IMF Country Report No. 18/196

SEYCHELLES

June 2018

FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS—PRESS RELEASE; STAFF REPORT

In the context of the First Review Under the Policy Coordination Instrument, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time basis, following discussions that ended on March 20, 2018 with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on June 5, 2018.

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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IMF Executive Board Completes First Review Under the Policy Coordination Instrument for Seychelles

On June 21, 2018, the Executive Board of the International Monetary Fund (IMF) completed the first review under the Policy Coordination Instrument (PCI) for Seychelles. [1] The Executive Board's decision was taken without a meeting.[2]

The PCI was approved on December 13, 2017 (see Press Release No. 17/492). Seychelles was the first IMF member country to request a PCI.

Macroeconomic performance continued to be strong in 2017. Economic growth is estimated to have exceeded 5 percent, reflecting buoyant tourism arrivals, strong output in the fishery industry, and expanding credit to the private sector. Program implementation is on track and all end-December 2017 quantitative targets were met. Inflationary pressures are emerging due to rising international fuel prices and strong domestic demand in the final months of 2017. The Central Bank of Seychelles (CBS) tightened its monetary policy stance in late March to contain the pickup in inflation. The fiscal policy stance in 2018 is supportive of the monetary policy tightening. With higher policy rates, subdued hotel construction activity, and slower tourism and fishery sector growth, economic growth is expected to moderate this year and next around its estimated potential rate of 3½ percent. The exchange rate is broadly in line with fundamentals and the reserves buffer is estimated to be adequate.

The authorities are committed to the program's fiscal anchor of reducing public debt below 50 percent of GDP by 2021: the large infrastructure projects planned in coming years would be implemented within the envelope of the program's primary surplus target of 2½ percent of GDP. The CBS is committed to a flexible exchange rate while staying watchful to any sign

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

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

of inflationary pressures. The structural agenda for 2018 focuses on strengthening the AML/CFT framework, reducing potential fiscal risks, improving public investments' efficiency, and enhancing inclusive growth.

INTERNATIONAL MONETARY FUND

SEYCHELLES

June 5, 2018

FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS

KEY ISSUES

Context: Seychelles intends to preserve its hard-won economic stability and enhance inclusive growth. The authorities have committed to maintaining a primary fiscal surplus consistent with achieving their medium-term debt reduction goal. Priorities include structural measures to avoid further loss of correspondent banking relations (CBRs), reduce fiscal risks, and strengthen the business environment.

Program performance: All quantitative targets for end-December 2017, the program's first review test date, were met. While there are no structural reform targets due for the first review, the structural agenda for 2018 is proceeding in line with the program. Staff recommends completion of the first review under the Policy Coordination Instrument and minor modifications of the reserve money targets for end-June and end-December 2018.

Outlook and Risks: Program implementation and economic fundamentals continue to be strong, but inflation is rising on the back of higher international fuel prices and strong domestic demand in the final months of 2017. The Central Bank of Seychelles (CBS) tightened its monetary policy stance in late March to contain inflationary pressures. The fiscal policy stance in 2018 is supportive of the monetary policy tightening. While the 2018 budget approved by the National Assembly is in line with the program, President Faure announced in the recent State of the Nation Address (SONA) his intention to implement a few new large public investment projects starting in 2019 to enhance medium-term growth prospects and resilience to climate change. Risks to the program are considered moderate, given Seychelles' strong program implementation and continued commitment to safeguarding macroeconomic stability. The economy is still vulnerable to external shocks, including weakness in the key tourism markets and global banks' withdrawal of correspondent banking relationships (CBRs).

Key policies: The authorities are committed to the program's fiscal anchor of reducing public debt below 50 percent of GDP by 2021: the large infrastructure projects planned in coming years would be implemented within the envelope of the program's primary surplus target of 2½ percent of GDP. The CBS will stay vigilant to any sign of inflationary pressures and is committed to a flexible exchange rate. The structural agenda focuses on strengthening the AML/CFT framework; reducing potential fiscal risks; improving the efficiency of public investments; and enhancing inclusive growth.

Approved By
David Owen and Martin Sommer

Discussions were held in Victoria during March 7-20, 2018. The staff team comprised Mr. Sy (head), Messrs. Issoufou and Konuki and Ms. MacDonald (all AFR). The mission met with the President, the Minister of Finance, the Governor of the Central Bank, other senior officials, parliamentarians, and representatives of civil society, and the private sector. Mr. Johnston (OED) also participated in the discussions. Mr. Bari provided research support and Ms. Bieleu provided assistance for the preparation of this report.

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RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. **While growth momentum is strong and external buffers continue to build up, inflation has been rising in recent months (Figures 1 and 2, Tables 1-5).** Tourist arrivals grew by 15½ percent in 2017, with robust growth from the major European markets and the United Arab Emirates (UAE). The nominal exchange rate has been stable in recent months while gross international reserves (GIR) have overperformed staff's projection at the time of the program request, supported by strong tourism. Real GDP growth is estimated to have exceeded 5 percent in 2017 reflecting buoyant tourism activity, strong output in the fishery industry, and expanding credit to the private sector. Headline year-on-year (yoy) CPI inflation rate picked up to 4.2 percent in April 2018 from the range of 3–3½ percent during the second half of 2017, due to strong domestic demand in recent months and rising international fuel prices. Although private sector credit growth accelerated to 19.7 percent at end-March 2018 from 8.1 percent at end-March 2017, financial soundness indicators suggest that commercial banks are adequately capitalized and profitable.

2. **The Central Bank of Seychelles (CBS) tightened its monetary policy stance in late March to contain inflationary pressures.** Citing concern over inflationary pressures in coming months arising from higher international fuel prices and strong domestic demand in the final months of 2017, the CBS raised the lower and upper bounds of the interest rate corridor by 1 and 2 percentage points, respectively. At the same time, the CBS revised down slightly the reserve money targets for the rest of 2018 in accordance with its policy tightening.[1]

3. **While rising international fuel prices and stronger-than-expected domestic demand in recent months could adversely affect inflation and the external balance in 2018, the near- and medium-term outlook continues to be benign**. The rising trend in international fuel prices in recent months, together with the planned electricity tariff adjustments in coming months,[2] would put pressure on both inflation and the external balance in 2018. While tourism is expected to remain strong and supported by new flight connections, growth is expected to moderate to 3½ percent during 2018–20, around the potential rate, due to the tightening of monetary policy, moderation of tourism and fishery sector growth compared with 2017, and the moratorium on large hotel construction projects.[3] The expected slowing down in aggregate demand and strong tourism would help offset the adverse impact of higher international fuel prices on inflation and the external balance. The strength of the euro against the US dollar would also help improve Seychelles' external position as the country's tourism receipts are mostly in euro while the import bill is mostly in US dollars. Tourism will continue to drive economic growth over the medium term, and growth and

[1] While the new monetary policy framework introduced in June 2017 uses an interest rate corridor as a new instrument for monetary policy, the CBS will continue to use reserve money target until the new policy framework functions effectively (Country Report No. 17/401).

[2] The electricity tariff increase for households—a step to reduce cross-subsidies over the medium term—has been rescheduled to September 2018 from November 2017.

[3] Regionally imposed ceiling on yellow fin tuna catches, which took effect in mid-2017, would lead to a moderation in the fishery sector growth. Meanwhile, the large hotel moratorium introduced in late 2015 prohibits construction of new large hotels until end-2020.

foreign direct investment (FDI) should pick up after the lifting of the moratorium on large hotel construction projects at end-2020. The current account deficit would continue to be mostly financed by FDI and the GIR's ARA metric is expected to stay around the current level in the medium term.[4]

4. Risks to the outlook presented above are broadly balanced. The most significant sources of downside risks relate to external shocks. Intensification of security dislocation in parts of the Middle East, Africa, and Europe would considerably reduce tourist arrivals, while structurally weak growth in major advanced and emerging economies could dampen tourism performance in the medium term. Seychelles' financial sector could potentially be affected by international banks' potential withdrawal of correspondent bank relationships (CBRs). Higher-than-projected international energy prices could negatively affect Seychelles' external balance, inflation, and some state-owned enterprises' (SOEs') financial position. On the upside, tourism sector growth could be significantly higher than projected in the next few years. A stronger-than-projected euro against the US dollar would help improve the country's external position.

PROGRAM PERFORMANCE

5. All end-December 2017 Quantitative Targets (QTs) were met (Program Statement (PS) Table 1a) and reform targets (RTs) for 2018 are progressing as envisaged under the program (PS Table 2).

- **The 2017 primary surplus marginally exceeded the target.[5]** Primary expenditures were lower than programmed by 2¾ percent of GDP because of delays in personnel recruitment, savings in goods and services, and smaller-than-budgeted external loan financed capital investments. Tax revenue fell short of the program projection by about 1 percent of GDP: the overperformance of business tax, personal income tax, and VAT were more than offset by the delay of the stamp duty collection on a change of ownership of a local telecom company and the delayed collection of business tax from the Port Authority.[6] Non-tax revenue also underperformed because of the delay in transferring some SOEs' dividends to the budget, which will take place in 2018.

- **Both the end-2017 net international reserves (NIR) and reserve money (RM) targets were met by a comfortable margin.** NIR at end-2017 exceeded the target by $33 million while the daily average of the RM during the fourth quarter of 2017 was well below the ceiling.

- **While there is no RT whose test date is due for the 1st review, RTs for the 2nd and 3rd reviews are progressing well.**

[4] A gradual reduction in the current account deficit in the context of the investments assumed under the baseline will require higher savings over the medium term, which will depend on the successful implementation of fiscal consolidation from 2019 onwards (see fiscal policy section below).

[5] About half of the primary surplus of 3 percent of GDP in 2017 is attributed to one-off measures: delay of the introduction of the progressive personal income tax (PIT) to June 2018 and delay of fulfilling vacancies in government positions.

[6] The stamp duty collection related to the telecom company is set to take place during 2018–19 while the delayed business tax collection from the Port Authority will take place in 2018.

POLICIES IN THE PERIOD AHEAD

6. **Discussions continued to focus on a package of policies to lock in the economic stability and enhance inclusive growth.** The authorities are committed to the program anchor of reducing the public debt to GDP ratio below 50 percent by end-2021 by continuing prudent macroeconomic policies. Meanwhile, President Faure announced the government's intention to implement a few new major public investments over the medium term in the State of the Nation Address (SONA) in March 2018, with a view to making progress in enhancing medium-term growth prospects and resilience to climate change, as well as fiscal measures to be implemented in 2019. However, the authorities concurred with staff that the announced projects should be done in a manner that allows fiscal and monetary policies to continue anchoring the Seychelles' hard-won economic stability and strengthening fiscal sustainability.

A. Fiscal Policy

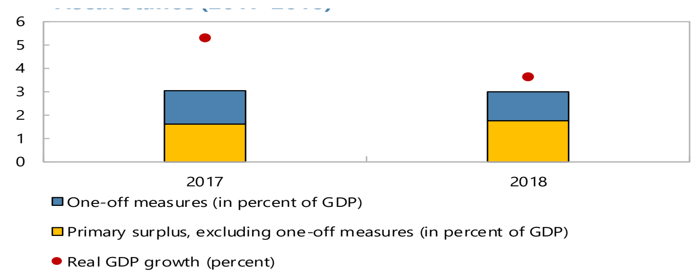
7. **The 2018 primary surplus target is likely to exceed the program target, which would support the CBS' efforts to contain inflationary pressures.** The 2018 budget approved by the National Assembly in late December 2017 is in line with the understanding reached with the previous mission. Supported by credible permanent measures (text table), as well as one-off measures, coupled with stronger-than-budgeted tax revenue performance, the primary surplus is expected to reach 3 percent of GDP in 2018 (exceeding the program target of 2½ percent of GDP).[7] This is a fiscal tightening because the primary surplus excluding one-off measures is estimated to edge up from 1.6 percent of GDP in 2017 to 1¾ percent in 2018 while GDP growth is expected to slow down from 5¼ percent in in 2017 to 3½ percent, around the estimated potential rate, in 2018 (text chart). This would support the CBS' monetary policy tightening aiming at containing inflationary pressures in coming months.

Permanent Fiscal Saving Measures in the 2018 Budget

Measures	Estimated saving (in SCR millions)	Estimated saving (in percent of GDP)
Revenue		
Introduction of a property tax	40	0.18
Alignment of vessel registration tax with international standars	30	0.14
Expenditure		
Containment of growth in wage bill and goods and services	80	0.37
Of which:		
Cancellation of opening of District Councils	15	0.07
Stricter control on official travel	5	0.02
Better targetting of social welfare	30	0.14
Total	180	0.82

Source: Ministry of Finance and staff estimates

Fiscal Stance (2017-2018)



Sources: Seychelles authorities; and IMF staff calculations.

[7] Stamp duty payments resulting from foreign acquisition of a local telecom company and dividends transfers from some SOEs, which were delayed from 2017 to 2018–19, combined with the business tax collection from the Port Authority delayed into 2018, would boost the government revenue by about 1 percent of GDP in 2018. In addition, the five-month delay of the introduction of the progressive PIT to June 1, 2018, which would lead to a revenue loss due to the high-income threshold, is estimated to produce one-off saving of around ¼ percent of GDP in 2018.

8. The authorities are committed to the program primary surplus of 2½ percent of GDP from 2019 onwards to shore up their medium-term debt reduction goal. The public debt-to-GDP ratio would steadily decline to below 50 percent by 2021, assuming an unwinding of SCR200–250 million each year of government debt issued for monetary policy purposes. This is in line with medium-term fiscal sustainability and would not put pressure on inflation, striking the right balance between preserving economic stability and addressing investment needs.[8]

9. The 2018 SONA fiscal measures to be introduced in 2019 could be done within the envelope of the program primary surplus target. The President announced several new fiscal measures creating a fiscal cost of ½ percent of GDP in the 2019 budget in the SONA (text table). In light of the latest revenue projections, the impact of expenditure saving, and revenue enhancing measures to be introduced in the 2019 budget (see ¶10), staff estimated that these newly announced measures could be reconciled with the primary surplus target of 2½ percent of GDP from 2019 onwards, provided the authorities successfully manage implementation risks related to the fiscal adjustment measures outlined below.

2018 SONA Fiscal Measures' Impact on 2019 Budget

	(in percent of GDP)
Social Programs	
Increase in pension benefit from SR 5,050 to SR 5,250 a month	0.10
Increase in minimum wage from SR 5,050 to SR 5,250 a month	0.03
Government Reorganization	
Seychelles National Parks Authority will become an autonomous agent (net impact) 1/	0.22
Seychelles Fishery Authority will become an autonomous agent (net impact) 1/	0.03
Goods and Services	
Additional resources for various agencies, including police and anti-corruption commission	0.09
Privatization	
20 percent of SEYPEC 2/	0.13
Estimated total fisxcal cost of the above	0.60

Source: Seychelles authorities and IMF staff estimates
1/ Revenue loss net of expenditure saving.
2/ Loss of dividends due to partial privatization.

10. The authorities intend to keep a tight rein on current expenditure and implement revenue enhancing measures in the 2019 budget to secure the primary surplus target. They will introduce in the 2019 budget various measures to contain the nominal growth of current expenditure, including procurement reforms, containing the wage bill growth by removing duplication of government services performed by different agencies and by a new staffing and recruitment planning[9], and continued rationalization of social welfare (PS ¶14–16).[10] The electricity tariff rebalancing will help contain the spending on goods and services. The government will terminate the accelerated investment deduction and marketing cost deduction granted for tourism-related companies at the end of 2018, which would help offset the revenue loss arising from the introduction of the progressive PIT in June 2018. Staff urged the authorities to work out the details of these saving measures prior to the second review mission.

