482	7,051	7,496	6,959
Central bank												
Net foreign assets	4,580	5,906	6,231	6,506	6,549	6,729	6,379	6,542	6,503	6,684	6,351	6,388
Foreign assets	5,103	6,498	6,795	7,062	7,110	7,293	6,962	7,096	7,078	7,237	6,945	6,915
Foreign liabilities	524	592	564	556	561	564	583	554	576	552	593	527
Net domestic assets	-2,484	-3,519	-3,531	-3,892	-3,813	-4,035	-3,604	-3,729	-3,690	-3,838	-3,476	-3,426
Domestic credit	-2,082	-2,475	-3,063	-3,301	-3,346	-3,466	-3,149	-3,152	-3,234	-3,269	-3,006	-2,797
Government (net)	-414	-1,491	-1,881	-1,979	-1,881	-2,033	-1,881	-2,360	-1,881	-2,617	-2,231	-2,917
Commercial banks	-1,570	-885	-1,099	-1,180	-1,381	-1,324	-1,185	-568	-1,270	-532	-692	241
Other (parastatals)	-98	-100	-84	-142	-84	-109	-84	-224	-84	-121	-84	-121
Other items, net	-401	-1,044	-468	-591	-467	-568	-455	-577	-455	-569	-470	-629
Reserve money	2,096	2,388	2,700	2,614	2,736	2,695	2,775	2,813	2,813	2,876	2,875	2,962
Currency in circulation	757	874	933	932	891	939	895	948	901	961	987	969
Commercial bank reserves (includes cash in vault)	1,339	1,514	1,767	1,682	1,845	1,756	1,880	1,865	1,912	1,915	1,888	1,993
Of which : vault cash	143	144	...	...	...	...	...	...	...	...	...	...
Of which : excess reserves (excl. bank vault cash)	-59	-71	...	...	...	...	...	...	...	...	...	...
Of which : required reserves in foreign currency [1, 2]	385	555	612	654	622	686	633	705	644	696	655	717
required reserves in domestic currency [2]	870	886	1,022	930	1,042	975	1,056	991	1,069	1,005	1,073	1,031
Memorandum items:												
Gross international reserves (millions of U.S. dollars) [3]	425	463	521	537	541	556	526	532	530	543	517	513
Foreign currency deposits (millions of U.S. dollars)	244	353	342	360	346	407	349	386	352	401	355	409
Broad money growth (12–month percent change)	23.7	26.6	6.7	2.9	9.1	10.7	12.1	9.9	10.2	12.1	5.7	10.4
Credit to the private sector (12–month percent change)	4.5	26.2	12.6	7.8	13.1	9.9	12.0	7.8	11.2	10.7	10.6	10.6
Reserve money (end-of-period; 12–month percent change)	15.4	13.9	13.1	9.5	15.0	13.3	16.7	18.3	11.9	14.4	6.5	13.3
Reserve money (daily average over quarter; 12–month percent change)	...	-14.5	6.9	7.2	9.7	10.5	11.4	13.0	11.6	13.9	6.5	9.4
Money multiplier (broad money/reserve money)	4.5	5.0	4.6	4.7	4.6	4.8	4.6	4.5	4.7	4.6	4.6	4.5
Velocity (GDP/broad money; end-of-period)	1.7	1.5	1.5	1.5	1.5	1.4	1.5	1.5	1.5	1.4	1.5	1.4

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

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

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

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

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2012Q4–2016Q2 [1]

	2012	2013	2014	2015				2016	
	Q4	Q4	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
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
Capital to assets (net worth)	10.3	9.7	8.5	9.5	10.2	11.3	11.0	11.2	11.3
Net tangible capitalization [2]	10.4	9.8	8.6	9.6	10.4	11.5	11.2	11.4	11.5
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
Nonperforming loans to gross loans	9.3	9.4	8.2	7.1	7.2	7.7	7.6	8.5	7.8
Provisions as percentage of nonperforming loans	29.5	39.2	43.9	46.0	45.5	42.0	41.1	37.2	40.7
Provisions as percentage of total loans	2.7	3.7	3.6	3.3	3.3	3.2	3.1	3.2	3.2
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
Return on equity (annualized)	29.8	19.6	38.2	37.5	32.1	41.5	34.7	35.1	34.8
Interest margin to gross income	62.7	56.6	57.5	56.9	61.7	67.3	60.1	59.4	63.4
Noninterest expense to gross income	56.6	65.1	50.3	43.7	43.2	42.1	52.9	43.4	45.7
Net interest margin (annualized) [3]	4.1	3.2	2.8	3.4	3.8	4.3	4.3	4.3	4.3
Net noninterest margin (annualized) [4]	0.0	-0.4	0.0	-0.2	-0.3	-0.4	-0.4	-0.2	-0.6
Expense to income	46.4	54.5	52.6	50.6	51.1	50.1	50.3	49.9	51.9
Interest expense to gross income	11.8	15.3	10.7	11.5	11.2	11.0	11.1	12.9	13.0
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
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
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
Liquid assets (broad) to total liabilities	58.0	60.6	59.2	60.7	58.4	53.0	55.2	55.0	54.3
Liquid assets to deposit liabilities	62.5	64.3	62.7	64.1	62.2	56.7	59.5	59.6	58.0
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

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: Indicators of Fund Credit, 2013-21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
					(Millions of SDR)				
Existing Fund credit									
Stock [1]	28.3	29.2	29.0	28.0	24.6	20.1	15.0	9.8	6.2
Obligation	5.8	2.7	2.1	0.9	3.7	4.8	5.3	5.3	3.8
Principal (repayments/repurchases)	5.5	2.4	1.8	0.9	3.4	4.5	5.1	5.2	3.7
Charges and interest	0.3	0.3	0.2	0.0	0.3	0.3	0.2	0.2	0.1
Disbursements	6.6	3.3	3.3	...	...	...	...	...	...
Prospective Fund credit									
Disbursement	...	...	...	0.0	4.9	...	...	...	...
Stock [1]	...	9.9	13.1	13.1	18.0	18.0	18.0	18.0	17.6
Obligations [2]	...	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.5
Principal (repayments/repurchases)	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Charges and interest	...	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Stock of existing and prospective Fund credit [1]	28.3	29.2	30.6	28.0	29.5	25.0	19.9	14.7	10.7
In percent of quota	259.4	267.5	280.7	122.2	128.8	109.0	86.9	64.3	46.6
In percent of GDP	3.3	3.3	3.2	2.8	2.8	2.3	1.7	1.2	0.8
In percent of exports of goods and services	3.5	3.1	3.3	2.9	2.9	2.3	1.8	1.3	0.9
In percent of gross reserves	10.2	9.2	8.0	7.7	8.1	6.6	5.1	3.7	2.6
Obligations to the Fund from existing and prospective Fund arrangements									
Disbursements	6.6	3.3	3.3	0.0	4.9	0.0	0.0	0.0	0.0
Obligations	5.8	2.7	2.1	0.9	3.8	4.9	5.4	5.4	4.3
Principal (repayments/repurchases)	5.50	2.38	1.83	0.92	3.39	4.54	5.08	5.16	4.07
Charges and interest	0.26	0.34	0.23	0.00	0.41	0.36	0.30	0.24	0.18
In percent of quota [3]	52.8	25.1	8.9	4.0	16.6	21.4	23.5	23.6	18.6
In percent of GDP	0.7	0.3	0.2	0.1	0.4	0.4	0.5	0.4	0.3
In percent of exports of goods and services	0.7	0.3	0.2	0.1	0.4	0.5	0.5	0.5	0.3
In percent of gross reserves	2.1	0.9	0.5	0.3	1.0	1.3	1.4	1.4	1.0

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

[1] End-of-period.

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

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

Table 7. Seychelles: Schedule of Reviews and Purchases Under the Extended Arrangement, 2014–17 [1]

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

Source: IMF

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

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

Annex I. Poverty in Seychelles

The 2013 Household Budget Survey (HBS) indicates widespread poverty in Seychelles, based on the country's definition of poverty line. However, other broader measures of poverty, which are widely used for international comparison, imply that Seychelles performs significantly better.

In December 2015 the National Bureau of Statistics issued a Bulletin providing estimates for poverty and inequality in Seychelles based on a HBS conducted in 2013. The report, reflecting technical assistance from the World Bank, estimated a poverty line for 2013 at SCR 3,945 per adult equivalent per month by inflating the 2006–07 poverty line using the CPI. This poverty line translates to a gross income per adult equivalent per day of US$ 10.76, or US$15.22 in 2013 Purchasing Power Parity (PPP) US$, broadly in line with international levels for a high income country.

On the basis of this poverty line, the proportion of the population below the poverty line was estimated at 39.3 percent. The food poverty line, which aims to capture the percentage of individuals without the resources to consume an adequate food basket, was estimated at SCR 3,193, suggesting a head count food poverty rate of 24.3 percent. The Gini Index was estimated at 45.9 percent.

Differences in methodology make it difficult to draw conclusions about poverty trends since the 2006–07 HBS. In particular, the welfare indicator employed in 2013 is income-based while the welfare indicator employed in 2006–07 was consumption-based, and the poverty line used in 2006–07 was a consumption-based poverty line whereas for 2013 it was an implicit gross-income-based poverty line.

However, other broader measures of poverty show Seychelles performing much better: it ranks 64 out of 188 countries in the UNDP Human Development Index, a superior performance to most other countries in the region or other small island states, and the MDGs were largely achieved. Using the international poverty line of US$1.9 per person per day in 2011 purchasing power parity (PPP) terms, only 1.1 percent of the population would be classified as poor in 2013. Moderate poverty based on the US$3.1 per person per day (in 2011 PPP) poverty line was 2.5 percent of the population in 2013.[1]

Moreover, free universal healthcare and education, very low unemployment rates, and generous housing policies mitigate the impact of monetary poverty. There are, however, marginalized populations in particular that are excluded from the benefits of growth, with drugs, including heroin, posing challenges, and the prison population is one of the highest in the world on a per capita basis.

[1] "A Poverty Profile of the Republic of the Seychelles, Poverty Report for the Household Budget Survey 2013" June, 2016, National Bureau of Statistics Seychelles and The World Bank.