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[8] See Annexes II (DSA) and III of Country Report No. 17/401.

[9] For instance, by making Fishery Authority and National Park Authority, the government is expected to save primary current expenditure by 0.6 percent of GDP in 2019, though it would reduce non-tax revenue by 0.9 percent of GDP (text table).

[10] The current social protection system supports households that are not needy: there is room to better target social welfare spending by implementing recommendations by the World Bank, including review and adjustment of means test and benefit levels (See Country Report No. 17/161).

Meanwhile, staff argued for abolishing the property tax to be introduced later this year or removing its discriminatory features in the context of the 2019 budget.[11] The authorities did not commit to any specific measures to address this issue, but agreed to explore alternative options. Discussions will continue in the second review.

11. Staff encouraged the authorities to elaborate a medium-term financing strategy for the large projects announced in the 2018 SONA and for investments aimed at enhancing resilience to climate change. The President announced in the 2018 SONA large-scale infrastructure projects, which had not been included in the authorities' medium-term Public-Sector Investment Plans (PSIPs). While the announced projects, should they pass the budgetary process, would be implemented gradually over the medium to long term, their total cost over their lifespan could reach around 30 percent of 2018 GDP (text table). The government argued that these projects would help boost medium-term growth prospects by addressing infrastructure bottlenecks. Two projects —the conversion of electricity generation from heavy fuel to Liquefied Natural Gas (LNG) and the Grand Anse Dam— account for more than half of total cost and are part of the authorities' climate change mitigation and adaptation efforts. The President also assured staff that the announced projects would be done in a way to minimize their fiscal impact, including through public-private partnerships (PPP). The authorities have committed to maintaining the primary surplus target of 2½ percent of GDP from 2019 onwards as envisaged in the program and to achieving their goal of reducing debt below 50 percent GDP by end-2021. In addition to the projects listed in the PSIP and the 2018 SONA, the authorities would need to identify the financing of priority climate change related investments which are estimated to cost over $250 million over the next 15–20 years (around 17 percent of 2018 GDP, (Annex I)). While the measures to contain current spending to be implemented in the 2019 budget would help shift spending from current to capital outlays (see ¶10), the authorities would need to create further fiscal space over the medium term, beyond that required to secure the debt reduction goal of the program. Staff pointed out that those investment projects should be phased, in line with the country's absorptive capacity, and reiterated that the authorities should seek concessional external financing for climate change related actions to the extent possible, mitigate fiscal risks, and explore the possibility of additional revenue measures discussed at the time of the 2017 Article IV consultation in the medium term.

Projects Announced in the 2018 SONA

	Estimated total project cost	(in percent of 2018 GDP)
Grand Anse Dam	$80 million	5.1
Second submarine cable	$20 million	1.3
Cascade to Grand Anse Tunnel	$65 million	4.2
Conversion of electricity generation to LNG	$216 million	13.8
Reclaiming of land	$80 million	5.1
Total	$461 million	29.5

Source: Seychelles authorities and IMF staff estimates

12. The government maintained its efforts to further reduce debt-related risks. A Blue Bond of US$15 million will be shortly issued, with guarantees by the World Bank to lower interest costs. The

[11] The property tax discriminates between residents and nonresidents and is thus a capital flow management measure by virtue of its design according to the Fund's Institutional View on capital flows. Implementation is behind schedule due to a lack of consensus on the definition of "foreign" entities.

proceeds will finance a project to improve marine resource management and strengthen fisheries value chains (Third South West Indian Ocean Fisheries Governance and Share Growth (SWIOFish3) project).[12] The government will carry out a liability management exercise to swap current US dollar obligations of US$144 million into Euros during the second half of 2018, which could save interest costs and better align the repayment currency with Seychelles' foreign exchange earnings. It will also incorporate a plan to lengthen the maturity of domestic debt aimed at reducing rollover risks in the 2019 budget. Liability management and a lengthening of the domestic debt maturity, together with a steady reduction of the level of public debt, would help better manage risks to debt sustainability over the medium term.

13. The authorities are making progress in structural reforms to reduce potential risks arising from the SOE sector and PPPs. While Air Seychelles turned in a small loss in 2017 due to higher international fuel prices, all other major SOEs remained profitable. Air Seychelles began implementing its operational restructuring this year and is expected to turn around in 2019. The government is making progress in preparing a Fiscal Risks Statement, analyzing potential risks from the SOE sector and PPPs, as well as quantification of social obligations absorbed by the SOEs, both of which to be included in the 2019 budget (3rd review RTs). Meanwhile, a new Code of Governance for the SOEs in line with the OECD Guidelines will be submitted to Cabinet by September (3rd review RT). With a view to minimizing the fiscal risks potentially arising from PPPs for the newly announced large projects and climate change related investments, the PPP Act will take effect in the second quarter of 2018 while the Fiscal Risk Statement to be attached to the forthcoming 2019 budget will cover the risks from PPP as well as SOEs (PS ¶29).

B. Monetary and Exchange Rate Policies

14. Staff supported the CBS' recent precautionary tightening of monetary policy stance. Rising international fuel prices, together with electricity tariff adjustments in coming months and strong domestic demand in the final months of 2017, could increase inflationary pressures. In addition, acceleration of credit growth in recent months is worrisome. Staff's analysis indicates that credit booms have been typically followed by economic downturns in Seychelles. The recent credit boom is driven by higher liquidity as deposits grew at a brisk pace.[13] In this context, the staff considers appropriate the CBS' policy tightening announced in late March (¶2). The CBS continues to be vigilant to any sign of demand-pull pressures or second round effects of fuel prices and tariff adjustments. Staff argued that, if needed, the CBS should be ready to tighten monetary policy further and adopt macroprudential measures. Staff encouraged a close coordination between the CBS and the Ministry of Finance to ensure that the planned unwinding of the monetary debt, in line with the government's debt reduction, does not hamper the CBS' liquidity management and inflation objectives (PS ¶39). The plan to rely on reverse repurchase operations would help manage the liquidity injected by monetary debt unwinding thereby facilitating the reduction of government domestic debt without compromising the inflation objective.

[12] See Country Report No. 17/401 for the scheme of the Blue Bond.

[13] See Annex III.

15. Staff welcome the CBS's continued efforts to ensure a smooth transition to a new monetary policy framework under which interest rates play a prominent role. During the transition period, staff continues to support the use of RM as an operating target while the interest rate corridor is being developed. As part of the transition toward an interest rate based monetary policy framework, the CBS recently developed an action plan expected to help accelerate the transition by strengthening its capacity for inflation forecasting and liquidity management, polishing up its communication policy, and developing the interbank market (Annex II). When the CBS fully moves toward the interest based framework, it should explicitly announce a policy rate, which should be the same as for the main instrument used to absorb or inject liquidity. This could be the Deposit Auction Arrangement (DAA) rate or the reverse repurchase agreement (repo) rate.[14]

16. Staff continues to encourage the CBS to allow for greater exchange rate flexibility and to keep international reserves coverage at around the current level. GIR is projected to remain at about 170 percent of the relevant ARA metric under the baseline, which, in staff's view, is adequate, considering the country's vulnerability to external shocks and natural disasters. The latest exchange rate assessment, updated in December 2017, found the Seychellois Rupee to be broadly in line with fundamentals.[15] Large foreign exchange purchases would lead to further issuance of monetary debt or increase excess liquidity in the system, which would be detrimental both to debt reduction and the inflation objective. In this context, staff encouraged the CBS to allow greater exchange rate flexibility while continuing to limit foreign exchange purchases only to the extent needed to preserve GIR coverage at around the current level.

C. Policies to Buttress Financial Stability

17. Staff supported the authorities' intensified efforts to address the risks of further potential loss of CBRs. The authorities are finalizing a new offshore sector strategy, which focuses on measures to move to a more transparent business model in compliance with international best practices and prevent the misuse of legal persons and arrangements for money laundering activities. The Cabinet recently approved the National Risk Assessment, which will form the basis for the National AML/CFT strategy, to be approved by Cabinet by June 2018. Amendments to the AML/CFT legal and institutional framework, based on technical assistance from the Fund's Legal Department and the ongoing Financial Action Task Force (FATF) Mutual Evaluation by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), will be submitted to Cabinet by end-June (PS¶45, 2nd review RT) as envisaged under the PCI. Moreover, the authorities are making progress toward an implementation of a risk-based approach to bank and trust supervision, in line with FATF Mutual Evaluation, by end-2018 (3rd review RT) in line with the program. The factors leading to global banks' withdrawals from CBRs being multiple and interrelated, staff encouraged the development of private and public sector-led solutions, borrowing from regional and international experience, including from the recent IMF-SARB high-level workshop on CBRs held in May 2018 in Pretoria.

[14] The DAA and CAA are part of CBS's liquidity management tools. The DAA (introduced in 2008) is a liquidity absorbing instrument while the CAA (introduced in 2009) is a termed liquidity injection tool. Due to structural excess liquidity in Seychelles' banking system, only the DAA has been actively used.

[15] See Annex IV of Country Report No, 17/401.

18. Staff encouraged the authorities to continue efforts to strengthen its framework for financial stability. While banks remain profitable and well capitalized, asset quality should be maintained, including through adequate provisioning. The CBS' plan to complete a full transition to Basel II and adopt the Basel III capital definition is on track and the full framework is expected to be in place by June 2019. This would not only provide a framework to better ensure financial stability, it would also support on-going efforts to reduce the risk of further loss of CBRs, especially through international capital adequacy assessment process requirements and the adoption of a more risk-based supervisory approach. Furthermore, the relevant regulatory framework to address weaknesses in the country's legal framework for crisis management, bank resolution and safety net will be submitted to the National Assembly by end-2018 (PS¶46, 3rd review RT).

D. Enhancing Inclusive Growth

19. Addressing the infrastructure gap and raising the efficiency of public investment would be key to boost prospects for growth. Infrastructure concerns, particularly high electricity costs, are among the most serious constraints to growth.[16] In this context, the staff urged the authorities to resume the electricity tariff rebalancing, which has been delayed from November 2017 to September 2018. Steadfast implementation of electricity tariff rebalancing, together with electricity projects in coming years, would boost the electricity supply and help reduce costs for business and government in the medium term. Given the government's emphasis on public investments in the next several years, enhancing the quality of public investments would be critical for longer-term fiscal sustainability as well as growth prospects. Cost-benefit analyses of major public investments will be submitted to Cabinet by June in line with the program (2nd review RT), as part of the 2019 budget preparation (PS¶20).

20. The authorities continue efforts to diversify the tourism industry and upgrade the fishery industry.[17] The authorities are developing a Tourism Satellite Account, to be operational in coming months, to collect high quality tourism market intelligence. This would help the government and the local industry to articulate a strategy to promote the local component of tourism-related activities, which would help ensure that the benefits of economic growth are more broadly distributed among the population. Meanwhile, the SWIOFish3 project, aimed at supporting increased value addition in the aquaculture, industrial, semi-industrial, and artisanal fishing and processing sectors in a sustainable way, has been launched recently. The Development Bank of Seychelles (DBS) will make loans to eligible projects under the SWIOFish3 using the Blue Bond proceeds. The authorities have worked out strict loan selection criteria for DBS under this project (PS¶24). Staff noted some increase in DBS non-performing loans in 2017 and stressed that the quality of its portfolio should be closely monitored and maintained.

21. The authorities' efforts to make the financial sector contribute more to inclusive growth continue. The National Financial Inclusion Strategy focuses on providing access to financing to

[16] See Country Report No. 17/401.

[17] See Annex V of Country Report No. 17/401.

small- and medium-sized enterprises (SMEs) (PS¶50–52). Staff stressed the importance for any SME financing scheme to be better targeted, transparent, and not impede the conduct of monetary policy. The authorities launched the National Financial Education Strategy (NEFS) in December 2017, targeting adults in the formal workplace, Micro, Small and Medium Enterprises, the youth, and the socially and financial vulnerable. Implementation of the NFES is expected to begin in the second quarter of 2018 and will be on a three-year rolling plan. Furthermore, the CBS and the Financial Services Authority (FSA) plan to promulgate a Financial Consumer Protection law by July 2018. The law is expected to promote equitable and fair treatment of consumers while increasing transparency and ensuring responsible lending.

PROGRAM MONITORING AND RISKS

22. The program will continue to be monitored on a semi-annual basis. Reviews are set out in Table 6. Quantitative targets for the key set of macroeconomic variables monitored under the PCI and a continuous target on the non-accumulation of external arrears are set out in Table 1a of the PS. The end-June and end-December 2018 fiscal primary surplus and NIR targets are maintained, which are consistent with the medium-term fiscal sustainability and the adequate level of GIR in view of the ARA metric, respectively. The modification of the end-June and end-December ceilings on reserve money is proposed to reflect the monetary policy tightening in March. In addition, the applicable standard continuous targets are set out in Table 1b of the PS. RTs are reflected in Table 2 of the PS. Seychelles does not need the Fund's financial assistance under the baseline and is not seeking financial assistance from the Fund as the program is fully financed. Capacity development will be essential for the smooth implementation of the program. The authorities will continue to improve capacity in PFM, monetary policy operations, and AML/CFT with the help of IMF technical assistance.

23. Downside risks to the PCI remain moderate given Seychelles' strong program implementation and continued commitment to prudent policies. Seychelles' remaining obligation to the Fund is small and its capacity to repay the Fund is strong.[18] Downside risks to the program stem predominantly from external factors (¶4). Although a safeguards assessment is not required under a PCI, the CBS completed a voluntary update safeguards assessment in February 2018 with a view to facilitating quick access to Fund resources in the event a BOP need should materialize. The updated safeguard assessment found that the CBS has made progress in strengthening its governance and control mechanism. The CBS is committed to addressing key remaining vulnerabilities pointed out by the updated assessment, including its legal framework, internal audit, and aspects of internal controls (PS¶55–56).

STAFF APPRAISAL

24. Staff welcomes the authorities' strong program implementation and determination to safeguard economic stability. Inflationary pressures are emerging due to rising international fuel

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

prices and strong domestic demand in the final months of 2017. The recent monetary policy tightening is appropriate to contain the inflationary pressure in coming months. The fiscal policy stance in 2018 is supportive of the monetary policy tightening. With policy tightening, coupled with the expected moderation in hotel construction and tourism and fishery sector growth, economic growth is expected to slow down to around the estimated potential pace this year and next.

25. The large infrastructure projects planned for coming years should be implemented carefully, to avoid undermining Seychelles' hard-won economic stability and fiscal sustainability. While the 2018 budget is in line with the program, the President announced in the recent SONA his intention to implement a few new large public investment projects starting in 2019. Staff understands the need to make progress in enhancing medium-term growth prospects, including building up infrastructure and resilience to climate change. However, these large infrastructure projects should be implemented within the envelope of the program's primary surplus target of 2½ percent of GDP and the authorities' medium-term debt reduction goal of below 50 percent of GDP by end-2021, as the authorities reassured staff.

26. The authorities are urged to keep a tight rein on current spending and implement revenue enhancing measures in the 2019 budget to shore up the primary surplus target and debt reduction goals. The authorities intend to contain nominal growth in wages and goods and services and better target social welfare programs by implementing permanent measures listed in the Program Statement in the 2019 budget. Furthermore, the authorities are committed to streamlining the preferential business tax treatments for tourism-related companies starting at 2019. The authorities are urged to delineate the details of these measures in preparing for the 2019 budget. While these measures would shore up the primary surplus target from 2019 onwards and the medium-term debt reduction goal, the authorities would need to create further space in the medium term for priority climate change related investments. They should explore the possibility of additional revenue measures discussed at the time of the 2017 Article IV consultation, as well as the use of PPPs subject to an adequate management of associated fiscal risks.

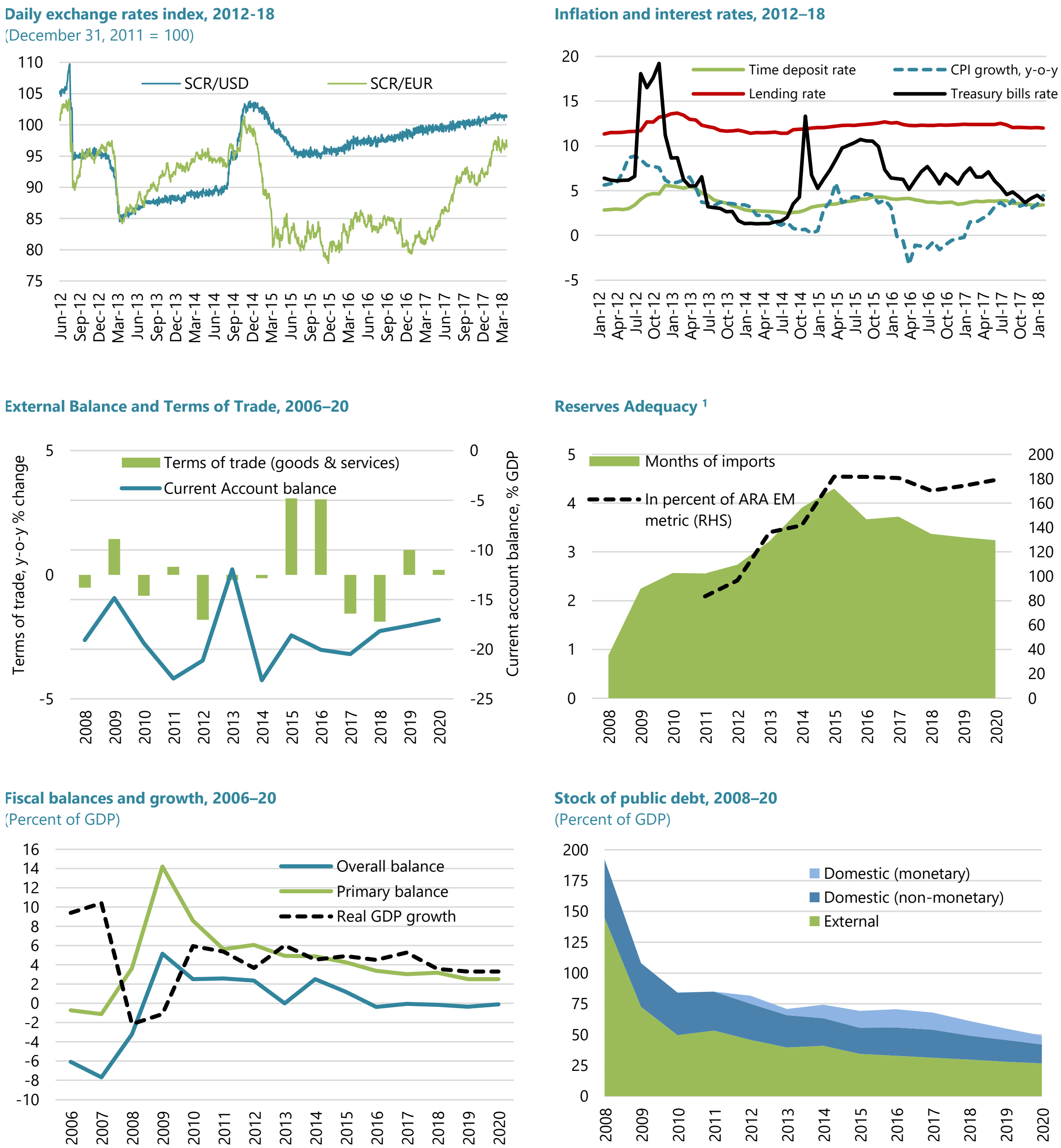
27. The CBS should stay vigilant to any sign of inflationary pressures and allow greater exchange rate flexibility. Staff supports the CBS' intention to stay watchful to any sign of demand-pull inflationary pressures, including credit growth, and second-round effects of the electricity tariff adjustments in coming months. The CBS should be ready to tighten monetary policy further and take macroprudential measures if needed. The exchange rate is broadly in line with fundamentals and the reserves buffer is estimated to be adequate. Therefore, the CBS is advised to allow greater exchange rate flexibility with minimal intervention to preserve reserves coverage ratios at around the current level.

28. Staff welcomes the CBS' continued efforts for a smooth transition to the new monetary policy framework in which interest rates plays a prominent role. The new framework would enhance the monetary transmission mechanism in the medium term. The CBS has delineated an Action Plan for a successful transition, focusing on enhancing capacity for inflation forecasting and liquidity management, improving communication of its policy intentions, and further developing the interbank market infrastructure.

29. The authorities should step up efforts to address the risks of further potential loss of CBRs and implement structural reforms to enhance inclusive growth and reduce fiscal risks. The authorities are urged to align the AML/CFT framework with international standards and best practices and enhance entity transparency in the offshore sector. They are encouraged to continue efforts at the regional/international level to develop solutions to address CBR pressures. Given the government's emphasis on infrastructure scaling up in coming years, better management of public investment would be key to effectively address infrastructure gap, boost prospects for inclusive growth, and shore up fiscal sustainability. The authorities are also encouraged to implement measures to minimize fiscal risks potentially arising from the SOE sector and PPPs.

30. Given the authorities' strong program implementation and continued commitment to safeguarding macroeconomic stability, staff supports the authorities' request for the completion of the first review under the PCI and the modification of the end-June 2018 and end-December 2018 quantitative targets for reserve money.

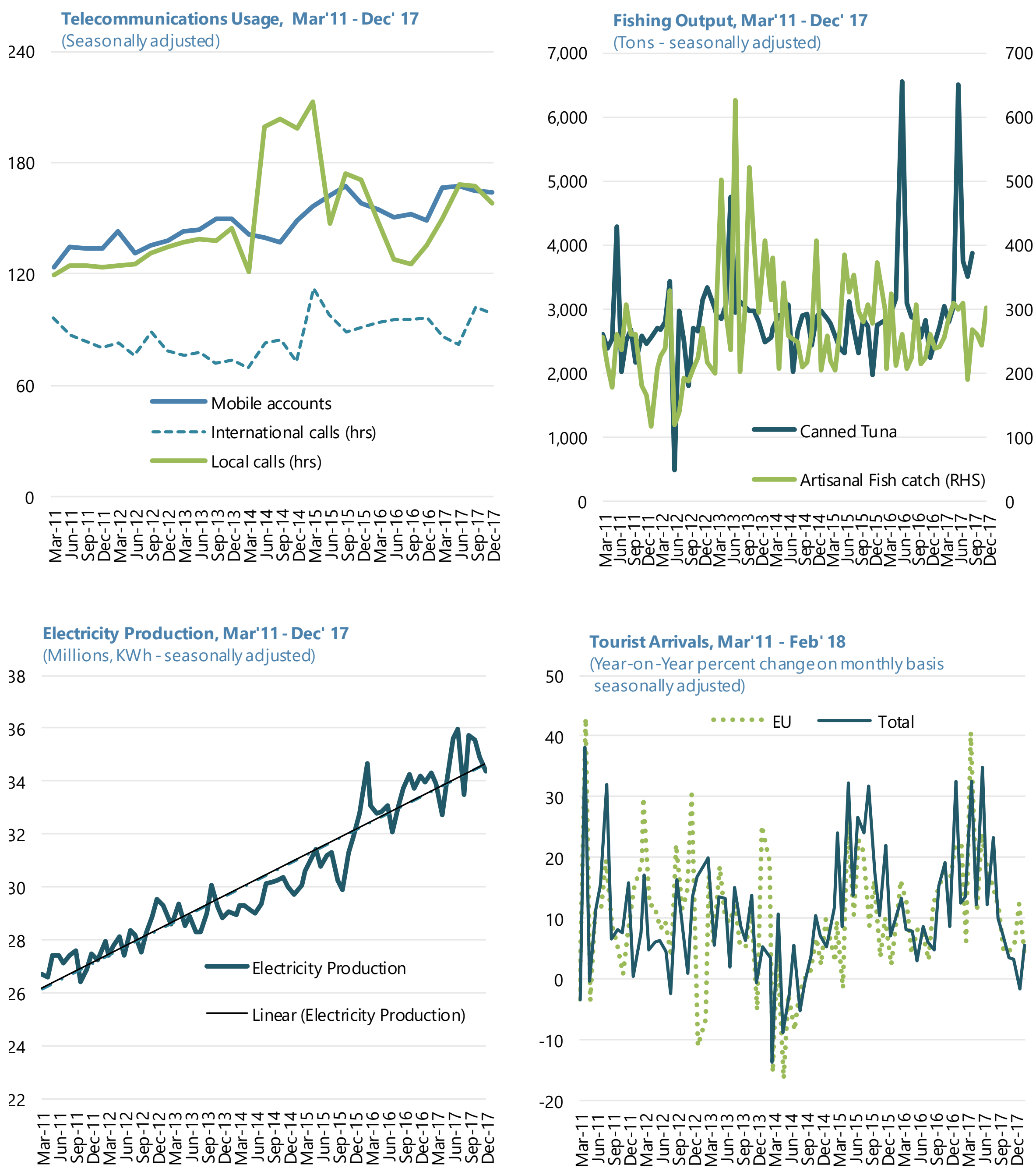
Figure 1. Seychelles: Macroeconomic Developments and Projections



Sources: Seychelles authorities; and IMF staff estimates.

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

Figure 2. Seychelles: Monthly Indicators of economic Activity



Sources: Seychelles authorities; and IMF staff estimates.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2014-23

Nominal GDP (2017): US$1,498 million
Per capita GDP (2017): US$15,735
Population, end-year (2016): 94,677
Literacy rate (2015): 95.3 percent
Main products and exports: Tourism, Canned Tuna

	2014	2015	2016	2017		2018		2019	2020	2021	2022	2023
				Program	Prel.	Program	Proj.			Proj.		
	(Annual percent change, unless otherwise indicated)											
National income and prices												
Nominal GDP (millions of Seychelles rupees)	17,119	18,340	19,014	20,281	20,444	21,747	21,914	23,428	24,890	26,603	28,414	30,240
Real GDP	4.5	4.9	4.5	4.2	5.3	3.3	3.6	3.3	3.3	4.1	4.0	3.3
CPI (annual average)	1.4	4.0	-1.0	3.2	2.9	3.4	4.4	3.6	3.1	3.1	3.1	3.0
CPI (end-of-period)	0.5	3.2	-0.2	4.4	3.5	3.4	5.2	3.8	3.3	3.1	3.1	3.1
GDP deflator average	2.3	2.1	-0.8	2.2	2.1	3.8	3.5	3.5	2.8	2.6	2.7	3.0
Money and credit												
Broad money	26.6	2.9	12.1	14.3	16.4	8.1	7.4	...	...	...	...	...
Reserve money (end-of-period)	13.9	9.5	14.5	18.7	18.9	7.0	6.1	...	...	...	...	...
Reserve money (average of last quarter)	-14.5	7.2	10.4	18.8	19.0	7.0	...	...	...	...	...	...
Velocity (GDP/broad money)	1.4	1.5	1.4	1.3	1.3	1.3	1.3	...	...	...	...	...
Money multiplier (broad money/reserve money)	5.0	4.7	4.6	4.4	4.5	4.4	4.5	...	...	...	...	...
Credit to the private sector	26.2	7.8	10.3	15.7	17.8	9.1	11.5	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)											
Savings-Investment balance												
External savings	23.1	18.6	20.1	15.8	20.5	13.9	18.2	17.6	17.0	17.6	17.2	16.6
Gross national savings	14.6	15.2	10.2	14.9	8.2	16.0	10.0	12.9	15.2	15.3	16.2	16.1
Of which: government savings	6.9	5.9	3.8	5.1	3.3	5.1	5.8	6.1	8.6	8.4	9.4	9.2
private savings	7.6	9.3	6.4	9.8	4.8	10.9	4.2	6.8	6.6	7.0	6.8	6.8
Gross investment	37.7	33.8	30.2	30.7	28.6	29.9	28.1	30.5	32.2	32.9	33.4	32.6
Of which: public investment [1]	6.7	4.8	5.0	6.5	4.1	6.9	7.2	6.7	7.5	7.5	7.9	7.9
private investment	31.0	29.0	25.2	24.2	24.5	23.0	20.9	23.8	24.7	25.4	25.5	24.7
Private consumption	50.8	47.6	47.1	42.8	50.9	43.1	47.6	47.6	47.9	48.0	47.9	48.0
	(Percent of GDP)											
Government budget												
Total revenue, excluding grants	34.3	33.4	36.6	38.1	35.6	37.0	38.0	35.6	35.4	35.4	35.2	35.1
Expenditure and net lending	34.6	32.8	38.1	40.3	36.9	39.5	40.2	37.3	36.4	36.0	35.7	34.7
Current expenditure	28.0	28.0	33.1	33.8	32.7	32.6	32.9	30.6	28.8	28.5	27.9	27.7
Capital expenditure [1]	6.6	4.8	5.0	6.5	4.1	6.9	7.2	6.7	7.5	7.5	7.9	7.2
Overall balance, including grants	2.1	0.9	-1.4	0.8	0.0	-0.7	-0.3	-0.4	-0.1	0.1	0.3	0.5
Program primary balance	4.9	4.3	3.4	3.0	3.0	2.5	3.0	2.5	2.5	2.5	2.5	2.5
Total government and government-guaranteed debt [2]	74.6	69.9	72.7	66.9	67.2	62.7	62.6	58.0	53.0	48.6	44.4	40.6
Domestic (including debt issued for monetary purposes)	33.5	34.8	40.4	37.0	36.8	34.4	33.4	30.8	27.4	24.6	21.7	18.3
of which: Monetary debt	11.0	13.4	16.2	13.9	11.4	11.8	9.5	8.0	6.8	5.6	4.5	3.6
External	41.1	35.1	32.2	29.9	30.4	28.3	29.2	27.1	25.6	24.0	22.7	22.3
External sector												
Current account balance including official transfers (in percent of GDP)	-23.1	-18.6	-20.1	-15.8	-20.5	-13.9	-18.2	-17.6	-17.0	-17.6	-17.2	-16.6
Total external debt outstanding (millions of U.S. dollars) [3]	1,588	1,375	1,404	1,462	1,500	1,516	1,559	1,599	1,647	1,715	1,792	1,888
(percent of GDP)	118.2	99.9	98.3	98.4	100.1	96.7	99.7	97.1	95.1	93.7	93.1	93.7
Terms of trade (-=deterioration)	-0.1	3.1	3.0	-0.4	-1.6	0.2	-1.9	1.0	0.2	0.0	0.0	0.0
Real effective exchange rate (average, percent change)	-3.2	11.6	0.1	...	-5.2	...	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	462.9	536.8	522.6	526	546	505	524	548	578	633	672	696
Months of imports, c.i.f.	3.9	4.3	3.7	4.0	3.7	3.8	3.4	3.3	3.2	3.4	3.5	3.4
In percent of Assessing Reserve Adequacy (ARA) metric	141.8	181.7	181.6	165.8	180.6	162.9	169.7	173.6	178.4	189.4	197.9	198.8
Exchange rate												
Seychelles rupees per US$1 (end-of-period)	14.0	13.2	13.5	...	13.8	...	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	12.7	13.3	13.3	...	13.6	...	...	...	...	...	...	...