Annex II. Debt Sustainability Analysis

Despite the incurred delays in debt reduction, if the authorities take the necessary fiscal measures to ensure primary surpluses on the order of three percent of GDP, Seychelles' public debt trajectory is projected to remain on a sustainable path, and is expected to fall to below 50 percent of GDP around 2020 and decline further thereafter. 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 2015 Article IV Consultation. The domestic debt stock is somewhat higher than projected, reflecting: i) the rapid accumulation of international reserves last year and the consequent need to sterilize the purchases; ii) the Paris Club buy-back operation (see ¶13 of the Staff Report) which replaced external obligations to the Paris Club with domestic dollar-denominated obligations to SEYCATT; iii) a fuller inclusion of domestically-guaranteed public borrowing. External public debt, on the other hand, is somewhat lower than projected, reflecting the Paris Club operation, exchange rate changes, and slower-than expected progress on donor-financed investment projects. In December 2015, however, the National Bureau of Statistics revised down GDP for the years 2011 onwards by around 5-10 percent of GDP, which has had an impact on debt ratios in all subsequent years.

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 4½ percent in 2016, falling to around estimated potential growth of around 3 to 3½ percent in the medium term—slightly down from the long-term growth estimates in the previous DSA, reflecting the difficulties facing the offshore banking industry and the constraints on new hotel projects. Inflation is projected at around 3 percent over the medium term. The program primary fiscal surplus is expected to remain at 3 percent.[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

[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.

central bank, the debt does impose an interest cost and rollover need for the public sector.[2] However, a 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 guarantees) is currently around the high-risk benchmark, but is falling rapidly. The DSA suggests that although debt was still high at around 70 percent of GDP at end-2015, 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 2020, or around 2018 if the domestic debt issued for monetary purposes is excluded. However, gross financing needs will remain very significant, pointing to the need to extend the maturities of the domestic debt where possible.

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 85 percent in 2017 and fall thereafter, but would remain around 20 percentage points above the 50 percent target for 2020. 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. Under this scenario the debt-to-GDP ratio would peak at around 125 percent before falling very gradually thereafter, while the debt-to-revenue ratio would increase to almost 350 percent.

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

[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).

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 15 percent in 2021, reflecting the short tenor of the large majority of domestic debt.[4] 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 continued 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.

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, the majority 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 GPD would be delayed by two years, 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 total external debt remains elevated at around 100 percent of GDP. However, the risks are 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 2015, one third of the country's external debt is long-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. The intra-company lending that accounts for a large portion of the debt stock is believed to pose lower risks than unrelated lending, due, for example, to the greater ease of rescheduling in the event of a downturn.[5]

11. Standardized stress tests confirm that, as with the public debt, the country's external debt is particularly sensitive to currency depreciation shocks. A 30 percent depreciation of the domestic currency would lead to an external debt-to-GDP ratio of around 150 percent at the end of the projection period, compared to 105 percent under the baseline

[4] Gross financing needs are significantly higher than in the previous DSA, reflecting the greater issuance of monetary debt and revised assumptions on the extent to which the structural monetary debt will be bound up in longer instruments. The mission will discuss these assumptions with the authorities and revise if necessary.

[5] See for example "FDI in Tourism: The Development Dimension", UNCTAD, 2007, p61.

scenario. The interest rate, growth and current account shocks would have a more muted effect on the debt profile. A permanent ¼ standard deviation shock to either growth or the current account (excluding interest payments) would lead to a slow buildup of the external debt-to-GDP ratio over time, overshooting the baseline projection by 18 percentage points in 2021.

Seychelles Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario
(in percent of GDP unless otherwise indicated)

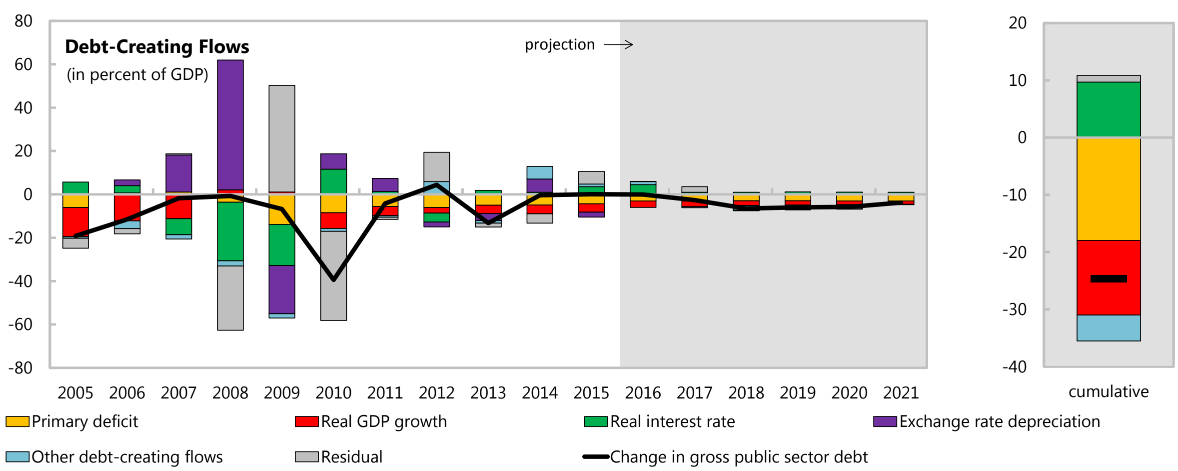
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	108.8	70.5	70.6	70.5	67.9	61.4	55.4	49.7	45.9
Of which: guarantees	1.2	2.3	2.0	2.5	2.3	2.2	2.0	1.9	1.8
Public gross financing needs	30.5	18.8	24.6	27.1	29.0	30.3	25.9	23.1	18.3
Net public debt	107.5	59.5	58.7	57.5	55.8	51.3	47.6	44.0	40.6
Real GDP growth (in percent)	5.1	6.2	5.7	4.4	4.1	3.4	3.3	3.3	3.3
Inflation (GDP deflator, in percent)	9.9	2.1	-0.5	-0.4	3.8	3.7	3.0	3.1	3.0
Nominal GDP growth (in percent)	15.1	8.4	5.3	4.0	8.0	7.2	6.4	6.5	6.5
Effective interest rate (in percent) [4/]	5.7	3.7	4.8	6.2	5.5	5.4	5.1	5.2	5.2

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							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-10.3	-0.4	0.1	0.0	-2.6	-6.5	-6.0	-5.8	-3.8	-24.7	
Identified debt-creating flows	-8.3	4.0	-5.7	-0.1	-5.2	-6.2	-5.4	-5.3	-3.6	-25.8	
Primary deficit	-5.2	-4.9	-4.3	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-18.0	-0.6
Primary (noninterest) revenue and grants	37.6	37.3	34.7	40.2	40.4	39.0	38.6	38.0	38.2	234.5	
Primary (noninterest) expenditure	32.4	32.4	30.3	37.2	37.4	36.0	35.6	35.0	35.2	216.5	
Automatic debt dynamics [5/]	-2.2	3.0	-2.6	1.5	-1.7	-1.2	-0.8	-0.7	-0.6	-3.3	
Interest rate/growth differential [6/]	-9.5	-3.1	-0.3	1.5	-1.7	-1.2	-0.8	-0.7	-0.6	-3.3	
Of which: real interest rate	-3.8	1.0	3.5	4.5	1.0	1.0	1.2	1.0	1.0	9.7	
Of which: real GDP growth	-5.7	-4.1	-3.8	-3.0	-2.7	-2.2	-1.9	-1.7	-1.6	-13.0	
Exchange rate depreciation [7/]	7.2	6.1	-2.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.9	5.8	1.2	1.4	-0.5	-2.1	-1.7	-1.6	0.0	-4.5	
Privatization Proceeds (negative)	-1.5	-0.4	-0.3	-0.2	-0.5	-0.9	0.0	0.0	0.0	-1.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic debt issuance for monetary pu	0.6	6.2	1.5	1.6	0.0	-1.1	-1.7	-1.6	0.0	-2.9	
Residual, including asset changes [8/]	-1.9	-4.3	5.8	0.1	2.5	-0.3	-0.5	-0.5	-0.2	1.2	



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

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

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

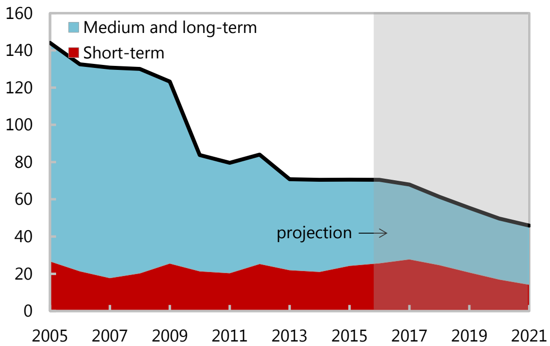
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

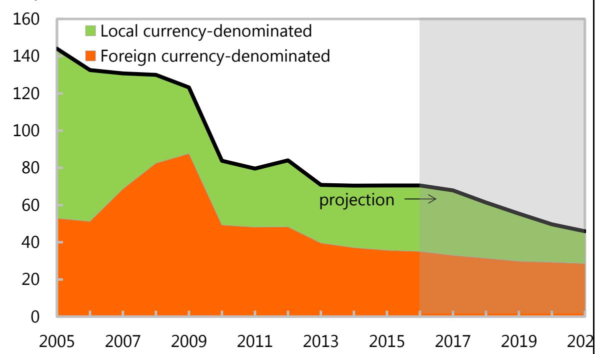
Seychelles Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



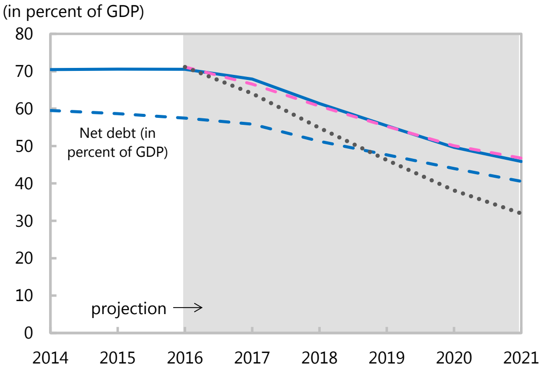
By Currency
(in percent of GDP)