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.
[3] Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2014-23

	2014 Est.	2015 Est.	2016 Est.	2017 Prel.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
	(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance (+ surplus; - deficit)	-310	-256	-286	-307	-284	-290	-295	-322	-330	-334
(percent of GDP)	-23.1	-18.6	-20.1	-20.5	-18.2	-17.6	-17.0	-17.6	-17.2	-16.6
Balance of goods and services (+ surplus; - deficit)	-211	-124	-146	-176	-124	-124	-121	-145	-135	-131
Exports of goods	539	449	459	535	533	560	605	651	667	694
Of which: oil re-exports	193	147	131	150	183	176	183	187	195	204
Of which: tuna exports	318	239	270	268	268	298	331	368	372	379
Imports of goods	1,081	922	991	1,155	1,208	1,285	1,368	1,476	1,541	1,628
Of which: oil imports	282	170	162	190	282	286	305	328	264	275
FDI-related	91	80	112	192	102	114	124	159	187	203
grants- and loans-related	84	63	93	80	81	83	84	82	93	92
other	624	609	624	692	744	802	855	907	997	1,057
Exports of services	834	848	894	998	1,104	1,180	1,267	1,347	1,423	1,506
Of which: tourism earnings[1]	398	392	414	483	553	597	656	699	751	792
Imports of services	504	498	507	555	552	580	626	667	685	703
Balance on primary income (+ surplus; - deficit)	-102	-105	-133	-136	-138	-141	-146	-147	-162	-168
Of which: interest due	42	27	40	25	42	38	40	41	41	39
transfers of profits and dividends	16	18	19	17	16	17	18	19	19	19
Balance on secondary income (+ surplus; - deficit)	3	-27	-8	6	-23	-25	-28	-31	-33	-35
Of which: general government, net	57	38	50	42	28	27	28	28	28	28
Capital account	39	37	54	52	39	34	25	23	24	23
Financial account	258	271	237	276	230	287	308	360	351	339
Direct investment, net [1]	216	148	182	270	167	179	189	239	275	296
Abroad	-71	-5	-4	-6	-6	-6	-6	-6	-6	-6
In Seychelles	145	144	178	264	161	173	183	234	270	292
Of which: offshore sector	0	0	0	0	0	0	0	0	0	0
Portfolio investment, net	-13	36	-52	-57	-100	-95	-68	-12	-12	-2
Other investment, net	55	86	107	63	162	203	186	133	88	45
Government and government-guaranteed	22	-14	-35	-16	2	6	10	1	1	11
Disbursements	21	0	5	5	27	34	50	48	61	61
Project loans	3	0	5	0	27	34	50	48	61	61
Program loans	27	10	10	15	0	0	0	0	0	0
Amortization	-16	-24	-54	-19	-33	-33	-41	-45	-54	-44
Private sector	32	100	142	80	161	197	176	132	86	34
Net errors and omissions	50	21	-18	-1	0	0	0	0	0	0
Overall balance	36	72	5	22	-16	31	38	61	44	28
Financing	-36	-72	13	-23	16	-31	-38	-61	-44	-28
Change in net international reserves (increase: –)	-36	-72	13	-23	16	-31	-38	-61	-44	-28
Change in gross official reserves (increase: –)	-38	-74	14	-24	22	-24	-31	-55	-39	-24
Liabilities to IMF, net	1	2	-1	2	-7	-7	-8	-6	-5	-4
Other net foreign assets (increase: –)	0	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	1	0	0	0	0	0	0
Memorandum items:	(Percent of GDP, unless otherwise indicated)									
Exports G&S growth, percent	9.2	-5.5	4.3	13.3	6.7	6.3	7.6	6.7	4.6	5.3
Tourism growth, percent	-7.6	-1.3	5.4	16.7	14.5	8.1	9.9	6.6	7.3	5.5
Exports of goods volume growth, percent	-4.7	-12.1	8.7	0.5	1.2	7.0	7.1	7.3	1.7	2.3
Imports G&S growth, percent	17.5	-10.3	5.5	14.1	3.0	5.9	6.9	7.5	3.9	4.7
Imports of goods volume growth, percent	8.4	0.2	14.4	9.7	-0.8	6.5	7.0	7.7	4.3	4.7
Exports G&S, percent of GDP	102	94	94.77	102	105	106	108	109	109	109
Imports G&S, percent of GDP	118	103	105	114	113	113	115	117	116	116
FDI, percent of GDP [2]	16.1	10.8	12.8	18.0	10.7	10.9	10.9	13.1	14.3	14.7
Gross official reserves (stock, e.o.p.)	463	537	523	546	524	548	578	633	672	696
(Months of imports of goods & services)	3.9	4.3	3.7	3.7	3.4	3.3	3.2	3.4	3.5	3.4
Percentage of IMF reserve adequacy metric	142	182	182	181	170	174	178	189	198	199
Government and government-guaranteed external debt	501	489	454	450	452	444	442	435	433	446
(Percent of GDP)	37.3	35.5	31.8	30.0	28.9	27.0	25.5	23.8	22.5	22.1
GDP (Millions of U.S. dollars)	1,343	1,377	1,427	1,498	1,564	1,646	1,732	1,830	1,924	2,014

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

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

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

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

	2014	2015	2016	2017	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018	2019	2020
	Act.	Act.	Act.	Act.	Proj.				Proj.	Proj.	Proj.
	(Millions of Seychelles rupees)										
Total revenue and grants	6,413	6,276	7,205	7,448	1,771	2,236	2,316	2,406	8,728	8,671	9,030
Total revenue	5,870	6,132	6,965	7,275	1,701	2,132	2,255	2,236	8,324	8,330	8,819
Tax	5,294	5,557	6,188	6,600	1,582	1,842	1,936	1,854	7,214	7,453	7,903
Personal income tax	878	948	939	900	222	217	204	199	842	850	903
Trade tax	376	326	359	285	70	76	86	93	326	323	348
Excise tax	858	962	1,144	1,312	325	326	342	375	1,367	1,413	1,495
Goods and services tax (GST) / VAT [2]	1,803	1,803	1,996	2,151	466	619	612	647	2,343	2,488	2,644
Business tax [3]	782	757	1,039	1,364	340	447	486	266	1,539	1,546	1,633
Corporate Social Responsibility Tax (CSR) [3]	84	79	87	95	25	24	27	25	102	108	114
Marketing Tourism Tax (MTT) [3]	40	45	45	60	13	16	16	18	64	67	71
Other	472	637	581	434	120	116	163	231	631	658	695
Nontax	576	575	777	675	119	290	319	382	1,111	877	915
Fees and charges	347	322	403	349	75	139	108	105	426	252	266
Dividends from parastatals	151	228	330	280	21	137	171	220	550	481	497
Other	78	25	44	45	23	15	40	57	134	144	153
External grants	543	144	240	173	70	104	60	170	404	341	211
Expenditure and net lending	5,981	6,057	7,277	7,457	1,882	2,128	2,147	2,644	8,801	8,757	9,058
Current expenditure	4,798	5,130	6,295	6,689	1,657	1,768	1,865	1,927	7,218	7,178	7,180
Primary current expenditure	4,393	4,566	5,581	6,058	1,497	1,635	1,678	1,678	6,488	6,500	6,527
Wages and salaries [4]	1,229	1,753	2,002	2,075	599	580	602	639	2,419	2,425	2,424
Goods and services [4]	1,288	2,126	2,489	2,562	531	732	744	757	2,764	2,746	2,767
Transfers [4]	1,855	659	1,063	1,380	351	312	325	282	1,270	1,295	1,301
Social program of central government	343	79	130	114	22	31	33	67	153	151	151
Transfers to public sector from central government	1,070	123	80	97	6	5	5	5	22	23	23
Benefits and programs of Social Security Fund	442	458	853	1,169	323	276	287	210	1,096	1,122	1,127
Other	21	29	27	41	16	11	7	0	35	35	35
Interest due	404	564	714	631	160	133	187	249	730	677	653
Foreign interest	175	181	190	218	84	48	98	-1	229	246	266
Domestic interest	229	383	524	413	76	85	89	251	501	432	387
Capital expenditure	1,011	801	909	747	171	259	280	708	1,418	1,299	1,370
Domestically financed	656	651	644	564	97	121	168	412	798	746	939
Foreign financed	355	150	265	183	74	138	111	296	620	553	431
Net lending	120	77	35	0	49	96	-2	3	145	255	484
Contingency	53	49	38	21	5	5	4	6	20	25	25
Primary balance	836	783	642	621	49	241	356	12	657	592	624
Overall balance, commitment basis [5]	431	219	-72	-9	-111	108	169	-238	-73	-86	-29
Change in float	-70	-48	-201	3	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	361	171	-273	-7	-111	108	169	-238	-73	-86	-29
Financing	-361	-171	273	7	111	-108	-169	238	73	86	29
Foreign financing	8	-84	-304	-407	-84	-56	-28	80	-87	18	130
Disbursements	230	102	287	11	53	61	90	177	382	483	714
Project loans	4	6	25	11	53	61	90	177	382	483	714
Program/budget support	226	96	262	0	0	0	0	0	0	0	0
Scheduled amortization	-222	-186	-591	-418	-137	-117	-117	-97	-469	-465	-584
Of which Paris Club buy-back	…	…	-269	…	…	…	…	…	…		
Domestic financing, net	-412	130	578	316	163	-92	-166	105	10	-32	-178
Bank financing	-873	-172	389	419	-175	-43	-133	395	44	-29	-161
CBS	-1,076	-488	-191	438	-156	63	50	294	250	200	200
Commercial banks	203	316	579	-19	-19	-106	-183	102	-206	-229	-361
Nonbank financing	461	302	190	-103	338	-49	-34	-290	-34	-3	-18
Privatization and long-term lease of fixed assets	77	46	76	82	32	40	25	53	150	100	77
Transfer of SSF deposits to SPF	…	-176	…	…	…	…	…	…	…		
Statistical discrepancy	-34	-86	-77	16	0	0	0	0	0	0	0
Memorandum item:									0		
Pension Fund contribution	180	196	251	237	0	56	65	130	251	265	278
Pension Fund benefits payment	77	85	91	90	45	58	67	7	177	194	211
Pension Fund operating expenses	21	36	37	31	8	8	9	8	33	34	35
External debt service due	397	367	781	636	221	165	215	96	697	710	850

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

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

[2] VAT replaced GST in January 2013.

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

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

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

Table 3. Seychelles: Consolidated Government Operations, 2014-20[1] (concluded)

	2014	2015	2016	2017	2018					2019	2020
					Q1	Q2	Q3	Q4			
	Act.	Act.	Prel.	Proj.	Proj.				Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)										
Total revenue and grants	37.5	34.2	37.9	36.4	8.1	10.2	10.6	11.0	39.8	37.0	36.3
Total revenue	34.3	33.4	36.6	35.6	7.8	9.7	10.3	10.2	38.0	35.6	35.4
Tax	30.9	30.3	32.5	32.3	7.2	8.4	8.8	8.5	32.9	31.8	31.8
Personal income tax	5.1	5.2	4.9	4.4	1.0	1.0	0.9	0.9	3.8	3.6	3.6
Trade tax	2.2	1.8	1.9	1.4	0.3	0.3	0.4	0.4	1.5	1.4	1.4
Excise tax	5.0	5.2	6.0	6.4	1.5	1.5	1.6	1.7	6.2	6.0	6.0
Goods and services tax (GST) / VAT [2]	10.5	9.8	10.5	10.5	2.1	2.8	2.8	3.0	10.7	10.6	10.6
Business tax	4.6	4.1	5.5	6.7	1.5	2.0	2.2	1.2	7.0	6.6	6.6
Corporate Social Responsibility Tax (CSR)	0.5	0.4	0.5	0.5	0.1	0.1	0.1	0.1	0.5	0.5	0.5
Marketing Tourism Tax (MTT)	0.2	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.3	0.3	0.3
Other	2.8	3.5	3.1	2.1	0.5	0.5	0.7	1.1	2.9	2.8	2.8
Nontax	3.4	3.1	4.1	3.3	0.5	1.3	1.5	1.7	5.1	3.7	3.7
Fees and charges	2.0	1.8	2.1	1.7	0.3	0.6	0.5	0.5	1.9	1.1	1.1
Dividends from parastatals	0.9	1.2	1.7	1.4	0.1	0.6	0.8	1.0	2.5	2.1	2.0
Other	0.5	0.1	0.2	0.2	0.1	0.1	0.2	0.3	0.6	0.6	0.6
External grants	3.2	0.8	1.3	0.8	0.3	0.5	0.3	0.8	1.8	1.5	0.8
Expenditure and net lending	34.9	33.0	38.3	36.5	8.6	9.7	9.8	12.1	40.2	37.4	36.4
Current expenditure	28.0	28.0	33.1	32.7	7.6	8.1	8.5	8.8	32.9	30.6	28.8
Primary current expenditure	25.7	24.9	29.4	29.6	6.8	7.5	7.7	7.7	29.6	27.7	26.2
Wages and salaries [3]	7.2	9.6	10.5	10.2	2.7	2.6	2.7	2.9	11.0	10.3	9.7
Goods and services [3]	7.5	11.6	13.1	12.5	2.4	3.3	3.4	3.5	12.6	11.7	11.1
Transfers [3]	10.8	3.6	5.6	6.8	1.6	1.4	1.5	1.3	5.8	5.5	5.2
Social program of central government	2.0	0.4	0.7	0.6	0.1	0.1	0.2	0.3	0.7	0.6	0.6
Transfers to public sector from central government	6.2	0.7	0.4	0.5	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Benefits and programs of Social Security Fund	2.6	2.5	4.5	5.7	1.5	1.3	1.3	1.0	5.0	4.8	4.5
Other	0.1	0.2	0.1	0.2	0.1	0.1	0.0	0.0	0.2	0.1	0.1
Interest due	2.4	3.1	3.8	3.1	0.7	0.6	0.9	1.1	3.3	2.9	2.6
Foreign interest	1.0	1.0	1.0	1.1	0.4	0.2	0.4	0.0	1.0	1.0	1.1
Domestic interest	1.3	2.1	2.8	2.0	0.3	0.4	0.4	1.1	2.3	1.8	1.6
Capital expenditure	5.9	4.4	4.8	3.7	0.8	1.2	1.3	3.2	6.5	5.5	5.5
Domestically financed	3.8	3.6	3.4	2.8	0.4	0.6	0.8	1.9	3.6	3.2	3.8
Foreign financed	2.1	0.8	1.4	0.9	0.3	0.6	0.5	1.4	2.8	2.4	1.7
Net lending	0.7	0.4	0.2	0.0	0.2	0.4	0.0	0.0	0.7	1.1	1.9
Contingency	0.3	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Primary balance	4.9	4.3	3.4	3.0	0.2	1.1	1.6	0.1	3.0	2.5	2.5
Overall balance, commitment basis [4]	2.5	1.2	-0.4	0.0	-0.5	0.5	0.8	-1.1	-0.3	-0.4	-0.1
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	-0.4	-0.3	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	2.1	0.9	-1.4	0.0	-0.5	0.5	0.8	-1.1	-0.3	-0.4	-0.1
Financing	-2.1	-0.9	1.4	0.0	0.5	-0.5	-0.8	1.1	0.3	0.4	0.1
Foreign financing	0.0	-0.5	-1.6	-2.0	-0.4	-0.3	-0.1	0.4	-0.4	0.1	0.5
Disbursements	1.3	0.6	1.5	0.1	0.2	0.3	0.4	0.8	1.7	2.1	2.9
Project loans	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.8	1.7	2.1	2.9
Program/budget support	1.3	0.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-1.3	-1.0	-3.1	-2.0	-0.6	-0.5	-0.5	-0.4	-2.1	-2.0	-2.3
Of which Paris Club buy-back	...	...	-1.4	...	...	...	...	...	...		
Domestic financing, net	-2.4	0.7	3.0	1.5	0.7	-0.4	-0.8	0.5	0.0	-0.1	-0.7
Bank financing	-5.1	-0.9	2.0	2.0	-0.8	-0.2	-0.6	1.8	0.2	-0.1	-0.6
CBS	-6.3	-2.7	-1.0	2.1	-0.7	0.3	0.2	1.3	1.1	0.9	0.8
Commercial banks	1.2	1.7	3.0	-0.1	-0.1	-0.5	-0.8	0.5	-0.9	-1.0	-1.4
Nonbank	2.7	1.6	1.0	-0.5	1.5	-0.2	-0.2	-1.3	-0.2	0.0	-0.1
Privatization and long-term lease of fixed assets	0.5	0.3	0.4	0.4	0.1	0.2	0.1	0.2	0.7	0.4	0.3
Transfer of SSF deposits to SPF	...	-1.0	...	...	...	...	...	...	...		
Statistical discrepancy	-0.2	-0.5	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Nominal GDP (millions of Seychelles Rupees)	17,119	18,340	19,014	20,444	21,914	21,914	21,914	21,914	21,914	23,428	24,890
Transfer of assets of SSF to SPF											
Pension Fund contribution	1.1	1.1	1.3	1.2	0.0	0.3	0.3	0.6	1.1	1.1	1.1
Pension Fund benefits payment	0.4	0.5	0.5	0.4	0.2	0.3	0.3	0.0	0.8	0.8	0.8
Pension Fund operating expenses	0.1	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.2	0.1	0.1
Public domestic debt [5]	31.7	32.8	36.8	33.2	...	...	...	29.9	29.9	27.0	23.8
Excluding t-bills issued for monetary purposes	20.7	19.5	20.7	21.8	...	...	...	20.4	20.4	18.9	17.1
Publicly guaranteed domestic debt	1.8	1.9	3.6	3.6	...	...	...	3.5	3.5	3.9	3.6

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

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

[2] VAT replaced GST in January 2013.

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

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

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

Table 4. Seychelles: Monetary Survey and Central Bank Account, 2014-18

	2014	2015	2016	2017				2018			
				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.		Proj.	
				(Millions of Seychelles rupees)							
Depository corporations survey											
Net foreign assets	9,657	9,349	9,817	10,462	10,406	11,027	10,754	11,640	11,475	11,895	11,492
Central bank	5,906	6,506	6,550	6,953	6,862	6,941	6,982	7,133	6,905	6,865	6,823
Deposit money banks	3,751	2,844	3,267	3,510	3,544	4,086	3,771	4,507	4,570	5,030	4,669
Net domestic assets	2,169	2,823	3,831	3,463	4,004	4,197	5,134	4,683	4,953	5,073	5,568
Domestic credit	5,818	6,229	7,110	6,853	7,159	7,241	8,476	8,419	8,380	8,638	9,221
Net claims on the government	1,414	1,309	1,791	1,538	1,631	1,260	2,209	2,034	1,991	1,858	2,253
Of which: Government deposits at the Central Bank	-2,676	-3,164	-3,355	-3,219	-3,545	-3,807	-3,355	-3,072	-3,009	-2,959	-2,667
Of which: Change in monetary debt [1]	-1,076	-488	-191	-176.7	300.6	-355.8	670.0	-156.0	62.5	50.0	293.5
Credit to the economy	4,404	4,920	5,319	5,315	5,529	5,981	6,267	6,385	6,389	6,780	6,968
Of which: credit to the private sector	4,307	4,644	5,122	5,127	5,302	5,764	6,032	6,139	6,143	6,534	6,723
Other items, net	-3,649	-3,406	-3,279	-3,390	-3,155	-3,045	-3,342	-3,736	-3,427	-3,565	-3,653
Broad money	11,825	12,173	13,648	13,926	14,410	15,224	15,888	16,322	16,428	16,968	17,060
Currency in circulation	874	932	1,026	996	1,009	1,059	1,116	1,142	1,187	1,261	1,335
Foreign currency deposits	4,950	4,732	5,029	5,222	5,464	6,139	6,115	6,550	6,534	6,911	6,784
Local currency deposits	6,002	6,509	7,592	7,708	7,937	8,025	8,657	8,631	8,708	8,796	8,941
Central bank											
Net foreign assets	5,906	6,506	6,550	6,953	6,862	6,941	6,982	7,133	6,905	6,865	6,823
Foreign assets	6,498	7,062	7,059	7,523	7,454	7,536	7,560	7,715	7,490	7,452	7,414
Foreign liabilities	592	556	508	571	592	595	578	582	584	588	591
Net domestic assets	-3,519	-3,892	-3,558	-4,126	-3,667	-3,521	-3,423	-3,325	-3,487	-3,219	-3,047
Domestic credit	-2,475	-3,301	-2,855	-3,402	-2,988	-2,853	-2,629	-2,563	-2,692	-2,373	-2,168
Government (net)	-1,491	-1,979	-2,170	-2,346	-2,046	-2,401	-1,731	-1,887	-1,824	-1,774	-1,481
Commercial banks	-885	-1,180	-610	-871	-853	-270	-705	-500	-692	-422	-510
Other (parastatals)	-100	-142	-75	-185	-90	-182	-192	-176	-176	-176	-176
Other items, net	-1,044	-591	-703	-724	-679	-668	-794	-763	-794	-847	-879
Reserve money	2,388	2,614	2,992	2,826	3,194	3,420	3,559	3,806	3,419	3,645	3,776
Currency in circulation	874	932	1,026	996	1,009	1,059	1,116	1,142	1,187	1,261	1,335
Commercial bank reserves (includes cash in vault)	1,514	1,682	1,966	1,830	2,185	2,361	2,443	2,664	2,232	2,384	2,442
Of which: vault cash	144	165	193	155	151	127	212	...	...	...	...
Of which: excess reserves (excl. bank vault cash)	-71	-67	9	-123	190	248	0	...	...	...	...
Of which: required reserves in foreign currency [2, 3]	555	654	703	701	722	827	873	920	928	941	952
required reserves in domestic currency [2]	886	930	1,061	1,097	1,122	1,158	1,358	1,527	1,262	1,302	1,335
Memorandum items:											
Gross official reserves (millions of U.S. dollars) [4]	463	537	523	551	547	552	546	554	535	530	524
Foreign currency deposits (millions of U.S. dollars)	353	360	372	383	401	449	442	471	467	491	479
Broad money growth (12–month percent change)	26.6	2.9	12.1	7.2	13.2	14.3	16.4	17.2	14.0	11.5	7.4
Credit to the private sector (12–month percent change)	26.2	7.8	10.3	8.1	11.2	15.4	17.8	19.7	15.9	13.4	11.5
Reserve money (end-of-period; 12–month percent change)	13.9	9.5	14.5	4.9	13.5	18.9	18.9	34.7	7.0	6.6	6.1
Reserve money (daily average over quarter; 12–month perce	-14.5	7.2	10.4	8.5	9.9	15.3	19.0	...	...	...	...
Money multiplier (broad money/reserve money)	5.0	4.7	4.6	4.9	4.5	4.5	4.5	4.3	4.8	4.7	4.5
Velocity (GDP/broad money; end-of-period)	1.4	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3

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

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

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

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

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

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2012-2017

	2012	2013	2014	2015				2016				2017			
	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(Percent, end-of-period)														
Capital adequacy															
Regulatory capital to risk weighted assets	26.7	26.7	21.7	23.3	23.3	24.8	25.5	26.2	25.2	25.2	26.6	25.7	23.4	22.4	23.5
Regulatory tier 1 capital to risk weighted assets	19.3	21.0	16.3	16.4	18.9	19.6	18.1	17.4	20.9	20.9	20.4	18.3	19.7	18.3	18.1
Capital to assets (net worth)	10.3	9.7	8.5	9.5	10.2	11.3	11.0	11.2	11.3	11.3	11.8	11.5	10.8	10.7	11.0
Net tangible capitalization [2]	10.4	9.8	8.6	9.6	10.4	11.5	11.2	11.4	11.5	11.5	12.0	13.6	11.0	10.9	11.2
Asset quality															
Foreign exchange loans to total loans	18.7	18.7	23.8	26.0	26.3	26.6	28.6	28.6	27.0	27.0	25.0	24.7	21.6	27.2	27.7
Non-performing loans to gross loans	9.3	9.4	8.2	7.1	7.2	7.7	7.6	8.5	7.8	7.8	6.8	7.0	6.9	6.5	7.1
Provision as percentage of non-performing loans	29.5	39.2	43.9	46.0	45.5	42.0	41.1	37.2	40.7	40.7	37.4	36.0	35.6	35.4	31.9
Provisions as percentage of total loans	2.7	3.7	3.6	3.3	3.3	3.2	3.1	3.2	3.2	3.2	2.5	2.5	2.5	2.3	2.3
Earnings and profitability															
Return on assets (annualized)	3.1	1.9	3.3	3.5	3.2	4.6	3.8	4.0	3.8	3.8	3.8	3.4	4.0	3.3	3.9
Return on equity (annualized)	29.8	19.6	38.2	37.5	32.1	41.5	34.7	35.1	34.8	34.8	32.7	29.8	36.8	30.6	35.1
Interest margin to gross income	62.7	56.6	57.5	56.9	61.7	67.3	60.1	59.4	63.4	63.4	62.7	61.7	61.6	61.7	53.1
Noninterest expense to gross income	56.6	65.1	50.3	43.7	43.2	42.1	52.9	43.4	45.7	45.7	45.5	51.4	51.6	48.7	49.7
Net interest margin (annualized) [3]	4.1	3.2	2.8	3.4	3.8	4.3	4.3	4.3	4.3	4.3	4.6	4.3	5.0	4.0	4.1
Net noninterest margin (annualized) [4]	0.0	-0.4	0.0	-0.2	-0.3	-0.4	-0.4	-0.2	-0.6	-0.6	-1.0	-0.9	-1.1	-0.8	-0.2
Expense to income	46.4	54.5	52.6	50.6	51.1	50.1	50.3	49.9	51.9	51.9	55.2	57.1	57.5	56.0	54.2
Interest expense to gross income	11.8	15.3	10.7	11.5	11.2	11.0	11.1	12.9	13.0	13.0	10.7	13.1	13.8	12.3	12.5
Liquidity															
Core liquid assets to total assets [5]	39.6	41.6	40.8	41.0	35.4	31.1	33.0	33.8	30.6	30.6	28.6	28.7	40.2	38.8	38.2
Broad liquid assets to total assets [6]	52.0	54.7	54.2	54.9	52.4	47.0	49.1	48.8	48.2	48.2	47.9	47.2	57.2	55.2	55.4
Liquid assets (broad) to short term liabilities	58.1	61.2	60.0	61.2	59.0	54.2	55.9	55.8	55.2	55.2	55.0	54.1	65	62.4	62.4
Liquid assets (broad) to total liabilities	58.0	60.6	59.2	60.7	58.4	53.0	55.2	55.0	54.3	54.3	54.3	53.4	64.1	61.8	62.2
Liquid assets to deposit liabilities	62.5	64.3	62.7	64.1	62.2	56.7	59.5	59.6	58.0	58.0	57.8	57.1	69.1	65.5	65.7
Foreign exchange exposure															
Net open foreign exchange position to capital	7.9	8.9	8.8	3.2	-4.2	-3.0	1.9	5.9	3.1	3.1	3.0	0.5	-1.9	-0.2	0.0

Source: Central Bank of Seychelles.

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

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

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

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

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

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

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

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

Source: IMF

Annex I. Seychelles' Climate Change Policies: Updates to the 2017 Climate Change Policy Assessment[1]

1. The authorities announced in 2015 ambitious long-term plans to reduce the country's vulnerability to climate change. In their 2015 action plan to meet their commitment under the Paris Agreement (Nationally Determined Contribution (NDC) 2015), the authorities estimated the total cost of their climate change mitigation and adaptation actions at $604 million over the next 15–20 years. According to the findings of the WB-FAD TA mission held in the context of the 2017 Climate Change Policy Assessment, the authorities' estimated total cost is likely to be a lower bound.[2]

2. The authorities have made progress since the 2017 Climate Change Policy Assessment in articulating specific projects for mitigation and adaptation actions and in identifying their financing. In 2017, the authorities began implementing several climate change adaptation projects, costing around $10 million for three-year period, including water and sanitation security, coastal protection, and public education projects. The SWIOFish3 project, aimed at improving the management of marine areas and fisheries and strengthening fisheries value chains in Seychelles, has been launched recently.[3] Furthermore, the government has recently identified the financing of several climate change mitigation projects, such as the construction of solar power plants (PS ¶19). So far, financing of around $53 million for climate change related investments has been identified and incorporated in the authorities' PSIP (see text table below). Meanwhile, among the large-scale infrastructure projects announced in the 2018 SONA, construction of Grand Anse Dam and conversion of electricity generation from heavy fuel to LNG, whose cost totaling $296 million over the medium term, are part of the climate change action plans. Conversion to LNG would considerably reduce the carbon emission (mitigation) while the Grand Anse Dam will strengthen water security in the context of climate change (adaptation). The authorities are committed to financing these large projects by relying on PPPs and external project grants with a view to preserving their primary surplus and debt reduction targets under the PCI.

[1] Prepared by Tetsuya Konuki

[2] See Country Report 17/160. The Climate Change Policy Assessment was conducted in the context of the 2017 Article IV consultation.

[3] See Annex V of Country Report No. 17/401 for the details of SWIOFish3 project.

Climate Change Related Projects Identified by the Authorities

	Project period	Included in the PSIP	Estimated cost	Financing
SWIOFish3 Project	2017–23	Yes	$25.3 million	$15 million by Blue Bond
				$5 million by World Bank's GEF grant
				$5.3 million by World Bank loan
Solar Power Field Project	2018 onwards	Yes	$8.5 million	Loan from Abu Dhabi Fund for Development
Utility scale power plant with battery storage	2018–22	Yes	$4 million	Line of credit from the Government of India
Solar led street lights	2018–22	Yes	$0.6 million	Line of credit from the Government of India
Photovoltaic rooftop on governemnt buildings	2018–22	Yes	$3 million	Line of credit from the Government of India
Photovoltaic plant project	2019 onwards	Yes	$0.3 million 1/	African Legal Support Facility grant
Other projects already started in 2017	2017–19	Yes	$9.8 million	$2.3 million by domestic financing
				$2.4 million by World Bank's GEF grant
				$5.1 million by AfDB loan
Grand Anse Dam	2020 onwards	Not yet	$80 million	PPP and external project grant (Government's pledge)
Conversion of electricity generation to LNG	2019 onwards	Not yet	$216 million	PPP and external project grant (Government's pledge)
		Total	$347.6 million	

Source: Seychelles authorities

1/ Project design and legal advisory service only.

Annex II. Toward a Successful Transition to a Full-fledged Interest Rate-based Monetary Policy Framework[1]

1. **In July 2017, the Central Bank of Seychelles (CBS) re-introduced the interest rate corridor to make its monetary policy framework more forward-looking.** In 2014, CBS introduced the overnight standing facilities (Standing Deposit Facilities, SDF; and Standing Credit Facility, SCF), the rates of which formed the basis of the interest rate corridor. [2] The re-introduction of the interest rate corridor aims at reducing interest rate volatility and provide clearer guidance on short-term interest rates through the formalization of overnight standing facilities. Once the interest rate-based framework becomes fully functional, monetary policy would be guided by the CBS' macroeconomic modelling and forecasting framework, and consequently would result in more proactive and open communications on monetary policy intentions.[3] The SDF and SCF rates are reviewed and published on a quarterly basis.