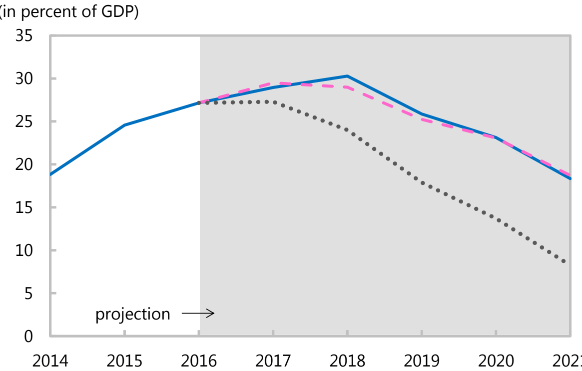
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	4.4	4.1	3.4	3.3	3.3	3.3
Inflation	-0.4	3.8	3.7	3.0	3.1	3.0
Primary Balance	3.0	3.0	3.0	3.0	3.0	3.0
Effective interest rate	6.2	5.5	5.4	5.1	5.2	5.2
Constant Primary Balance Scenario						
Real GDP growth	4.4	4.1	3.4	3.3	3.3	3.3
Inflation	-0.4	3.8	3.7	3.0	3.1	3.0
Primary Balance	3.0	3.0	3.0	3.0	3.0	3.0
Effective interest rate	6.2	5.4	5.4	5.1	5.2	5.2

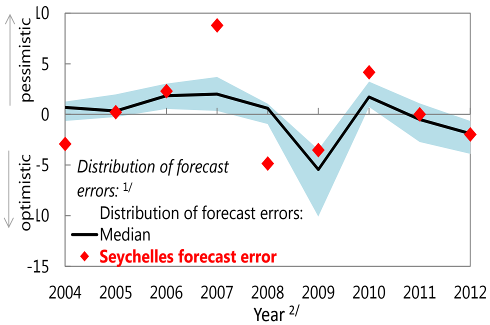
Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	4.4	4.9	4.9	4.9	4.9	4.9
Inflation	-0.4	3.8	3.7	3.0	3.1	3.0
Primary Balance	3.0	5.0	5.0	5.0	5.0	5.0
Effective interest rate	6.2	5.4	4.4	4.0	4.1	3.9

Source: IMF staff.

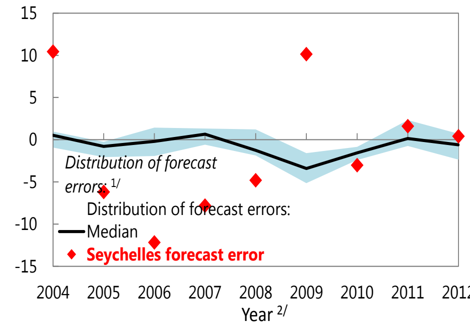
Seychelles Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus program countries

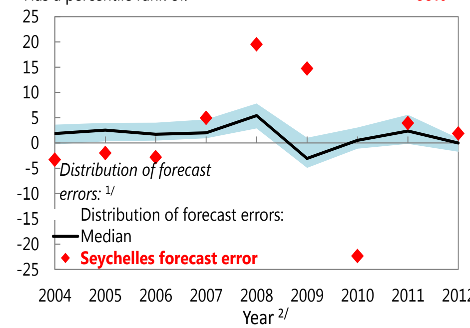
Real GDP Growth
(in percent, actual-projection)
Seychelles median forecast error, 2004-2012: **0.01**
Has a percentile rank of: **42%**



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

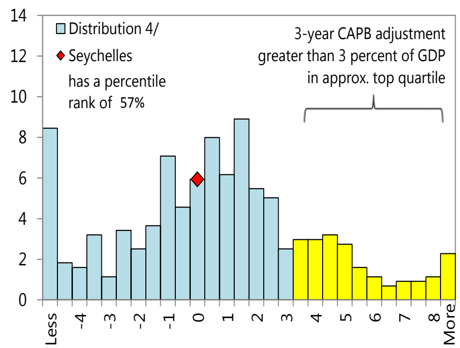


Inflation (Deflator)
(in percent, actual-projection)
Seychelles median forecast error, 2004-2012: **1.88**
Has a percentile rank of: **60%**

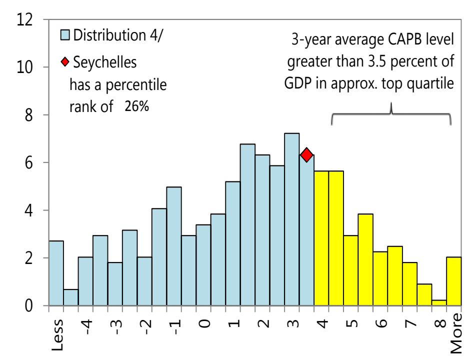


Assessing the Realism of Projected Fiscal Adjustment

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

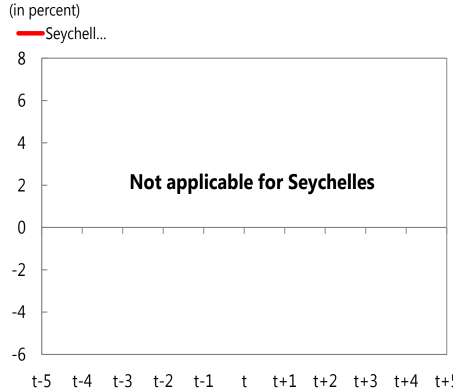


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

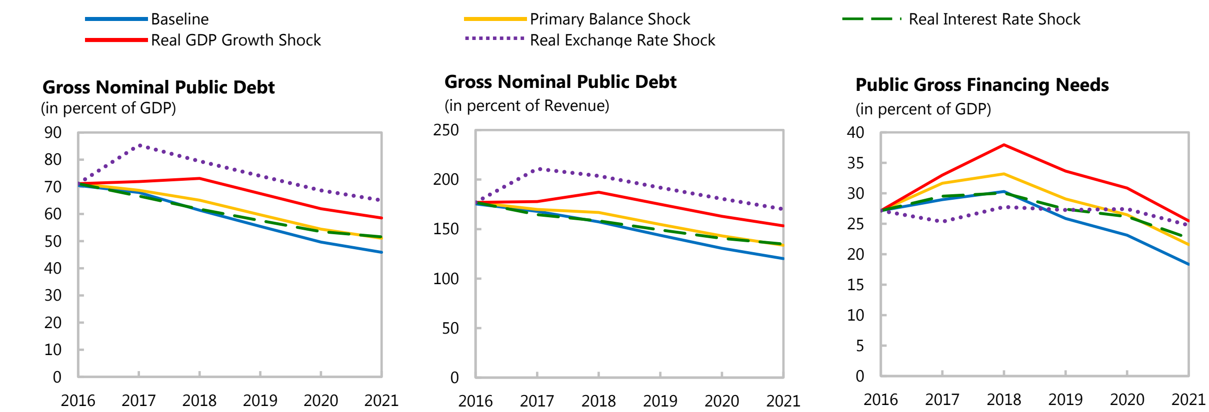
Real GDP growth
(in percent)



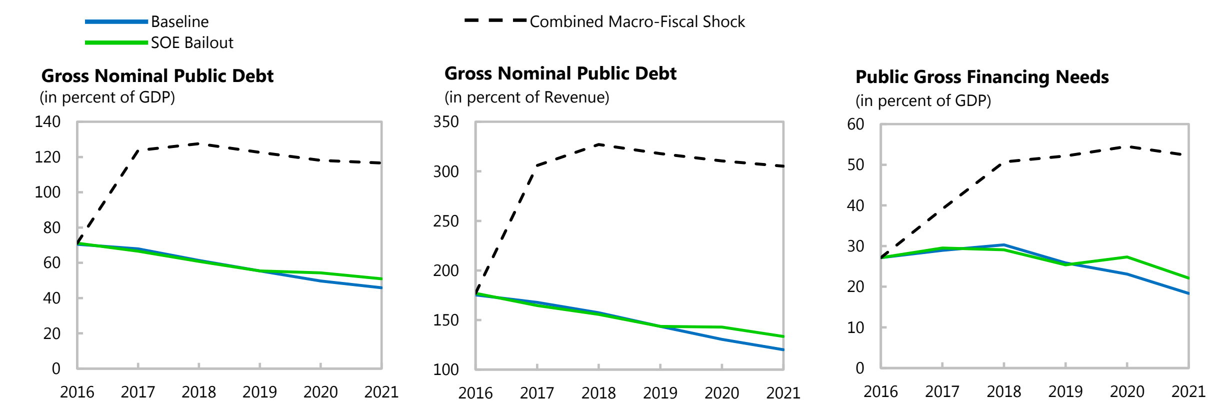
Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Seychelles, as it meets neither the positive output gap criterion nor the private credit growth criterion.
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)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	4.4	4.1	3.4	3.3	3.3	3.3
Inflation	-0.4	3.8	3.7	3.0	3.1	3.0
Primary balance	3.0	0.9	0.8	3.0	3.0	3.0
Effective interest rate	6.2	5.4	5.5	5.1	5.1	5.1
Real Interest Rate Shock						
Real GDP growth	4.4	4.1	3.4	3.3	3.3	3.3
Inflation	-0.4	3.8	3.7	3.0	3.1	3.0
Primary balance	3.0	3.0	3.0	3.0	3.0	3.0
Effective interest rate	6.2	5.4	7.1	7.1	7.5	8.0
Combined Shock						
Real GDP growth	4.4	0.1	-0.6	3.3	3.3	3.3
Inflation	-0.4	2.8	2.7	3.0	3.1	3.0
Primary balance	3.0	0.9	-0.7	3.0	3.0	3.0
Effective interest rate	6.2	8.0	5.7	6.0	6.4	7.0

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	4.4	0.1	-0.6	3.3	3.3	3.3
Inflation	-0.4	2.8	2.7	3.0	3.1	3.0
Primary balance	3.0	1.2	-0.7	3.0	3.0	3.0
Effective interest rate	6.2	5.4	5.5	5.2	5.1	5.1
Real Exchange Rate Shock						
Real GDP growth	4.4	4.1	3.4	3.3	3.3	3.3
Inflation	-0.4	39.5	3.7	3.0	3.1	3.0
Primary balance	3.0	3.0	3.0	3.0	3.0	3.0
Effective interest rate	6.2	8.0	4.7	4.5	4.6	4.6

Source: IMF staff.