2. **The interest-rate-based framework is not yet fully functional.** So far, banks mainly use the SDF to manage their excess liquidity. The SCF is used less frequently. The quarterly level of reserve money continues to be concurrently determined during the transition period. Overtime, as monetary policy implementation places more emphasis on short-term interest rates, the transmission of interest rates from the CBS to other depository corporations (ODCs) should improve, thus making short-term interest rates more sensitive to monetary policy signals while contributing more effectively towards achieving the CBS' primary objective of promoting domestic price stability. [4] As part of the move to full-fledged interest-rate-based framework is completed, a policy interest rate will need to be announced. Based on discussions with banks and the CBS, the current Deposit (Credit) Auction Arrangements rate(s) is viewed as a possible candidate for a policy rate.

3. **Certain conditions are required to ensure a successful functioning of the interest-rate-based monetary policy framework.** Recent Fund TA report on monetary policy in Seychelles has highlighted the necessary conditions for a swift transition to a full-fledged interest rate based framework. These conditions include: (i) defining short-term interest rates as the operational target; (ii) introducing an interest rate corridor (standing facilities); (iii) having reliable liquidity forecasts; (iv) having unbiased estimate of the Precautionary Liquidity Buffer (PLB); (v)

[1] Prepared by Salifou Issoufou

[2] The standing facilities (Standing Deposit and Credit Facilities) have been in place since 2009. In 2014, the corridor was only considered as facilities to the banks and not aimed at stirring short-term interest rates. Also, the objective then was neither to ensure that short-term interest rates fall within the corridor nor to reduce volatility in short-term interest-rates.

[3] The macroeconomic modeling and forecasting framework continues to be developed. The re-introduction of the corridor is expected to be relatively more effective this time as the CBS' communication with stakeholders has improved and short-term interest rates have been inside the corridor since July 2017. Market participants seem to have now understood that the CBS is transitioning from targeting reserve money to a more forward looking monetary policy with interest rate replacing reserve money as the operating target.

[4] It is worth noting that other issues, such as competition, market instruments, and payment systems, among others, could play a role in the implementation framework.

ensuring transparency in aggregate liquidity conditions; (vi) having competitive liquidity management auctions; (vii) ensuring that the liquidity management auctions are regular and predictable; (viii) having an active money market with observable and reliable interbank interest rates ; and (ix) transmission mechanism from short-term interest rates to bank lending rates. Condition (ii) has been fully implemented and the CBS has made substantial progress towards achieving conditions (i), (iii), (iv), (vii) and (ix). Although some progress (such as the daily provision of data on aggregate liquidity conditions to banks) has been made to improve liquidity management, more work is needed to address the issues of transparency in liquidity conditions, competitive liquidity management auctions and development of an active interbank market. Fund TA in these areas continues to be provided to help the CBS' transition to an interest-rate based (and forward looking) monetary policy framework.

4. In line with Fund TA recommendations, the CBS has developed an action plan aimed at accelerating and facilitating the transition from RM to interest rate as the operating target of monetary policy. The action plan consists of six phases. The first five phases are expected to be completed by end-2018 while the final phase would be completed in the near to medium term as some of the measures contained in phase 6 include upgrading payment systems, which will require more time to implement. Phase 1 concerns revision of the policy underlying the Minimum Reserve Requirement (MRR) by drafting a document that would remove clauses on the penalty for non-compliance with MRR from the CBS Act. The Act should only stipulate a provision to allow for regulation of a MRR penalty.[19] Phases 2 through 5 consist respectively of: (i) finalization of the online portal to promote quicker and more efficient access to standing deposit and credit facilities and implementation of revisions on MRR penalty as well as changes in regulations needed to allow for upgrading the payment systems; (ii) revisions to the liquidity management operations, and communications with stakeholders regarding the monetary policy implementation framework as it pertains to changes in MRR penalty as well as changes in the liquidity forecasting and management operations; and (iii) implementation of the revised operational framework and preparation of micro-level analysis and market intelligence. Fund TA in these areas will continue to support Seychelles' transition to a forward looking monetary policy framework.

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[5] At present, the penalty rate is different for all banks as it primarily depends on the banks' own lending rates. The CBS applies this penalty rate only on the days when the bank was in shortage, i.e. its settlement balances were below its MRR. As a result, the banks lose much of the advantage of the averaging, and the penalty regime is much more punitive than the standard practice. Changing the current regulation would allow for a uniform penalty rate for all the banks. The provision to use the banks' lending rate when determining the penalty rate is written in the Central Bank Act. As a result, the CBS was advised by an IMF TA mission to initiate the removal of this provision and include a provision authorizing the CBS to regulate the penalty regime.

Annex III. Credit Cycle in Seychelles[1]

1. The credit-to-GDP gap ("credit gap") is often used to assess the economic implications of accelerating credit growth. The credit gap is defined as the difference between the credit-to-GDP ratio and its long-term trend. The property of the credit gap as a very useful early warning indicator (EWI) for banking crises was first documented by Borio and Lowe (2002, 2004). Their finding has been subsequently confirmed for a broad array of countries and a long-time span that includes the most recent crisis.

2. In Seychelles, credit booms appear to have been followed by economic downturns over the past ten years. Credit to the private sector has been accelerating in Seychelles in recent years (Figure III.1). In a decade, credit-to-GDP ratio increased from 23 percent at end-2006 to about 30 at end-2017. Over the same period, Seychelles' economy experienced four credit booms (defined as credit-to-GDP ratio above its long-run HP-filtered trend), including the recent boom which started in the first quarter of 2017. The first credit boom preceded the 2008–09 crisis while the second boom immediately followed the same crisis. The third boom occurred between the second quarter of 2013 and the fourth quarter of 2014. Positive credit gaps above a certain threshold become a risk to the banking sector. Borio and Drehmann (2009) suggest credit gap thresholds of 2- and 6-percentage points within which credit booms become a risk to the banking sector. In Seychelles, the credit booms that have preceded economic downturns have either crossed or neared the minimum threshold. The recent credit boom is nearing the minimum threshold raising concerns about a looming economic recession.

3. At the disaggregated level, private sector credit growth has recently been driven by loans to private household and non-profit institutions (NPIs). As shares in total credit to the private sector, loans to the private households and NPIs have increased from 19 percent over 2009-2015 to about 22 percent in 2017. Similarly, building and construction and wholesale and retail trade have seen their share in total loans increase (Figure III.1). These increases came at the expense of loans to the tourism sector, which saw its share in total loans decline from 26 percent over 2009-2015 to about 19 percent in 2017. The recent credit boom, which started in the first quarter of 2017, is driven primarily by credit to private households and NPIs as well as mortgage loans. Discussions with stakeholders suggest that recent increases in salaries (in the form of an across the board 13th month salary) have contributed to the brisk pace of deposit growth, which partly led to the increased credit growth.

4. While some of the rise in credit growth in Seychelles can be attributed to rising income levels, it may have implications for economic activity going forward. Cross-country evidence suggests that periods of easy financial conditions can amplify economic fluctuations and possibly lead to adverse economic outcomes. For example, Jorda and others (2013) show that periods of strong credit growth are typically followed by periods of sluggish economic activity. Drehmann and others (2012) and Claessens and others (2011) further show that the

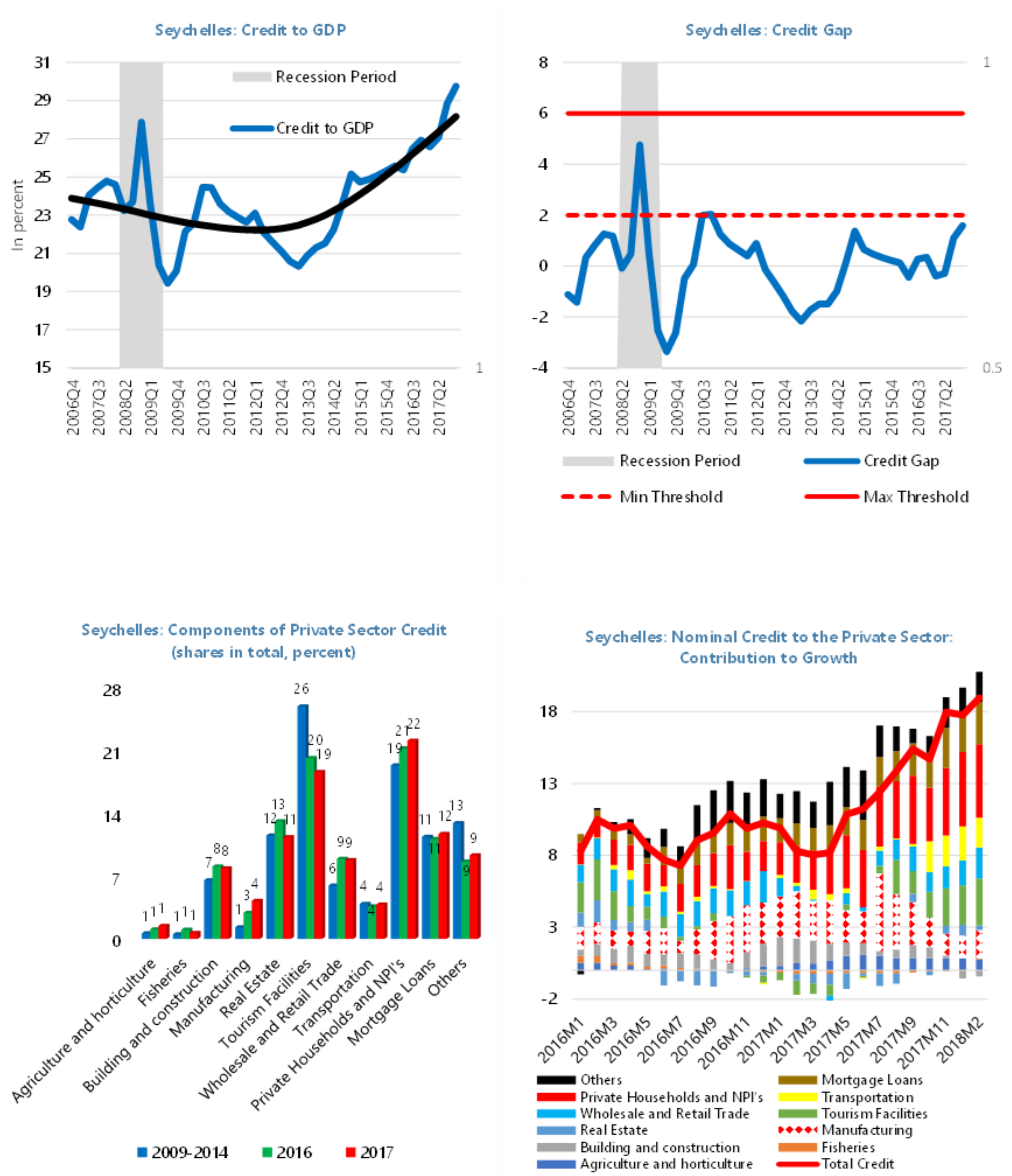
[1] Prepared by Salifou Issoufou

duration and amplitude of recessions and recoveries are influenced by the strength and intensity of financial cycles, with downturns being longer and deeper if accompanied by disruptions in financial and housing markets. In the case of Seychelles, credit booms have tended to be accompanied by 2 consecutive quarter-on-quarter economic contractions coinciding with slowdowns in growth in credit to the private sector.[2]

5. The recent tightening of monetary policy is expected to help curb credit growth and dampen the impact of exchange rate depreciation on inflation. As Seychelles imports about 90 percent of its consumed products, credit growth translates into wider current account deficits and higher exchange rate depreciation pressures. Exchange rate depreciation has been shown to impact inflation in Seychelles. Therefore, the recent precautionary tightening of monetary policy would help reduce credit growth and lower demand-pull inflationary pressures.

[2] The only recession in Seychelles, when y-o-y real GDP growth was negative for at least 2 consecutive quarters over 2006-2017, is shown in Figure III.1. Not shown in Figure III.1, however, are instances of 2 consecutive quarter-on-quarter contractions (not a recession, by definition), which occurred following the second and third identified credit booms.

Figure 1. Seychelles: Credit to the Private sector, 2006-2017



Source: Seychelles' authorities; and IMF staff's calculations.

Appendix I. Program Statement

Victoria,
June 05 2018

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

Madame Managing Director:

Following is an updated Program Statement (PS) that provides a description of Seychelles' recent economic and financial performance and policies for rest of 2018.

Macroeconomic performance continued to be strong in 2017 with reserves and the primary surplus exceeding targets. The budget performance in 2017 was slightly better than programmed, and the primary surplus reached 3.0 % of GDP, in line with the initial target. In 2018, the primary surplus is expected to reach 3.0 % of GDP versus 2.5% programmed, mainly on account of a revenue overperformance of 1 % of GDP, which will be partly offset by higher current and capital expenditure (0.5 % of GDP). However, the Government will ensure we save part of the excess revenue to support our debt reduction strategy. The growth outlook for 2018 remains positive, supported by the tourism sector

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

Based on our performance under the program and the sustainability of our planned policies, we are requesting that the IMF Executive Board complete the first review of the PCI-supported program and approve the proposed modification of the end-June 2018 and end-December 2018 quantitative target for reserve money.

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

Sincerely yours,

Ambassador Maurice J Loustau Lalanne /s/
Minister of Finance, Trade, Investment and Economic Planning

Caroline Abel /s/
Governor,
Central Bank of Seychelles

Attachment: Technical Memorandum of Understanding (TMU)

Updated Program Statement for the Period December 2017–December 2020

1. This updated Program Statement describes Seychelles' recent economic and financial performance as well as our policies for 2018, and updates the Program Statement dated November 28, 2017.

2. The 2014-17 program aimed at strengthening the reform program with measures to reinforce public financial management, combat tax evasion, improve the governance of public enterprises, and modernize the financial system. Key measures included the adoption of a medium term fiscal framework, the introduction of performance program based budgeting in some ministries, and the strengthening of tax administration, in particular at customs. Governance of the public enterprises was improved with governance audits and operational assessment of the six major enterprises, carried out in 2016-2017 with the World Bank assistance. To strengthen the financial system, a new Financial Service Authority (FSA) was established in 2014 with the task to supervise the non-bank financial sector, including global business corporation, and in 2016 a new international business corporation act was prepared to bring practices of the offshore sector in line with international best practices. In the banking and payments area, core elements of Basel II and III are in the process of being adopted. Further to the studies that were undertaken with regards to the establishment of a CSD, a RTGS and a national payments switch, it was deemed highly desirable to establish the said systems. Work is therefore ongoing to begin implementation of the system as of 2019.

A. Macroeconomic Performance in 2017 and Outlook for 2018

3. Economic performance in 2017 was overall satisfactory, with real GDP growth rate estimated at 5.3 percent, and an average consumer price inflation (year on year) of 2.9%, with end -year CPI increase of 3.5 %. Real GDP growth was sustained by a good performance of the tourism sector, with tourist arrivals growing by 15%, and positive performance of manufacturing (beverages and tuna can production), telecommunications and the financial and insurance sector.

4. Consumer price inflation was higher in the second part of the year because of the rise of international fuel price. The external current account deficit declined slightly, on account of higher tourism earnings and tuna exports, despite an increase in the value of fuel import, reflecting higher international prices. Gross international reserves rose more than envisaged under the program. End-December 2017 NIR and RM targets were met by a comfortable margin.

5. In 2018 the real GDP growth rate is expected to slow down to 3.6%, due to the moderation of tourism arrival, and fishery sector growth.

6. The CPI is expected at 4.4 % on an annual average basis in 2018 (5.2% year-on-year (yoy) at end-2018), reflecting higher fuel price on average during the year, and some adjustment of public utility tariffs. The external current account is expected to be broadly stable as a ratio to GDP, despite higher international fuel prices.

7. Financial soundness indicators of commercial banks continue to be sound, with the minimum capital–asset ratio exceeded by high margin. However non-performing loans at the Development Bank of Seychelles, which offers a lending scheme to small and medium enterprises at a subsidized rate, showed a marked deterioration in some of the Government schemes that DBS offered like Agriculture Development Fund and Fisheries Development Fund. The two schemes are offered by DBS on behalf of the Government. Government has been working with DBS in the past two months to review the existing policy to ensure that barriers that exists to prevent the businesses to operate will be minimize. However, DBS' own lending portfolio non-performing loans are at par with other commercial banks.

B. Budgetary Performance in 2017 and Outlook for 2018

8. The budget performance in 2017 was slightly better than programmed, and the primary surplus reached 3.0 % of GDP, in line with initial target. Tax revenue was lower than programmed by 0.4 % of GDP, mainly because of the delay on the stamp duty collection on a large private company change in ownership, partly offset by a better than programmed performance in business tax and VAT revenue. Non-tax revenue (excluding grants) was also lower than programmed by about 2% of GDP because of delays in transferring dividend to the budget, which will be reversed in 2018.

9. On the expenditure side, primary current expenditures remained below program by 0.8% of GDP because of delay in personnel recruitment and some savings in goods and services. Capital expenditures were considerably lower than budgeted, by 2% of GDP, mainly on account of smaller external grant financed capital investment.

10. In 2018 the primary surplus is now expected to reach 3.0 % of GDP, versus 2.5% programmed, mainly on account of a better than originally budgeted revenue performance, by 1 % of GDP, which will be partly offset by higher current and capital expenditure. The revenue projections reflect the delayed collection of stamp duty and SOE dividends large arrears payments under the business tax, and a better expected performance of business tax revenue, following the good results of 2017. In the tax reform area, the progressive income tax will enter into effect on June 1, 2018, one month before originally programmed.

11. On the expenditure side, primary current expenditures are expected to exceed the program because of additional expenditure for Agency of Social Protection (home carers), medical supplies, retirement benefits, and subsidies for the SME lending scheme. In addition, under capital expenditure, more allocations are needed for rehabilitating educational infrastructure. These additional expenditures will be presented in a supplementary budget in May

2018. In all, expenditure would exceed the program by 0.5% of GDP. However, the Government will ensure we save part of the excess revenue for debt reduction strategy. Thus, a revised primary surplus of 3.0% of GDP.

12. The measures envisaged in the 2018 Budget document to rationalize social welfare are under preparation, in particular with a view to improve the professionalization of the care of old age persons. To that end, the government is putting at the disposal of the private sector land for the building of homes for the elderly, nursing homes, and announced tax exemptions for private sector initiatives. In order to stimulate the provision of staff training programs by the private sector and prepare the Seychellois professionals to take higher posts in the private sector, Government has announced that expenditures for such program will be a deductible expenditure under the business tax with effect from April 1, 2018, and will be exempt from non-monetary benefit tax under the Income and Non-Monetary Benefit tax act. This measure will impact tax revenue mostly in 2019 but would have a wider positive economic implication. The policy which has been approved by the Cabinet of Ministers has ensure that the regulations are very specific to training which will add value to the staff professional development only and this will ensure minimal impact on the revenue. The training costs that will be allowed for deduction include any costs that will be incurred to ensure that a staff receive a certificate at the end of their training. This could be either at certificate, diploma, tertiary education and professional qualification as per the guidelines of the Seychelles Qualification Authority.

13. Government is working with the Attorney General Office for the finalization of the Immovable Property tax for properties owned by non- Seychellois. Government will ensure that the definition is consistent with our constitution and the final draft bill will be discussed with all stakeholders before submission to National Assembly. We anticipate to complete that process before end of June 2018.

C. The Medium Term Fiscal Framework from 2019 Onwards

14. Government has started work on the rationalization of the current expenditure and better targeting of the welfare system. A committee which comprises staff from the Ministry of Finance, Trade and Economic Planning, Ministry of Family Affairs, Agency of Social Protection and Seychelles Pension Fund have been discussing and analyzing the current benefits and approved welfare programs in place. A paper will be submitted in the third quarter of 2018 to be reflected in the 2019 budget.

15. The Ministry of Finance, Trade, Investment and Economic Planning has been working with MDAs on the rationalization some of their existing functions and programs with the aims of finding savings for new program initiatives, which will start showing savings on wage bill and goods and services starting in 2019. This is thorough assessment with the assistance of Department responsible for Public Administration. This is to analyze any duplication that may exists within Government. The authorities will provide a details assessment during the mid-year review report in August 2018.

16. With the aim of improving public spending and increasing the efficiency and effectiveness of public institutions to better deliver public services, the Government of Seychelles is putting forward a project proposal for the construction of a 'Government House'. By owning and operating within its owned office accommodation, the cost of rentals incurred by Government Ministries, Department and Agencies (MDAs) which keeps on increasing and putting a burden on the country's budget will be considerably reduced. For the year 2018 the Government is expected to spend approximately SR 126 million in rent which represents 5% of the total Goods and Services budget. Government will be receiving a grant from Government of India to build a Government Building to accommodate most of the public service. This will be done in phases from the last quarter of 2018. Thus we expect almost SR 80 million that could be saved in the medium term.

17. Government is working with Department of Information, Communication and Technology to review the existing IT system within Government. This will assist public service to be more efficiently and training will be required to the existing personals. As a result, Government will have to lower its recruitment over the medium term in some areas since most of its service will be available electronically.

18. The President has announced some major projects during his 2018 State of the Nation Address (SONA). This is in line to effectively diversify the Seychelles' economy and accelerate the rate of economic growth and make progress in mitigating climate change impact. These projects will be gradually implemented over the medium- to long-term considering the absorption capacity. Furthermore, they will be implemented within the envelope of the program's primary surplus target of 2½% of GDP from 2019 onwards and our goal of public debt reduction to below 50% of GDP by end-2021. Government aims to use new methods of financing for these major projects especially through Public Private Partnership (PPP) initiatives. However, Government is cautious of fiscal risks that need to be properly assessed before any agreement is signed on any PPP project. Currently, Government is financing the PPP legislation to be presented before the National Assembly before the end of third quarter of 2018.

19. Government remains committed for investment in climate change and mitigation. This will be part of the National Development Strategy and Medium Term Fiscal Framework. For the year 2018, Government has guarantee a loan US$ 8.5 million, signed by Public Utilities Company from the Abu Dhabi fund for Development, for the financing of the Ile de Romainville Solar Power Field Project. The project consists of design and construction of a solar field with a capacity of 5 megawatts on Romainville Island, in the same location of the Wind Power project. Government received a grant amounting to US$ 250,000 from the African Legal Support Facility ("ALSF"). The purpose of ALSF's assistance is to provide for advisory services in the structuring, management, and negotiations of a 4MW photovoltaic (PV) plant in the lagoon at Le Rocher on Mahé to be constructed and operated by an independent power producer

("IPP") including the Request for Proposals (RFP) process. This project is in the final stage of tendering and the agreement will be signed in September 2018. Government has also engaged with the Indian Government on a Line of Credit to be implemented from 2018 to 2022. As part of the line of credit, three projects have been incorporated in the medium term Public Sector Investment Plan with the main aim of reduction of electricity consumption generated from fossil fuel which includes:

a. Utility Scale Power Plant with Battery Storage amounting to US$ 4 million:
b. Solar Led Street Lights amounting to US$ 600,000
c. Government Building Rooftop PV amounting to US$ 3 million

The other projects will be part of the medium-term investment plan.

20. With a view to preventing the under execution of capital spending, all MDAs need to ensure that the procurement plans have been approved and published by Procurement Oversight Unit during the first quarter of 2018. This has been done for all large intensive capital projects MDAs. The procurement plan shall be discussed during the MDAs monthly management meeting and the capital spending will be closely monitored by the cabinet ministers on a quarterly basis. The Public Investment management unit within the Ministry of Finance, Trade and Economic Planning has started to prepare a costs benefit analyses for projects proposal for the 2019 budget. This report will be presented to Cabinet of Ministers by June 2018 (2nd review RT).

D. The Implementation of the Structural Reform Agenda

Public finance and SOE management

21. The reorganization of the Seychelles Revenue Commission is proceeding as programmed. The ambitious business audit program envisaged for 2018 is ongoing as scheduled. At Customs a new deputy Commissioner has been appointed, and the ASYCUDA World system is being upgraded, as scheduled. The cargo targeting software system is being introduced as planned with the aim to improve risk assessment and permit targeted inspections.

22. Program Performance Based Budgeting. The government is on track to transit all MDAs to full PPBB for the 2019 budget. The remaining 5 Ministries, Departments and Agencies are currently preparing their performance indicators which will allow for monitoring and evaluation of their indicators.

23. Public debt management. The issuance of the Blue Bond is now scheduled for end–May 2018; the bond will be guaranteed by the World Bank in combination with GEF resources in order to secure attractive terms. The WB is assisting with the formulation of procedures for the identification of projects. The Blue Bond will be for a total of US$ 15 million. Government will be signing two subsidiary agreements. The first one will be with the Development Bank of Seychelles (DBS) to administer a Blue Investment Fund (BIF) amounting to US$ 12 million and the other will be with the Conservation and Climate Adaptation Trust of Seychelles (SEYCCAT) to administer a Blue Grant Fund amounting to US$ 3 million. The framework for administering these two funds are very detailed in the subsidiary agreements which all parties need to enforce. Loan proposals received by DBS will first be subject to administrative compliance and then sent to the Project Implementation Unit (PIU) of SWIOFish3 for environmental and social screening according to the World Bank approved Environmental and Social Management Framework (ESMF) and Process Framework (PF). Proposals passing screening will then be subject to technical evaluation, for which an independent Technical Committee (TC) has been established. The TC comprises senior staff of the Department of Blue Economy, Department of Economic Planning, Seychelles Fishing Authority, Ministry of Employment, Entrepreneurship Development and Business Innovation, Ministry of Environment, Ministry of Social Affairs, Development Bank of Seychelles (observer status) and SeyCCAT (observer status).

24. In addition to best practise for technical evaluation of business plans, applicants to the Blue Investment Fund will also be required to demonstrate how their project meets principles for sustainable investment in fisheries and the Blue Economy. Proposals passing technical evaluation are then sent to DBS to financial appraisal according to methods outlined in the manuals. Depending on the loan amount requested, applicants will be appraised on the basis of a simplified or complete business plan. Proposals passing financial appraisal will be sent to the DBS Board of Directors for approval, following which approved loans will be negotiated. DBS monitoring and oversight of project implementation will be supported by the PIU with regards to environmental and social safeguards.

25. Public debt. The debt management strategy will be reviewed in the context of the Medium Term Fiscal Framework for 2018-22. This will be elaborated in the coming months, with the aim to ensure that the government debt –GDP ratio will attain 50% by 2021.

26. In recent months, the Seychelles Government together with officials from the World Bank has been exploring the possibility of a cross currency swap of its EuroBond, which currently stands at US$143.56 million. Interest is payable semiannually at 8% per annum on the Bond. This exercise aims to swap the outstanding US$ bond to a euro-denominated bond. Seychelles earns most of its income in Euros and the debt swap will greatly enhance the debt management of our debt portfolio as in aligning the debt to our earnings, the foreign currency risk will be reduced particularly since the bond is equivalent to 35% of our external debt stock. We also hope that the swap to euros will reduce the interest costs payable on the bond. We hope to complete this exercise during the second half of 2018.

27. The Debt Management Strategies for the Seychelles debt portfolio has been guided by the following choices;

- Concessional / semi-concessional / commercial
- Currency composition
- Short- and long-term maturities
- Variable and fixed rate debt

28. Based on the current assessment and economic environment in Seychelles, the authorities have assessed that it will be better to have a mixed borrowing strategy whereby they can make use of concessional borrowings at affordable interest rates and limit borrowings in cases where refinancing, interest, and foreign exchange risks very high. In addition, Government will work closely with CBS to lengthen the maturity of the debt profile. An assessment is being done to tender any medium-term bond during last week of June with the implementation of the last phase of progressive income tax where some employees will receive benefit from their salary.

29. Minimizing the fiscal risk of State Owned Enterprises (SOE's) and PPPs. As envisaged under the program, a comprehensive legal review is under way to update all the laws and regulations regarding corporate governance of non-financial public enterprises, with the aim of bringing them up-to-date and make them consistent with each other and with international good practice. On this basis, Government will submit a new Code of Governance for all non-financial SOEs based on OECD guideline to the National Assembly for enactment by September 2018 (third review RT). By end-2018 the government will publish a report consolidating information on all significant contingent liabilities and other fiscal risks, including those potentially arising from PPPs, for the 2019 budget (third review RT). It will also calculate the cost of social obligations of SOEs and provide that information in the budget document for the 2019 budget (third review RT).

E. Modernizing the Financial System and Ensure Financial Sector Stability and Inclusive Growth

30. The financial sector modernization policy is being pursued in the context of the Financial Sector Development Implementation Plan (FSDIP) approved at end–2014. FSDIP aims at fostering an enabling environment for private sector investment, increased participation and deepening of the financial services sector to facilitate economic growth and strengthening the regulatory oversight of Seychelles financial sector.

31. The project consists of the following components: (i) strengthening the financial system's legal and regulatory framework; (ii) the financial infrastructure and capital markets development; (iii) consumer protection and financial literacy. The FSDIP contains a number of actions for which technical assistance is required, on the basis of which the Seychelles authorities have requested assistance from African Development Bank (AfDB) and the World Bank under the Reimbursable Advisory Service (RAS). With the RAS Agreement that ended in October 2017, an extension up to December 2019 has been agreed for completion of activities relating to the financial sector regulatory framework and the Credit Information System. The extended RAS Agreement also comprise an extension on the scope of activities for financial consumer protection and the addition of support to review and update the Data Protection Act.

32. Further to a mission undertaken in March 2018, it was appreciated that the authorities have made tremendous progress in addressing policy decisions related to

consumer protection and CIS. Despite progress, there are areas that require further attention especially with regards to the competent authorities' mandate over financial consumer redress that remains to be clearly formulated. Moreover, the need to develop a new legal framework for data protection was highlighted. It was further emphasized that the data protection law is dependent to developments in the cybersecurity, CIS and access to information areas. A follow-up mission is tentatively scheduled for July/August 2018.

33. The areas where consultancy work has been finalized are as follows: review of the Mutual Fund and Hedge Fund Act 2008; preparation of a new Trust Act, amendments to the International Corporate Service Providers Act; review of the Authorization and Post-Authorization Processes & Systems for Collective Investment Schemes and Capital Market business. In addition, the development of a Risk-Based Supervision Framework for the regulation of Pensions and Insurance is almost finalized. This will open the prospect of an expansion of financial sector activity in the area of wealth management. Also, a Financial Consumer Protection Act is being drafted.

34. The OECD's Global Forum on Transparency and the Exchange of Information for Tax Purposes, found in August 2015 that the country is largely compliant. The financial services industry continues to undertake the necessary measures to ensure the sector remains compliant to international best practice. This includes further work on Base Erosion and Profit Shifting (BEPS) and the adoption of the common reporting standards. The authorities are fully committed to implement the legislative changes so as to be in line with the BEPS framework as agreed with the EU. It is expected that all legislative changes will be completed before end 2018. In this context, the International Business Companies Act was amended in late 2016, which now requires international business companies to keep a register of the beneficial owners in Seychelles. Similarly, the International Corporate Service Providers Act and the International Trusts Act are being reviewed and any amendments will be submitted to National Assembly be fourth quarter of 2018The Global Corporation Act under preparation, which aimed at replacing the Companies Special Act, was reviewed against BEPS requirement and was found inconsistent. On the June 07, 2017 in Paris, Seychelles joined the other 70 countries in the signing ceremony of the Multilateral Instrument (MLI). The Government is now working towards the ratification of the MLI to ensure that BEPS measures are effectively translated in bilateral tax treaties.