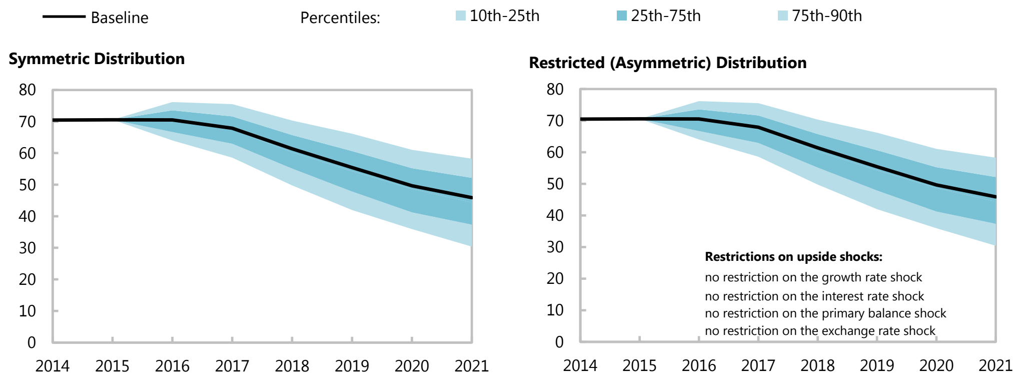
Seychelles Public DSA Risk Assessment

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

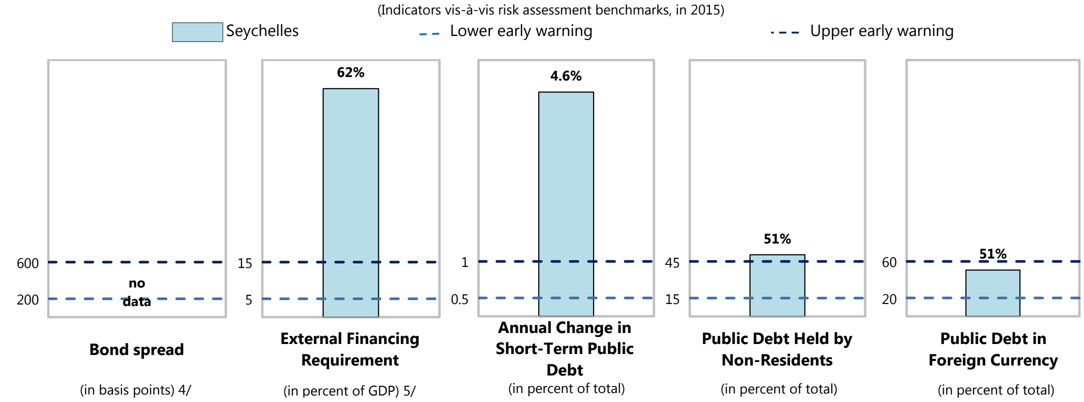
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



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.

External Debt Sustainability Framework, 2011-2021
(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	171.0	182.9	167.8	126.4	117.7	100.9	**101.9**	**104.7**	**104.2**	**104.4**	**104.7**	**104.7**	**-11.3**
2 Change in external debt	-14.0	12.0	-15.2	-41.4	-8.7	-16.8	1.1	2.8	-0.5	0.2	0.3	0.0	
3 Identified external debt-creating flows (4+8+9)	12.8	3.9	-0.1	-28.2	-1.4	4.7	12.9	8.4	2.2	3.8	4.9	5.5	
4 Current account deficit, excluding interest payments	15.9	21.9	19.9	10.9	22.0	18.2	16.5	16.7	16.4	15.8	15.2	14.8	
5 Deficit in balance of goods and services	-201.9	16.3	17.3	6.9	15.7	9.1	8.8	9.1	9.3	9.1	8.8	8.5	
6 Exports	93.8	100.2	105.2	95.6	101.8	95.4	97.8	98.2	97.4	96.9	96.3	95.6	
7 Imports	-108.1	116.6	122.5	102.5	117.4	104.5	106.6	107.3	106.6	106.0	105.1	104.1	
8 Net non-debt creating capital inflows (negative)	16.8	-10.9	-14.1	-7.6	-21.3	-13.0	-0.6	-5.6	-11.9	-9.8	-8.2	-7.2	
9 Automatic debt dynamics 1/	-19.9	-7.0	-5.9	-31.4	-2.2	-0.4	-3.1	-2.8	-2.2	-2.1	-2.1	-2.2	
10 Contribution from nominal interest rate	3.4	1.1	1.2	1.2	1.0	0.5	1.2	1.1	1.1	1.1	1.1	1.2	
11 Contribution from real GDP growth	-9.6	-8.8	-6.5	-6.8	-7.6	-6.7	-4.3	-3.9	-3.4	-3.3	-3.3	-3.3	
12 Contribution from price and exchange rate changes 2/	-13.8	0.6	-0.6	-25.8	4.5	5.8	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-26.7	8.1	-15.1	-13.2	-7.3	-21.6	-11.8	-5.6	-2.7	-3.7	-4.7	-5.5	
External debt-to-exports ratio (in percent)	182.3	182.5	159.5	132.3	115.6	105.7	104.2	106.6	107.0	107.7	108.7	109.5	
Gross external financing need (in billions of US dollars) 4/	232.2	794.5	830.9	772.2	828.7	845.7	651.4	663.3	689.2	709.3	732.2	754.7	
in percent of GDP	23.9	78.0	78.4	58.7	61.4	62.2	46.1	44.5	43.9	43.0	41.9	41.0	
Scenario with key variables at their historical averages 5/							**101.2**	**106.4**	**108.5**	**111.8**	**115.9**	**118.5**	**-9.3**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	5.9	5.4	3.7	5.0	6.2	5.7	4.4	4.1	3.4	3.3	3.3	3.3	
GDP deflator in US dollars (change in percent)	8.0	-0.4	0.4	18.2	-3.4	-4.7	-0.5	1.4	1.8	1.9	2.4	1.9	
Nominal external interest rate (in percent)	2.1	0.7	0.7	0.9	0.8	0.4	1.2	1.2	1.2	1.2	1.2	1.2	
Growth of exports (US dollar terms, in percent)	-0.6	12.2	9.2	12.8	9.2	-5.5	6.5	6.0	4.3	4.8	5.1	4.6	
Growth of imports (US dollar terms, in percent)	5.7	13.2	9.3	3.9	17.5	-10.3	6.0	6.1	4.6	4.7	4.8	4.3	
Current account balance, excluding interest payments	-15.9	-21.9	-19.9	-10.9	-22.0	-18.2	-16.5	-16.7	-16.4	-15.8	-15.2	-14.8	
Net non-debt creating capital inflows	-16.8	10.9	14.1	7.6	21.3	13.0	0.6	5.6	11.9	9.8	8.2	7.2	

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).

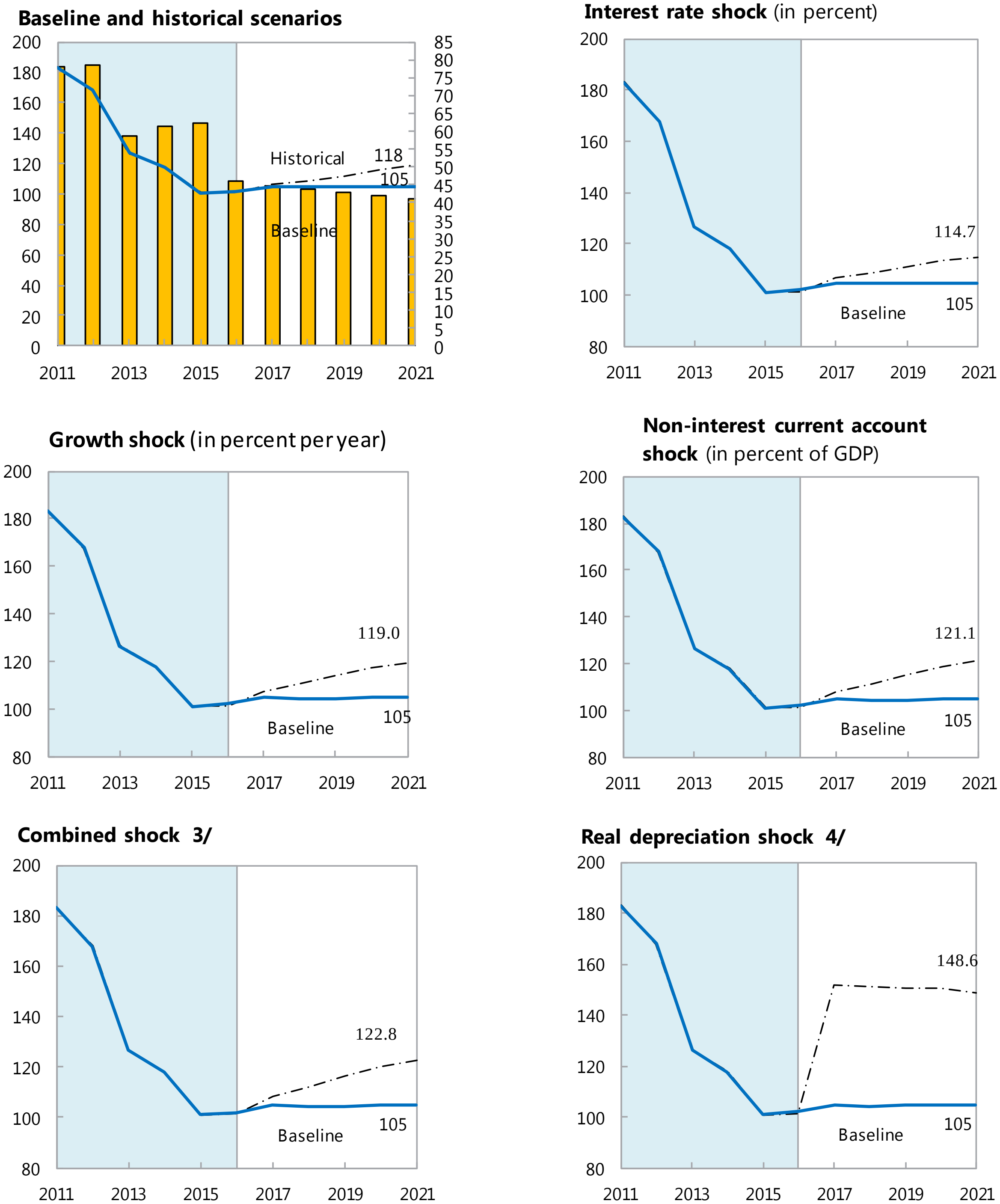
3/ For projection, line includes the impact of price and exchange rate changes.

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.

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.