F. Monetary Policy and Price Stability

35. A loose monetary policy stance was maintained in the second half of 2017 and the first quarter of 2018 to support economic activity given inflationary pressures were expected to be modest. Credit to the private sector grew by 19.7 per cent year-on-year in March 2018 with the majority representing consumer loans. The associated growth in domestic demand has contributed to a small depreciation of the Seychelles rupee vis-à-vis the USD until early March, and consequently, an increase in inflation has also been observed. The consumer price index for March 2018 shows yoy inflation of 4.7 per cent with the 12-month average rate increasing to 3.6 per cent. It is expected that inflation will increase to around 5.0 per cent yoy by the end of 2018.

36. In order to ensure domestic price stability, monetary policy was tightened in the second quarter of 2018. The Central Bank of Seychelles (CBS) is expected to maintain such stance at least until the end of the year in order to contain second round inflationary pressures stemming from rising international commodity prices including oil, upward revision in administrative prices (tariff re-balancing scheduled for July 2018) and the pass-through of the depreciated domestic currency. The tight monetary policy stance should also slow down private sector credit growth which reached 19.7 per cent year-on-year in March 2018.

37. The CBS will continue to make use of the interest rate corridor to guide the market on its policy stance. This will be complemented by the appropriate Reserve Money level, to ensure proper functioning of the market. The Bank is receiving Technical Assistance from the IMF AFRITAC South to build internal capacity in modelling and forecasting, to enhance its inflation and liquidity forecasting framework. As of the third quarter of 2018, the CBS is to formally move to a more flexible monetary targeting framework, with interest rates as the short-term operational target and reserve money as the longer-term operational target and this will be communicated accordingly. Once the key conditions and operational requirements are met, transition will be made to an interest rate targeting framework.

38. Encouraging an active money market with functioning interbank interest rates remains a challenge. This will be developed with a reduced presence of the Bank in the money markets as well as more predictable and transparent liquidity management policy actions. Moreover, ensuring consistent dialogue with market participants and public on the evolution of the monetary policy framework is essential during the transitory phase. Thus, these conditions will help enhance the effectiveness of the transmission mechanism from interbank interest rates to banks' interest rates vis-à-vis better market guidance. In addition, the Bank has outlined medium to long term targets inclusive of key benchmarks for future market development.

39. The CBS and Ministry responsible for Finance will continue to collaborate on the issuance of government securities for monetary policy purposes, to partially address the liquidity overhang. This will be done in line with government's target to reduce public debt to below 50 per cent of GDP by 2021.

External Stability

40. The current account deficit worsened in 2017, standing at 20 per cent of GDP, mainly due to an increase in the value of imports. Earnings from the tourism sector remained strong at an estimated $483 million owing to a 15 per cent annual growth in visitor arrivals. The global recovery may indicate another positive performance for the tourism industry. However, the anticipated increase in international commodity prices combined with the effects of domestic factors, such as administrative prices and weaker exchange rate, are expected to translate into higher inflationary pressures locally in 2018.

41. **Gross international reserves are forecasted to remain at around the level which should provide for adequate buffer against external shocks and is consistent with the IMF calculated metrics on foreign reserves adequacy.** The CBS is to continue with its policy to purchase reserves from the market whenever the opportunity arises.

42. **During 2017, the CBS continued to provide adequate resources and exposures geared towards building capacity in reserves management.** Early 2017, the Investment Committee, approved a revised set of Investment Guidelines embedded on the basis of the Strategic Asset Allocation for the reserves portfolio. This followed a comprehensive revision of its Investment Policy in the previous year, with the aim of achieving an optimal reserves composition in light of various policy and resource constraints. Moreover, the Bank maintained its engagement with the Reserves Advisory and Management Programme (RAMP) provided by the World Bank, and benefitted from a number of reserves management related workshops, on-site assistance missions as well as the implementation of the Portfolio Analytics Tool (PAT2). The latter enforces the principles of good governance and segregation of duties, by allowing for straight-through-processing of trades over the front, middle and back offices. Further to the above, the Bank added two new instruments to its internally managed portfolio of international reserves, namely the US treasuries and the UBS (Ireland) Select Money Market Fund.

43. **The current engagement with RAMP is expected to end in July 2018.** The Bank is contemplating to sign a new agreement as it remains committed to build capacity in reserves management, extending beyond the technical staff up to the Board of Directors. The terms of this agreement will be discussed and agreed upon in the coming months.

Financial Stability

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

45. **The authorities are also prioritizing efforts to strengthen the AML/CFT framework and ensure its effective implementation**. To this end, the National Risk assessment against AML/CFT risk has been completed in October 2017 and is expected to be endorsed by cabinet by end of April 2018. This will serve as a basis for the formulation of a National AML/CFT strategy. The key components of the national strategy will focus on strengthening the legal framework for AML/CFT, enhancing the institutional capacity of different regulators and law enforcement agencies involved in preventing money laundering and terrorist financing. It is anticipated that

cabinet will approve the strategy by June 2018. In addition, the country is currently undergoing a Mutual Evaluation against the FATF recommendations, which put emphasis on a risk-based approach to supervision and effectiveness of implementation of the AML/CFT framework. The authorities will review and amend the AML/CFT legal and institutional framework in line with international standards and best practices by end-June 2018 (Second Review RT). In particular, in line with FATF recommendations 24 to 30, they will ensure that the competent authorities can timely obtain accurate beneficial ownership information on legal persons and arrangements created in Seychelles (offshore and onshore), and that AML/CFT institutions are strengthened. To this end the authorities received TA from the IMF in April. The authorities will have started to implement a risk-based approach to the supervision of banks and company service providers consistent with FATF immediate outcome 3, by end-December 2018 (Third Review RT).

46. The CBS pursues efforts to enhance its resolution framework. CBS is undertaking the review of its legal framework in order to formulate a new Act relative to the Resolution framework. The new legislation is expected to be finalised and submitted to Cabinet by end 2018 (third review RT). The aim is to ensure that the resolution authority has adequate powers and tools to ensure it is capable to deal with problematic banks without leading to financial stability issues. IMF TA has been received in this regard and work is ongoing towards implementation of the recommendations. It is expected that further TA will be required to finalize the framework.

47. The CBS is committed towards ensuring its regulatory framework is in line with international standards. To that effect, work on implementation of Basel II and III is ongoing. The implementation of Pillar 1 of Basel II is anticipated by end June 2018. TA was received from the IMF in 2017 with focus on the Pillar 2 component of Basel II. The CBS has contracted a consultant to assist in developing its framework for Pillar 2 of Basel II and has taken the position to adopt the definition of capital for Basel III, as relevant. It is expected that the full framework will be in place by end June 2019.

48. The CBS acknowledges that cybercrime has emerged as one of the most significant threat to the financial sector. CBS recognizes the need for greater resource dedication to ensure that as much as possible, this risk does not become one that actually undermines financial stability**.** CBS is finalising its Cyber Security Framework as well as introducing a set of guidelines for financial institutions within its supervisory purview. The guidelines will serve to introduce minimum standards for financial institutions to adhere to with regards to safeguarding their IT infrastructure. This is expected to be finalised by end of September 2018. The CBS is collaborating with other stakeholders to formulate a national cyber security framework.

49. The CBS pursues efforts to enhance the financial stability framework. As such, a standalone Financial Stability Act that assigns macro prudential powers to the relevant regulators will be formulated. Furthermore, the Act will enable the financial stability committee to take collective action. This is expected to be enacted by end of June 2019. It is anticipated that IMF TA support will be required for the drafting of the policy paper and the drafting instructions.

50. The authorities' endeavour is to have a national strategy setting the context on the way forward to enhance financial inclusion in the country. In particular, it will focus on deficiencies identified in relation to SME access to finance; enhance competition in the financial services sector; access and usage of electronic payment systems and reduction in the use of cash for payments. The CBS further aims to work in collaboration with the Ministry of Finance to enhance the efficiency of Government payments as well as the remittance market. Moreover, in light of the potential of Fintech to contribute towards the development of the financial sector, particularly, for enhancing financial inclusion through increased access, competition and efficiency amongst others, it has been recommended that the CBS builds its capacity to facilitate the development of appropriate institutional and regulatory framework to allow and support the development of Fintech in Seychelles. Additionally, the Credit Information System as well as its regulatory framework are being enhanced to make provision for extension of the coverage of credit information to allow for better assessment of the credit worthiness to support risk based pricing of credit. This is expected to be finalised by December 2018.

51. The National Financial Education Strategy was launched in December 2017 with a 3-year rolling implementation plan. The strategy is targeting 4 segments namely Adults in the formal workplace, Micro, Small and Medium Enterprises, Youth and the Socially and Financially Vulnerable. The necessary is being done in collaboration with various stakeholders in the country to effectively begin implementation as of Q2 2018.

52. The CBS and the FSA undertake to promulgate a Financial Consumer Protection law by July 2018. The aim of the Financial Consumer Protection law and its supporting Regulations is to give the competent authorities explicit mandate to address challenges faced in the financial services sector. The law will make provision for promoting equitable and fair treatment of consumers; increased transparency; responsible lending; prevention of over-indebtedness; responsible pricing; appropriate products; data privacy as well as a mechanism to provide consumer redress. The authorities are also working towards establishing a strong financial consumer protection framework that aims at preventing possible violations of market conduct rules and help consumers benefit from well-informed decisions in regard to financial services. This is expected to increase trust in consumer products and services of the financial sector.

53. Given the structure of the banking system with the three biggest banks controlling the financial assets, the CBS deems it necessary to address the issue of competition in the banking sector. It is therefore proposed that an assessment be undertaken by the CBS with the assistance of the IMF to identify impediments to increase competition in the financial services sector such that appropriate policy decisions are taken in regard to the matter. This exercise is expected to be done before December 2018.

54. The modernization and development of the national payment system remains high on the national agenda. Further to studies undertaken which supported the implementation of a CSD, a RTGS and a national payment switch/ACH, the implementation of the above-mentioned systems has been scheduled to begin in 2019.

G. Governance and Internal Audit of the CBS

55. Following the consultancy services received in internal audit, the CBS decided to reschedule the external quality review of Internal Audit Division (IAD) to September 2018. This review is to assess whether the Division conforms to IIA's International Standards for the Professional Practice of Internal Auditing. In addition, it aims to evaluate IAD's effectiveness in carrying out its mission, as set forth in its charter and expressed in the expectations of the Bank's Management. Moreover, the review will identify opportunities and offer ideas for improving effectiveness of the internal audit function, thereby raising the value added to Management and the Audit and Risk Committee.

56. Despite not being a requirement, the CBS made a request for an IMF safeguard assessment mission completed in February 2018. An important area of focus was the Central Bank of Seychelles Act, 2004 (CBS Act), primarily the legal structure and integrity of CBS, its governance, institutional autonomy, personal autonomy, financial autonomy in addition to other matters. The assessment's priority recommendations in these areas will form the bulk of the proposed amendments to the CBS Act scheduled for June 2018. Amendments proposed include the requirement for CBS to be consulted before any legislation pertaining to its authority and activities is submitted for approval, the reinforcement of the compatibility requirements for Board members and the removal of the Attorney General as a Board member in view of the conflict of interest, as well as the strengthening of the provisions for credit to Government. In the meantime, CBS has already acted on the recommendation for a one-year "cooling off" period by incorporating a clause to that effect in the terms and conditions of appointment of the executive board members who were re-appointed to their posts in March 2018.

H. Program Monitoring

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

Table 1a. Quantitative Targets (QTs) under the PCI, December 2017 – December 2018

	2017		2018						
	December		March		June		September	December	
	QT				QT			QT	
	Proposed in Dec. 2017	Act.	Proj. in Dec. 2017	Prel.	Proposed in Dec. 2017	Revised target	Proj.	Proposed in Dec. 2017	Revised target
Quantitative Targets									
Net international reserves of the CBS, millions of U.S. dollars (floor) [2]	391	424	406	429	393	393	393	375	375
Reserve money target (ceiling on daily average during the quarter) [3]	3,766	3,559	3,635	4,034	3,643	3,624	3,864	4,030	4,003
Primary balance of the consolidated government (cumulative floor)	615	621	115	49	284	284	646	538	538
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
Memorandum items:									
Nominal public debt (millions of Seychelles Rupees) [2]	13,536	13,337	13,740	13,633	13,692	13,719	13,550	13,534	13,614
Program accounting exchange rates [5]									
SR/US$ (end-of-quarter)		13.67		13.84		13.84	13.84		13.84
US$/Euro (end-of-quarter)		1.19		1.20		1.20	1.20		1.20
US$/UK pound (end-of-quarter)		1.29		1.35		1.35	1.35		1.35
US$/AUD (end-of-quarter)		0.79		0.78		0.78	0.78		0.78
US$/CAD (end-of-quarter)		0.80		0.80		0.80	0.80		0.80
US$/CNY (end-of-quarter)		0.15		0.15		0.15	0.15		0.15
US$/SDR (end-of-quarter)		1.41		1.45		1.45	1.45		1.45

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

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

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

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

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

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

Table 1b. Seychelles: Continuous Targets

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

Table 2. Seychelles: Reform Targets (RTs) Under the PCI, December 2017– March12019

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

Attachment 1. Technical Memorandum of Understanding

1. **This technical memorandum of understanding presents the definitions of variables included in the quantitative targets and continuous targets set out in the Program Statement (PS), the key assumptions, and the reporting requirements of the Government and the Central Bank of Seychelles (CBS) needed to adequately monitor economic and financial developments.** The quantitative targets, the continuous targets, and the reforms targets for 2018 are listed in Tables 1 and 2 attached to the PS, respectively. The quantitative targets and reform targets are listed in Tables 1 and 2 respectively. Reviews will assess quantitative targets as of specified test dates. Specifically, the second review will assess end-June 2018 test date, the third review will assess end-December 2018 test date.

2. **Program exchange rate:** For the program, the exchange rates of the Seychellois Rupee (SCR) to the U.S. dollar will be SCR13.84 per US$1 for 2018. Similarly, the exchange rates of the US$ to other currencies for 2018 are as follows (US$/1 other currency).

EUR	1.20
GBP	1.35
SDR	1.45
AUD	0.78
CAD	0.80
ZAR	0.08
CNY	0.15

I. QUANTITATIVE AND CONTINUOS TARGETS

Net International Reserves of the CBS (Floor)

Definition

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

Calculation method

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

Monitoring and reporting

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

Adjusters

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 (PS Table 1). The floors will also be adjusted upwards (downwards) by the amount that external debt service payments fall short (exceed) the amounts assumed in the program.

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

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

[1] Cumulative from the beginning of each year.

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 six percent in both directions. The upper bound of the band serves as quantitative target (ceiling). Quarterly average reserve money will be calculated as the arithmetic average of reserve money observed on all days over the quarter. The resulting value will be compared with the program ceiling.

Monitoring and reporting

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 quantitative targets, the reserve money data submitted by the CBS to the IMF will be audited by the CBS' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date. If the observed quarterly average reserve money falls outside the lower or upper bands specified in the QT table for end-December 2017, end-June 2018 and end-December 2018 test dates, the authorities will complete a consultation with the IMF staff which would focus on: (i) the stance of monetary policy; (ii) the reasons for deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary.

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.

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

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

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

(a) the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

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

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

External Arrears of the Public Sector

11. The no accumulation of arrears to external creditors will be a continuous target under the program. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, subject to any applicable grace period, including contractual and late interest. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

II. DATA AND INFORMATION

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

The CBS will report

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

- Daily reserve money data.
- Foreign exchange reserves position.

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

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

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

The Ministry of Finance will report

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

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

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

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