Appendix I. Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
December 19, 2016

Dear Ms. Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) describe Seychelles' recent performance as well as our policies for 2017.

2. The IMF Executive Board on June 4, 2014 approved our request for a 3-year arrangement under the Extended Fund Facility (EFF) for an amount of SDR 11.445 million (50 percent of quota). Seychelles has met all the quantitative Performance Criteria for end-December 2015 and end June 2016 in the EFF-supported program (Table 1). We request a modification for the end-December 2016 performance criterion on fiscal primary surplus, in light of the State of the Nations Address (SONA) initiatives. Regarding the three end-December 2015 structural benchmarks (SBs), legislation on International Business Companies has been approved by the National Assembly and came into force on December 1, 2016; the International Corporate Service Providers and Trusts legislation has been gazetted; while the registry of the government assets was partially implemented although more work is needed to fully cover government land. We met all of the March and June 2016 SBs on time. As to the two September 2016 SBs, they have been rescheduled to March 2017. October 2016 SB on Public Private Partnership Regulation has been rescheduled to December 2016. As to the two December 2016 SBs, reviews and assessments of three State-Owned Enterprises (SOEs) have been completed while Public Financial Management Action Plan has been rescheduled to March 2017 (Table 2). Based on our performance under the program and the sustainability of our planned policies, we are requesting through this letter that the IMF Executive Board complete the fourth and fifth review of the EFF-supported program and approve the associated disbursements.

3. We believe that the economic and financial policies set forth in the MEFP are sufficient to ensure that the objectives of the program will be met. The program’s proposed quantitative Performance Criteria and Indicative Targets, as described in the Technical Memorandum of Understanding, and structural benchmarks proposed for the remaining period of the arrangement are set out in Tables 1 and 2. For all end-December 2016 performance criteria, we request a waiver of applicability on the grounds that the relevant information is not available, and there is no clear evidence that these criteria have not been met. We stand ready to take any further measures that may prove necessary to meet our objectives. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund’s policies on such consultations.

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

Sincerely yours,

/s/	/s/
Louis Rene Peter Larose	Caroline Abel
Minister of Finance, Trade and Economic Planning	Governor
Republic of Seychelles	Central Bank of Seychelles

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

Attachment I. Memorandum of Economic and Financial Policies Under the EFF

I. Real Sector developments and outlook for 2017

2015 performance

Growth

1. The Seychelles economy has remained resilient in 2015 with real GDP growth estimated at 5.7 per cent. This has been strongly driven by activities in the Tourism sector. Visitor arrivals grew by double digits throughout the year and rose by 19 per cent for the year as a whole – a new record in total arrivals. This was accompanied by a slight decline in US dollar terms of Tourism earnings by 1 percent, due to the depreciation of the Euro vis-à-vis the US dollar. Growth was also supported by the positive performance in key sectors such as Information and Communication, Manufacturing of beverages and Tobacco, and Financial and Insurance services.

Inflation

2. The average rate of inflation in 2015 was 4 per cent. An initial spike in inflation at the start of the year resulting from the delayed impact of the depreciation in late 2014 was abated owing to the stable exchange rate and declining energy prices.

2016 outlook

Growth

3. In 2016, the Seychelles economic growth is projected to decelerate to about 4½ per cent, as the growth in tourist arrivals is expected to be lower than in 2015, but still strong, and some slowdown in key sectors such as construction is expected.

4. Economic activity is being supported by growth in food production; electricity and water sectors; tourism arrivals is projected to grow by 9 per cent, with strong performance in all major markets; canned tuna production growth has been significant, at about 17 per cent for the first six months and is expected to continue strongly, following renovation of the main tuna cannery. Growth will remain strong in information and communication, and financial services. On the other hand, there has been some slowdown in construction activity and production of construction materials and production of beverages.

Inflation

5. The rate of inflation declined in the first 10 months of 2016, and is projected at 1.5 per cent by the end of the year, supported by favorable international commodity prices and the stability of the exchange rate.

2017 prospects

6. In 2017, Real GDP growth is currently projected at around 4.0 per cent on account of continued good performance of Tourism; in the construction sector new projects are envisaged which would lead to a growth rate of around 3 per cent. Average inflation in 2017 is projected to accelerate to 3.7 per cent because of expected increase in fuel and electricity prices.

II. Fiscal Sector developments in 2015 and 2016 under the program and policies for 2017

2015 performance

7. In 2015 the fiscal performance was slightly better than programmed as the primary surplus reached 3.9 per cent of GDP versus a target of 3.8 per cent; revenue and grants performed well and reached 32.6 per cent of GDP, albeit 0.6 per cent lower than programmed because of lower grants. On the expenditure side, current expenditure was higher than programmed by 0.7 per cent of GDP, but capital expenditure and net lending combined were lower by 2.3 per cent of GDP because of lower-than-expected utilisation by PUC of external credit lines for capital investment and grant disbursements was lower than expected because of delays in executing some key projects in education and health.

2016 developments and outlook

8. The government had initially presented a budget for 2016 targeting a fiscal surplus of 3.8 per cent of GDP so as to attain a debt target of 50% by 2018. However, with the results of the household budget survey released in December 2015, it had become necessary for the government to review several of its social priorities with the aim of tackling poverty challenges and allow an increase of resources to the lower income groups. A series of measures to that effect were announced in the State of the Nation address in early February. Thus :(i) the minimum monthly statutory retirement pension was increased to SR 5050 from SR 3300 effective April 2016, (ii) the minimum wage was increased from SR 4050 to SR 5050 effective in April (based on a 35-hour working week), which affects government payments to home carers and the cost of government contracts, (iii) the invalidity benefits were raised in line with the minimum wage, (iv) a rebate was given on the price of government owned houses, and (v) inner island travel cost was reduced for pensioners and students. The cost of all these measures is estimated for 2016 at SR 226 million. In addition, in the transfers and capital budget SR 35 million were allocated to capital improvements to public housing and new land development projects, and SR 27 million was allocated to help vulnerable families and pensioners repair their homes.

9. On the tax side, the following tax reduction were also announced, which became effective in April: (i) a tax free allowance was introduced under the personal income tax (first SR 8550per month exempt from April 1, 2016) and (ii) a reduction of the stamp duty on the first house was introduced from April 1 at a cost of SR 8 million. The total cost of the expenditure and revenue measure is thus estimated at SR 427 million or 2.2 % of GDP.

10 At the same time to support revenue, steps were taken to improve customs administration, in line with IMF TA recommendation. Also dividends from public enterprises such as Nouvobanq and Seypec were higher than originally budgeted, FIU fines were higher, and a windfall revenue occurred from stamp duties on the property transfer of Cable and Wireless to an international telecom company (1% of GDP). Business tax collections are also higher than budgeted.

11. As a result, total revenue and grants are now projected to be higher than expected, and despite the higher expenditure the primary surplus is projected to reach 3%. This is consistent with a revised target of public debt to GDP of 50% by 2020 instead of 2018, which has been adopted by the government.

2017 Fiscal policies and Prospects

12. The Government is committed to present to the National Assembly a Budget for 2017 that will include a primary surplus of 3 per cent, equal to the one achieved in 2016. To that end, a series of revenue measures will be adopted in order to attenuate the full year impact of the tax exemption under the personal income tax. From July 2017, the personal income tax exemption on the first of SR 8,555.50 will be generalized for all Seychellois workers, and a progressive personal income tax will be introduced with brackets of 15, 20 and 30 per cent. Expatriates will be subject to the same tax brackets but with no exemption. The exemption list of the income and nonmonetary benefits Act will be reduced significantly from 20 to 7 Business tax on Sole traders and Partnerships will be aligned to the Personal Income tax.

13. Other tax measures included in the budget comprises of (i) an increase in the excise taxes on fuel, alcohol and tobacco; (ii) some upward adjustment in the excise for hybrid cars; (iii) review of current tax incentives agreement.

14. On the expenditure side, the Government has taken steps to review expenditure with a view to contain overall outlays and ensure efficiency. Government goods and services as well as social welfare benefits will be rationalised.

15. As part of its commitment to ensure macroeconomic stability and fiscal discipline, the Government will within the first three months of 2017 conduct an assessment on the revenue collection with the aim of identifying further possible policy measures for introduction in 2017. Currently we are already working with the WHO for the possible introduction of a sugar tax. We have also already approached the IMF for their technical assistance on the issue of carbon taxation. Government has also resolved to introduce a property tax on land owned by foreigners.

III. Public Financial Management Reforms

16. 2016 is an important year for the implementation of the Programme Performance Based Budgeting (PPBB). A total of 5 portfolio Ministries are operating their 2016 budgets through PPBB. The rest of Government is to embark on this process for the 2017 budget. However, given the limitations in terms of capacity within the Ministry of Finance, Trade and Economic Planning and the portfolio ministries as well to spearhead this reform across the full government, the complete roll out will be staggered over a three-year period. However, the PPBB will be introduced on a presentational

basis for the remaining portfolio ministries in 2017. The move to full PPBB, through the introduction of medium term strategies and performance indicators, would then be unfolded to all Portfolio Ministries in a phased manner, with the aim to cover all the ministries by the 2019 budget. The authorities continue to be supported by the World Bank to ensure the transition is carried out smoothly.

17. Continuing to assess the country's performance in line with Public Financial Management initiatives, a Public Expenditure and Accountability Framework (PEFA) was launched in the third quarter of 2016, following some technical delays. Following this, the PFM action plan will be revised and submitted to Cabinet for approval in March 2017 (structural benchmark).

18. The Government with technical assistance from the African Development Bank is currently in the process of developing the PPP regulatory and operational framework. The draft regulations were prepared by the consultants and were presented to the relevant stakeholders for validation in a workshop held in November 2016. The final PPP regulations are expected to be presented to the cabinet for approval in December 2016 (structural benchmark).

19. A PPP Development Report comprising of a PPP implementation manual and other documents to guide the operational aspects of PPP identification, appraisal, management and monitoring and evaluation is also currently being developed and should be finalized in December 2016. The output from this report will also inform the Government on capacity building required across all levels of Government. Capacity building activities are expected to start in January 2017.

20. The consultancy firm is also in the process of reviewing prospective projects under consideration by the Seychelles Government to propose a bankable PPP pipeline for the country. The pipeline is expected to be in place in December 2016.

IV. Tax policy and Improvements in tax administration

A. Continued focus on Business Tax Audits

21. With the implementation of progressive income tax from 1st July 2017, SRC resources will continue to be stretched. However, supported by ongoing recruitment action, SRC expect to be in a position to continue a focus on Business Tax Audits to improve Business Tax Collections.

B. Strategy to Improve Filing Rates

22. The strategy to improve filing rates was hampered in 2016 by poor quality data (client information), and the available resources for the taskforce considering other urgent priorities such as the Progressive Income Tax implementation. The taskforce will continue to operate into early 2017, and will promote improved compliance across all industries.

C. Collection Enforcement Strategy

23. Debt Collection (Enforcement) staff spent most of 2016 supporting the cleansing, analysis and forecasting associated with the shaping of the Progressive Income Tax regime for Seychelles. As

a result of this, debt collection activities have not been as successful as planned and the Enforcement Strategy has only recently been fully implemented.

The objectives of the Enforcement Strategy are to:

- Limit accumulation of debt
- Increase revenue collections and reduce total arrears
- Improve the effectiveness of the enforcement activities

To achieve these objectives SRC will be implementing three main strategies: i) Limit accumulation of current debt (Early Collections), ii) Segmenting and prioritizing debt (Firmer Action), and iii) Expanding our actions and use of the law to collect debt (Strategic Recovery)

24. In 2017 SRC plans to make full use of the existing resources and legislative provisions to deal effectively with debt recovery, including increased use of field visits, firmer criteria for approving payment by instalment, increased use of garnishing and liens, and stronger legal actions including seizure of assets and submissions for prosecution.

Bonded Warehouses

25. Bonded Warehouse keepers in Seychelles have been removing duty and tax suspended goods from Bonds without declaration and payment resulting in substantial debts. Actions have therefore been taken to address the outstanding debts in relation to bonded warehouses, including the requirement to submit a surety to Customs for an amount sufficient to cover the deferred taxes on bonded goods. Customs Officers have conducted physical stock-takes at Bonded Warehouses and performed reconciliation processes to ensure the debt position is known. Out of the 68 Bonded Warehouses in Seychelles, 53 have had their stock take and reconciliations finalised so far in 2016. Strict sanctions including revocation of the approval to operate a Bonded Warehouse (which has the effect of all duty and taxes becoming payable immediately) have been included in the warehouse approval conditions.

26. Collections have been successful in terms of the Bonded Warehouses in 2016; there are still some major Bonded Warehouses to undergo the stock-take and reconciliation processes. The focus in 2017 will be monitoring and control for Bonded Warehouses that submit the payment of a surety to Customs by 31st December 2016. For those that fail, Customs will revoke their approval and manage the debt collection process in 2017.

D. Amalgamation of the Income and Non-Monetary Benefits Tax and Business Tax Acts

27. Upon advice from the IMF consultant legal drafter, the amalgamation of the Income and Non-Monetary Benefits Tax Act and the Business Tax Act is expected to take place in 2017 for enactment by 2018.

V. State-owned Enterprise Reform

28. On SOEs we continue to intensify our efforts to strengthen the overall corporate governance. The Public Enterprise Monitoring Commission (PEMC) has adopted the approved OECD Code of Governance. The Commission is using this code as a basis for developing a Code of Governance to

be adopted by Public Enterprises upon approval of the Cabinet. To facilitate Board nomination process on PE boards, the Commission shall initiate the creation of an Institute of Directors as well as providing training for Board appointees. In 2017, the Commission envisages to undertake governance and operational/business assessments on another six Public Enterprises.

29. For effective government oversight and to enhance accountability a State Ownership Policy separating the state's ownership function from its policy and regulatory functions will be developed which would further enhance the Commission's monitoring role.

30. Asset registers for state owned enterprises were published via the PEMC website with the exception of L'Union Estate (AFS 2014 and 2015 not yet received).

31. To improve transparency and risk management, the Commission will be preparing a Fiscal Risk Statement in 2017 to show the effect of the performance of Public Enterprises on the Fiscal budget. In addition, the Commission will be coordinating an exercise to calculate the cost of social obligations being absorbed by Public Enterprises.

32. The Commission will be revising the PEMC Act to accommodate best practices in governance of Public Enterprises, including compliance mechanisms with sanctions for non-compliance and also mechanisms to identify and manage financial risks.

33. The Commission will be coordinating an exercise to harmonise all the governing laws, regulations and policies concerning Public Enterprises. This is to strengthen the performance and supervision of the Public Enterprises.

34. The Commission with the assistance of the World Bank has conducted the governance reviews and operational/business assessments of the three selected Public Enterprises (PEs), Public Utilities Corporation (PUC) Seychelles Petroleum Company Ltd (SEYPEC) and Seychelles Trading Company Ltd (STC). The report was received in June 2016. The work on the second 3 (Seychelles Pension Fund SPF, Seychelles Port Authority (SPA) and Nouvobanq NVBQ) was completed recently (structural benchmark). The findings of these reports, together with the technical assistance on fiscal risks from AFRITAC South, will inform an action plan for the PE's which will set out milestones for operationalizing the measures set out above.

VI. Public Debt Management Strategy

Debt to GDP target

35. The total public debt-to-GDP ratio is continuing its declining profile, from 68 percent of GDP in 2015 to 64 percent in August 2016 and projected to reach 67 percent by end 2016. This path suggests that a sustainability profile can be achieved, although Seychelles remains very vulnerable to a variety of shocks including exchange rates, the primary balance and growth. The debt to GDP target of below 50% can be achieved by strong fiscal performance and growth over the medium term with continued emphasis on concessional multilateral financing.

Blue Bonds

36. The Republic of Seychelles is embarking on a long-term initiative to develop a sustainable blue economy. The Government is considering a capital raising transaction (the "Blue Bond") that will accelerate the implementation of fishery management plans specifically for the Mahe Plateau. The Blue Bond is an integral part of a comprehensive financial programme that will utilize a variety of financial instruments over the next few years and as such, it will be closely coordinated with, and complement, other fund-raising efforts, targeted at developing the country's broader blue economy, including the recent debt-for-adaptation swap and the GEF 6 programme.

Currency Swap

37. Government is exploring the possibility of either a currency swap or liability management with regards to its USD-denominated External Bond. The currency swap will convert the existing USD-denominated Bond into a Euro-denominated Bond, to bring down the effective cost of the coupon. This, however, excludes the extension of the maturities. The liability management seeks to achieve significant cash flow savings and reduce pressure on reserves over the next five years by extending the life of the bond.

Debt for Adaptation

38. In February 2016, the Seychelles Government of Seychelles completed a buyback of US$21.4 million of its Paris Club debt and launched a partnership to protect the country's marine resources and build resilience against the effects of climate change.

39. Seychelles bought back 100 percent of the maturities falling due to participating Paris Club creditors through to mid-2022 at a discount to face value, as per the agreement reached with the Paris Club in February 2015. This buyback was financed by generous grants from a group of international marine conservation foundations and a loan from The Nature Conservancy (TNC).

40. The Government will repay the same amount of debt bought back from the Paris Club on concessional terms to a local non-governmental organisation, the Seychelles Conservation and Climate Adaptation Trust (SEYCCAT). SEYCCAT will use this cash flow to fund critical marine conservation and climate change adaptation projects in Seychelles and to service the TNC loan.

VII. Foreign Trade Regime

41. Seychelles is now party to the SADC Protocol on Trade and Protocol on Trade in Services. By ratifying the Protocol on Trade, Seychelles subsequently acceded to the SADC Free Trade Area (FTA).

VIII Monetary Policy and Price Stability

42. With the objective to ensure domestic price stability, monetary policy remains geared towards containing end of year annual inflation below 5 percent[1]. The Central Bank of Seychelles

[1] Monetary policy is implemented through conventional quarterly reserve money targets on daily average, to which the CBS moved in 2014 from end-quarter targets.

(CBS) had maintained a tight monetary policy stance throughout the first three quarters of 2016 to contain inflationary pressures stemming from policy impetus, the delayed pass-through of the exchange rate depreciation to domestic prices, and to rein in private sector credit growth. The growth in credit to the private sector stood at 10.6 per cent year-on-year in September 2016. Average inflation stood at - 0.4 per cent in October 2016 and -0.5 per cent year-on-year, which was supported by low international food and fuel prices, falling local production costs (as measured by the producer price index), and anchored inflation expectations.

43. Despite a projected decline in inflation in 2016, substantial risks to price stability remain which warrants the maintenance of a tight policy stance. Following revisions in the minimum wage and income tax in the low income bracket, there is an increased probability of a growth in consumption. In addition, whilst credit to the private sector is expected to grow broadly in line with the CBS' initial forecasts, credit allocated by other financial institutions, including to SMEs, may contribute to pressure on the domestic currency given growth in demand is projected to be stronger than the anticipated increase in foreign exchange inflows.

44. Rapidly increasing monetary debt remains a source of concern. Sizable liquidity withdrawal operations have led to an expansion of the monetary debt to around 16 percent of GDP as of end-September. However, the authorities believe it is vital that issuance of short-term government securities for monetary policy purposes be maintained to help contained possible risk to inflation. Nevertheless, to allow for some unwinding in the coming years, a stronger monetary policy framework in which interest rates play a greater role shall be developed over the medium term. The introduction of a policy rate will serve as an indicator of the monetary policy stance and help guide movements in the short-term interest rates. By promoting money market development, the CBS shall reduce the need for frequent interventions to manage domestic liquidity, thus alleviate some of the pressure of the debt burden in the medium term. Nevertheless, policy coordination through issuance of short-term government securities remains critical in order to address the systemic liquidity condition.

IX. Balance of payments developments and outlook

45. The balance of payments strengthened in 2016, whilst the outlook is benign for 2017. Despite developments in Europe, the tourism sector has performed well with an 9 per cent increase in tourist arrivals by the end of October. In addition to a strong growth in tuna exports, a slowdown in FDI–related imports were recorded which, combined with low international oil prices, resulted in a contraction of the current account deficit. With the arrival of new airlines later during the year, strong performance of the tourism sector is expected to continue. On the import side, oil prices are forecasted to remain relatively low for a protracted period of time, and the pipeline of foreign investment projects has been less buoyant compared to 2015. Given such conditions, the real exchange rate is projected to weaken due to increased imports related to consumption and as such, overall, the current account deficit is expected to widen in USD terms in 2017.

46. The net international reserves target for December 2015 and June 2016 has been exceeded by a significant margin, leaving Seychelles comfortable with respect to key reserve adequacy metrics. In 2015, lower domestic demand for foreign currency (especially from the oil importer SEYPEC) has

been instrumental in supporting over-performance against the NIR target. As a small, open and undiversified economy, Seychelles faces extra vulnerabilities that may not be fully captured by the existing metrics. However, with the current reserve coverage standing around 4 months of prospective imports, Seychelles is in a comfortable situation, even allowing for these particularities. Given the existing conditions, including strong demand for foreign exchange experienced thus far, the CBS has limited its opportunistic purchases of foreign exchange from the market. Nevertheless, past actions will ensure that external debt commitments and recurring expenses will be comfortably met including the commencement of repayments on the USD 168 million Eurobond. To ensure that adequate reserve coverage is maintained, the CBS is committed to allow the exchange rate to adjust to market conditions and remain in line with fundamentals. Any intervention in the foreign exchange market by the CBS would be in the event of excess volatility and preserving reserve adequacy.

47. As at end of September 2016, the net international reserves at market rate stood at US$429 million which was an over performance on the US$418 million target by US$11.0 million. This was mainly attributed to project loans and grants as well as interest returns on fixed deposits. In regards to the latter, with a higher concentration in the US dollar portfolio, the increase was most significant in that currency due to more competitive USD interest rates. Furthermore, with the continued strengthening of the USD, the interest accrued remained on the increasing trend.

X. Financial sector developments, policies and outlook

48. The OECD's Global Forum on Transparency and the Exchange of Information for Tax purposes, having found Seychelles non-compliant with international standards in 2013, has issued a supplementary report based on the situation as of August 2015, which found that the country was now largely compliant. Following this development, the Financial Services industry continues to undertake the necessary measures to ensure the sector remains compliant to international best practice.

49. The International Business Companies Act, 2016 was enacted and came into operation on the 1st December 2016. This legislation replaces the International Business Companies Act, 1994 and ensures that the beneficial ownership of International Business Companies is held in Seychelles as well as providing for the filing of Directorship information with the Registrar.

50. The FSA has noted significant reductions in the incorporation of International Business Companies. The number of IBC's incorporated for September is 900 and October is 841, the lowest figures since 2009. Incorporations for 2015 up to October experienced a 27% decrease similar to incorporations in 2016 over the same period. This is predominately due to the increase of enforcement action by the FSA against non-compliant IBCs especially with respect to record keeping obligations, the implementation of Common Reporting Standards and FATCA and the difficulties faced by Seychelles IBCs with respect to the opening of bank accounts locally and internationally. Further reductions are expected once the International Business Companies Act 2016 comes into force.

51. The new Trusts Act has been drafted and is awaiting enactment. The International Corporate Trustee and Foundation Service Providers Act is almost finalized.

52. The Financial Sector Development Implementation Plan (FSDIP) was approved by Cabinet in November 2013 and seeks to ensure that the financial sector maximizes its contribution to the economic and social development of Seychelles. The implementation of the FSDIP will improve the country's investment climate and provide opportunities for the development of the financial sector. It seeks to create an enabling environment for private sector investment, increased participation and deepening of the financial services sector, facilitate economic growth and strengthen the regulatory oversight of Seychelles financial sector. The project consists of the following components: (i) improving the financial system's legal and regulatory framework; (ii) development of the National Payment System and other relevant financial infrastructure; (iii) improving SME access to credit; (iv) improving the regulation and supervision of Non-Bank Financial Institutions; (v) fostering capital markets development;and; (vi) other cross-cutting issues such as consumer protection, financial literacy, and other training of financial sector professionals. 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).

53. Substantial progress has been made in the aforementioned areas as detailed below:

Improving the Financial System's Legal and Regulatory Framework

- A policy paper is being prepared to provide guidance to Government Authorities in undertaking a decisive policy decision on the introduction of investment banking in Seychelles;
- A Strategy Paper for the implementation of Islamic Banking and Finance has been finalized;
- Policy paper, bill, regulations, codes and guidelines for Collective Investment Schemes have been drafted and circulated. Expected to be finalized by 2017;
- Review of the Authorization and Post-Authorization Processes & Systems for Collective Investment Schemes Business and Capital Market Business has been completed;
- For the development of a risk-based supervisory framework for the regulation of pensions, Phase 1 has been completed and status report submitted; and
- The Insurance core principles (ICP) assessment for the development of a risk-based supervisory framework for Insurance has been completed and report submitted.

Development of the National Payment System and other Financial Infrastructures

- The National Payment System Vision and Strategy 2016-2020 was finalized and endorsed by the CBS and industry in June, 2016;
- Feasibility studies on the establishment of a Central Securities Depository and Real Time Gross Settlement system has been completed;
- Diagnostic Study on Government Payments has been completed and awaiting the Government's endorsement;
- Assessment of the Remittance Market on the basis of the WB-CPSS General Principles for International Remittances has been completed;
- Policy paper for the Credit Information System has been finalized and submitted for the preliminary drafting of the Seychelles Credit Information Act.

Fostering Capital Market Development

- Master Repurchase Agreement is currently being drafted by the CBS.

Other cross cutting issues such as consumer protection, financial literacy and continued training of financial sector professionals

- Baseline survey for financial literacy has been completed and report submitted;
- Consultancy services is currently being sought for the development of a National Strategy for Financial Education; and
- A Financial Consumer Protection Act is currently being drafted in consultation with the World Bank.

Table 1. Seychelles: Quantitative Performance Criteria Under the Extended Arrangement, 2015–2016

	End-Sep.		End-Dec.		End-March		End-June		End-Sep.		End-Dec.	
	Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria	
	Third Review	Est.	Third Review	Est.	Third Review	Est.	Third Review	Est.	Third Review	Prel.	Third Review	Proposed
Performance criteria												
Net international reserves of the CBS, millions of U.S. dollars (floor) [1]	417	417	409	423	429	434	412	422	418	433	401	401
Net international reserves (adjusted targets)	417	…	405	…	406	…	393	…	403	…	383	…
Reserve money target (ceiling on daily average during the quarter) [2]	2,552	2,520	2,781	2,708	2,818	2,758	2,858	2,815	2,897	2,870	2,961	2,961
Primary balance of the consolidated government (cumulative floor)	539	805	720	783	85	238	288	412	470	560	767	571
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling from start of 2015)	63	56	90	71	110	90	110	90	110	95	130	130
Contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears by the public sector (ceiling) [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payment arrears by the government (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Net external non-project financing (millions of U.S. dollars; cumulative) [4]	-8.3	-8.3	-22.4	-18.4	12.3	-11.5	-11.7	-31.0	-14.4	-28.7	-33.2	-51.5
External budget loans	7.0	7.0	7.0	7.0	15.0	10.0	15.0	15.0	15.0	20.0	20.0	20.0
Cash payments on foreign debt service	18.3	18.3	34.3	30.3	2.7	21.5	26.7	46.0	29.4	48.6	53.2	71.4
External budget grants	3.1	3.1	4.9	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve money (daily average during the quarter)	2,520	2,520	2,700	2,708	2,736	2,758	2,775	2,815	2,813	2,870	2,875	2962
Program accounting exchange rates [5]												
SR/US$ (end-of-quarter)	13.74	13.74	13.01	13.01	13.01	13.28	13.01	13.28	13.01	13.34	13.01	13.34
US$/Euro (end-of-quarter)	1.12	1.12	1.12	1.12	1.12	1.09	1.12	1.09	1.12	1.12	1.12	1.12
US$/UK pound (end-of-quarter)	1.54	1.54	1.51	1.51	1.51	1.39	1.51	1.39	1.51	1.30	1.51	1.30
US$/AUD (end-of-quarter)	0.78	0.78	0.70	0.70	0.70	0.72	0.70	0.72	0.70	0.77	0.70	0.77
US$/CAD (end-of-quarter)	0.80	0.80	0.75	0.75	0.75	0.74	0.75	0.74	0.75	0.76	0.75	0.76
US$/SDR (end-of-quarter)	1.41	1.41	1.40	1.40	1.40	1.38	1.40	1.38	1.40	1.40	1.40	1.40

Sources: Seychelles authorities and IMF staff estimates and projections.

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

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

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

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

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

Table 2. Seychelles. Structural Benchmarks Under the Extended Arrangement, 2015– 16

(Proposed new measures in italics)

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

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding presents the definitions of variables included in the quantitative performance criteria and indicative targets set out in the letter of intent (LOI), the key assumptions, and the reporting requirements of the Government and the Central Bank of Seychelles (CBS) needed to adequately monitor economic and financial developments. The quantitative performance criteria and indicative targets, and the benchmarks for 2015 and 2016 are listed in Tables 1 and 2 attached to the MEFP, respectively.

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Net International Reserves of the CBS (Floor)

DEFINITION

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

Calculation method

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

Monitoring and reporting

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

Adjusters

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

B. Reserve Money and Reserve Money Band (Ceiling)

Definition

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

Monitoring and reporting

7. Daily reserve money data will be submitted by the CBS to the IMF on a weekly basis with a time lag no later than one week. The cumulative average over the quarter will also be monitored by the CBS and reported to the IMF on a weekly basis. Semiannually, at each test date for program performance criteria, the reserve money data submitted by the CBS to the IMF will be audited by the CBS' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date.

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

8. The program consolidated government primary balance from above the line on a commitment basis is defined as total consolidated government and social security fund revenues (excluding privatization and long-term lease income receipts) less all noninterest (primary) expenditures and net lending of the government and social security fund. For program purposes the transfer of assets from the Social Security Fund to the Seychelles Pension Fund planned for 2015 will be excluded from expenditures.

D. Public External Debt (Ceiling)

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

10. For the purposes of this performance criterion, the definition of debt is set out in Point 8 of the "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements," attached to Executive Board Decision No. 6230-(79/140), as amended. Debt is understood to mean a

current, non contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. The ceiling on contracting official and officially guaranteed external debt includes all form of debt, including:

a. loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

b. suppliers credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and,

c. leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the leasor retains title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property;

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

E. External Arrears of the Public Sector

11. The nonaccumulation of arrears to external creditors will be a continuous performance criterion under the program. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, subject to any applicable grace period, including contractual and late interest. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

F. Domestic Arrears of Government

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

service payment on domestic debt of the government or guaranteed by the government that has not been made within the contractually agreed period.

II. DATA AND INFORMATION

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

The CBS will report

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

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

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

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

The Ministry of Finance will report

Monthly (within two weeks from the end of the month):

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

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

- Accounts of the public nonbank financial institutions.

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

INTERNATIONAL MONETARY FUND

SEYCHELLES

January 6, 2017

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT AND REQUESTS FOR MODIFICATION AND WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA AND WAIVER OF NONOBSERVANCE— SUPPLEMENTARY INFORMATION, AND SUPPLEMENTARY LETTER OF INTENT

Approved By: African Department

This supplement provides information that has become available since the issuance of the staff report (www.imf.org). The information does not alter the thrust of the staff appraisal.

- **The reserve money target for end-December was narrowly missed.** At SR 2,990 million, reserve money was one percent over the performance criterion set during the third review (Table 1a). In the view of staff, this minor deviation will not affect the program's goals, and staff therefore support the authorities' request for a waiver of nonobservance of the reserve money target on the grounds that the deviation is minor.

- **Other macroeconomic outcomes appear favorable.** With a mid-rate at 13.381, the rupee remains stable against the dollar, and preliminary indications suggest that the PC on net international reserves was met. Inflation remains subdued, at -0.4 percent y/y in November. As of December 25, 295,425 visitors arrived in Seychelles, an increase of 10% over the figure for 2015.

Supplement to Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
January 5, 2017

Dear Ms. Lagarde:

1. This letter supplements our Letter of Intent dated December 19, 2016.

2. Since then, preliminary information for the end-December Reserve Money target has become available. At SR 2,990 million, the outturn was slightly above the target set at the time of the Third Review. In this context, we request a waiver of nonobservance of the Performance Criterion, since the breach was minor, and we intend to maintain tight and prudent monetary policy to ensure domestic price stability.

Sincerely yours,

/s/	/s/
Louis Rene Peter Larose	Caroline Abel
Minister of Finance, Trade and Economic Planning	Governor
Republic of Seychelles	Central Bank of Seychelles

Table 1a. Quantitative Performance Criteria Under the Extended Arrangement 1

	2015				2016							
	End-Sep.		End-Dec.		End-March		End-June		End-Sep.		End-Dec.	
	Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria	
	Third Review	Est.	Third Review	Est.	Third Review	Est.	Third Review	Est.	Third Review	Prel.	Third Review	Proposed/Prel.
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Net international reserves (adjusted targets)	417	...	405	...	406	...	393	...	403	...	383	...
Reserve money target (ceiling on daily average during the quarter) [2 3]	2,552	2,520	2,781	2,708	2,818	2,758	2,858	2,815	2,897	2,870	2,961	2,990
Primary balance of the consolidated government (cumulative floor)	539	805	720	783	85	238	288	412	470	560	767	571
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling from start of 2015)	63	56	90	71	110	90	110	90	110	95	130	130
Contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears by the public sector (ceiling) [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payment arrears by the government (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Net external non-project financing (millions of U.S. dollars; cumulative) [5]	-8.3	-8.3	-22.4	-18.4	12.3	-11.5	-11.7	-31.0	-14.4	-28.7	-33.2	-51.5
External budget loans	7.0	7.0	7.0	7.0	15.0	10.0	15.0	15.0	15.0	20.0	20.0	20.0
Cash payments on foreign debt service	18.3	18.3	34.3	30.3	2.7	21.5	26.7	46.0	29.4	48.6	53.2	71.4
External budget grants	3.1	3.1	4.9	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve money (daily average during the quarter)	2,520	2,520	2,700	2,708	2,736	2,758	2,775	2,815	2,813	2,870	2,875	2990
Program accounting exchange rates [6]												
SR/US$ (end-of-quarter)	13.74	13.74	13.01	13.01	13.01	13.28	13.01	13.28	13.01	13.34	13.01	13.34
US$/Euro (end-of-quarter)	1.12	1.12	1.12	1.12	1.12	1.09	1.12	1.09	1.12	1.12	1.12	1.12
US$/UK pound (end-of-quarter)	1.54	1.54	1.51	1.51	1.51	1.39	1.51	1.39	1.51	1.30	1.51	1.30
US$/AUD (end-of-quarter)	0.78	0.78	0.70	0.70	0.70	0.72	0.70	0.72	0.70	0.77	0.70	0.77
US$/CAD (end-of-quarter)	0.80	0.80	0.75	0.75	0.75	0.74	0.75	0.74	0.75	0.76	0.75	0.76
US$/SDR (end-of-quarter)	1.41	1.41	1.40	1.40	1.40	1.38	1.40	1.38	1.40	1.40	1.40	1.40

Sources: Seychelles authorities and IMF staff estimates and projections.

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

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

[3] The last column is the end-December outturn rather than a proposed revised target.

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

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

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

Statement by Mr. Johnston, Alternate Executive Director for Seychelles, and Mr. Cafrine, Advisor to Executive Director
January 11, 2017

The Seychellois economy has undergone a remarkable turnaround since 2008, supported by successive IMF programs. Ambitious and wide-ranging reforms have been implemented, including floating the exchange rate, removing exchange controls and ongoing fiscal restraint. As a result, growth has lifted, inflation has moderated, the exchange rate has stabilized, public debt has declined sharply and international reserves have been steadily accumulated. However, the country is very small (population 90,000), relies heavily on tourism and imports, and remains exposed to external shocks, including from natural disasters. The Government has set a target of reducing debt to 50 percent of GDP by 2020—pushed out recently from 2018. Seychelles has a strong track record of performance under its various programs, which is a credit to the ongoing commitment of the authorities and to public acceptance of the need for change.

Reduction of poverty, together with a desire to share more equally the benefits of economic growth, has become a focus in Seychelles over the last year. At the same time, the political situation has become more uncertain, with the Government now having a minority in the legislature, the National Assembly. There appears to be bi-partisan support, however, for continued fiscal restraint and structural reforms. The Government has presented a Budget to the Assembly which will deliver a 3 percent primary surplus in 2017, equal to that expected in 2016. The Budget includes a number of revenue-raising measures—including an increase in fuel, alcohol and tobacco excises, and air passenger fees—which help to meet the cost of previously-announced initiatives, particularly tax cuts for low-to-middle income earners. Increased scrutiny is also being applied to government spending through the Budget process. For possible inclusion in future Budgets, the Government is working on a sugar tax, a carbon tax and a property tax on land owned by foreigners.

The authorities agree with the outlook presented in the staff report. Tourist arrivals have been strong and an increase in tuna canning is expected to continue. Growth in the economy exceeded 5 percent in 2015 and is expected to be 4.5 percent in 2016. Inflation has been negative but is expected to be around 1.5 percent by the end of 2016. Public debt is currently around 70 percent and is expected to fall over the coming years, in line with the authorities' target.

The authorities remain firmly committed to the current EFF and request the completion of the fourth and fifth reviews, together with the modification of a performance criterion for end-December 2016 (recognizing the 3 percent primary surplus) and the waiver of applicability. All quantitative performance criteria for end-December 2015 and end-June 2016 were met and solid progress has been made on structural benchmarks. The authorities are confident that the economic and financial policies set out in the MEFP will ensure the objectives of the program continue to be met. They stand ready to take any further measures that may prove necessary and appreciate the continued close engagement with the IMF. They wish to thank the mission team, led by Mr. Wendell Samuel, for its constructive discussions, analysis and advice. In addition, they continue to value very highly the technical assistance received from the Fund.

FISCAL AND STRUCTURAL POLICIES

The authorities are working to achieve best practice in public financial management. The Medium-Term Fiscal Framework is now anchoring Seychelles' fiscal strategy, and helping improve cash, asset and capital project management. The Public Expenditure Accountability Framework was also introduced in 2016. Five Government departments are operating their 2016 budgets using Program Performance Based Budgeting and the remaining departments will have joined the project by 2019. A regulatory and operational framework for public-private partnerships is also being designed with technical assistance from the African Development Bank. Tax administration has been improved and made more effective, including improving business tax compliance. Tax audits of large businesses are progressing well. A new collection enforcement strategy was introduced in 2016 to improve enforcement, reduce the current stock of arrears and limit debt accumulation.

Oversight of SOEs is being strengthened to reduce the risk to public finances. In such a small state, a lack of competition and need for scale in some sectors means a larger role for government than might be expected in other countries. The authorities are mindful of the need for accountability and monitoring of SOEs. They are undertaking management and governance audits to further enhance transparency and efficiency in the delivery of public services. The Public Enterprise Monitoring Commission is developing a code of governance based on the OECD's model, is reviewing its governing legislation to ensure best practice in governance of public enterprises, and is preparing a Fiscal Risk Management Statement. Together these actions will help to show the impact of SOE performance on the Government's budget, including the cost of those social obligations currently being absorbed by several SOEs.

MONETARY POLICY AND THE FINANCIAL SECTOR

The Central Bank of Seychelles (CBS) is continuing its tight monetary policy stance to guard against possible inflationary and exchange rate pressures. Inflation is low but the CBS remains concerned about risks to price stability, including from increased liquidity, and is maintaining its issuance of short-term government securities for monetary policy purposes. In the coming years, it is envisaged that the monetary policy framework will shift to incorporate a policy rate to guide movements in short-term interest rates. Accumulation of reserves remains an important objective. As at September 2016, reserves were above target and were the equivalent of four months of imports. The CBS is upgrading banking regulations for the implementation of Basel II and III standards. In addition, a Financial Stability Committee became operational in March 2016, comprising members from the Financial Services Agency, the Financial Intelligence Unit, Ministry of Finance and CBS. The authorities agree on the need for a strong macro-prudential policy framework to help safeguard the financial sector.

Given emerging risks from the offshore sector in Seychelles, the authorities are bringing regulatory frameworks into line with international standards. The OECD's Global Forum on Transparency and the Exchange of Information for Tax Purposes has now rated Seychelles as largely compliant. New legislation ensures that the beneficial ownership of International Business Companies is held in Seychelles and provides for the filing of information about directors. A new Trusts Act will soon be enacted and the International Corporate Trustee and Foundation Services Act is close to being finalized. The banking sector is facing a degree of pressure in maintaining its correspondent banking relationships, with risks coming largely from the offshore sector. The authorities are currently working on a draft action plan to reduce financial sector risks and protect the banking sector from possible withdrawals of CBRs. In addition, a National Risk Assessment is being conducted by the World Bank and will form part of the basis for a comprehensive strategy to tackle AML/CFT risks in Seychelles.