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SEYCHELLES

January 2019

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

In the context of the Second Review Under the policy coordination Instrument and Request for Modification of Targets, 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 on December 7, 2018 following discussions that ended on October 2, 2018 with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on November 21, 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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December 7, 2018

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

On December 7, 2018, the Executive Board of the International Monetary Fund (IMF) completed the second review under the Policy Coordination Instrument (PCI[1]) for Seychelles.

Seychelles is the first IMF member country to request a PCI. It was approved by the Executive Board on December 13, 2017 and aims to support the authorities' efforts to reinforce macroeconomic stability and foster growth.

Economic developments since the last IMF review completed in June 2018 have been broadly in line with expectations. The program is largely on track and authorities remain committed to safeguarding the hard-won economic stability. The Central Bank of Seychelles' prudent monetary policy has helped to contain the inflationary pressure.

While rising international fuel prices could adversely affect inflation and external balance, the economic outlook continues to be favorable. Downside risks to the outlook are largely stemming from external shocks, including from possible weaknesses in the key tourism markets and global banks' withdrawal of correspondent banking relationships.

The Executive Board welcomes Seychelles' assurance that the large infrastructure and climate change related projects planned in the coming years would be implemented within the fiscal targets set in PCI. The authorities are encouraged to stay focused on structural reforms to minimize fiscal risks potentially arising from state-owned enterprises restructuring.

The authorities are also urged to step up efforts to strengthen anti-money laundering and terrorism financing framework and implementation.

[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).

Following the Executive Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"Seychelles' macroeconomic performance continued to be robust in 2018. Real GDP growth is estimated to reach around 3½ percent, reflecting strong output in the fishery industry and the information and communications sector. The external current account narrowed thanks to strong tourism earnings. Targets on the primary fiscal surplus and net international reserves up to end-June 2018 were met by a comfortable margin. The economic outlook for 2019 remains positive.

"The authorities are committed to the program's fiscal anchor of reducing public debt below 50 percent of GDP by the end of 2021. The authorities' 2019 budget submitted to the National Assembly is in line with the program objectives. The authorities intend to implement large infrastructure projects in coming years within the envelope of the program's primary surplus target of 2½ percent of GDP.

"The Central Bank of Seychelles' (CBS) prudent monetary policy has helped contain inflationary pressures. The CBS should stay vigilant to any sign of inflationary pressures and maintain the flexible exchange rate policy. The authorities' sustained efforts for a smooth transition to a new monetary policy framework are welcome.

"Steps to strengthen the AML/CFT framework and its implementation, in line with international standards and best practices, are important to preserve correspondent banking relationships. The structural reform agenda should continue to focus on reducing fiscal risks potentially arising from state-owned enterprises and public private partnerships, improving public investment efficiency, and enhancing prospects for inclusive growth and resilience to climate change."

INTERNATIONAL MONETARY FUND

SEYCHELLES

November 21, 2018

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

KEY ISSUES

Context: Economic developments since the completion of the first review under the Policy Coordination Instrument (PCI) in June 2018 have been broadly in line with expectations. The program is largely on track. Staff received renewed assurance from President Faure that the large infrastructure projects announced in his State of the Nation Address (SONA) in March 2018 would be implemented within the fiscal targets under the PCI.

Program performance: All quantitative targets (QTs) for end-June 2018, the program's second review test date, were met except for the reserve money (RM) target, which was missed by a very small margin. Implementation of the two Reform Targets (RTs) for the second review is slightly delayed due to technical reasons. Staff recommends completion of the second review under the PCI and replacement of the RM QT with a monetary policy consultation clause starting end-December 2018.

Outlook and Risks: While rising international fuel prices could adversely affect inflation and external balance, the economic outlook continue to be favorable. Downside risks to the outlook are largely stemming from external shocks, including from possible weakness in the key tourism markets and global banks' withdrawal of correspondent banking relationships (CBRs). The Central Bank of Seychelles (CBS) intends to keep a tight monetary policy stance to contain inflationary pressures. While the fiscal policy stance in 2018 is supportive of the monetary policy tightening, the authorities' 2019 budget recently submitted to the National Assembly is in line with the program. Risks to the program are considered moderate, given Seychelles' strong program implementation and continued commitment to safeguarding macroeconomic stability.

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 and resilience to climate change.

Approved By
David Owen and Martin Sommer

Discussions were held in Victoria during September 19-October 2, 2018. The staff team comprised Mr. Sy (head), Messrs. Dhungana, Issoufou, and Konuki (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 the private sector. Ms. Gupta provided research support and Ms. Aliu provided assistance for the preparation of this report

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RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. **Economic conditions continue to be favorable (Figures 1 and 2, Tables 1-5).** Tourism receipts increased by 8 percent year-on-year (yoy) for the first eight months of 2018 with robust growth from the major European markets, according to the Central Bank of Seychelles (CBS) survey. 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 1st PCI review. The headline yoy CPI inflation rate declined to 3.3 percent in September from 4.9 percent in February, due to the monetary policy tightening in March and the stable nominal exchange rate.[1] Private sector credit growth moderated to 14 percent at end-September from 19¾ percent at end-March thanks to the tightening of monetary policy and the deceleration of commercial property developements. Financial soundness indicators suggest that commercial banks are adequately capitalized and profitable.

2. While rising international fuel prices could adversely affect inflation and the external balance during 2018–19, the near- and medium-term outlook continues to be benign. The recent rising trend in international fuel prices, together with recent, planned utility tariff adjustments, and public-sector wage adjustments in 2019,[2] would put pressure on both inflation and the external balance during 2018–19. Growth is projected to moderate from 5¼ percent in 2017 to 3½ percent during 2018–20, around the potential rate, due to the tight monetary policy stance, the moderation of tourism sector growth compared with 2016–17, and the moratorium on large hotel construction projects.[3] The expected moderation in aggregate demand would help offset the adverse impact of higher international fuel prices on inflation and the external balance. Growth and foreign direct investment (FDI) should pick up after the lifting of the moratorium on large hotel construction projects at end-2020. The external 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 of about 125 percent in the medium term.

3. **Risks to the outlook 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, Asia 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. Slippages in Air Seychelles' operational restructuring could also place additional

[1] Citing concern over inflationary pressures 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, and reduced reserve money growth in late March 2018.

[2] A utility tariff increase for households—a step to reduce cross-subsidies over the medium term—was implemented in September 2018 and general tariff adjustments—to reflect the change in imported fuel prices—are scheduled to take place in coming months.

[3] The large hotel moratorium introduced in late 2015 prohibits construction of new large hotels until end-2020.

pressures on the budget (see ¶13). On the upside, tourism sector growth could be stronger than projected in the next few years.

PROGRAM PERFORMANCE

4. The program is largely on track notwithstanding delays in meeting RTs due to technical reasons:

- **Both the end-June 2018 primary surplus and net international reserves (NIR) targets were met by a comfortable margin.** The floor on the primary fiscal surplus was exceeded by 0.9 percent of GDP due to higher-than-budgeted tax revenues and under execution of current and capital expenditures for the first half of the year. The floor on NIR was exceeded by US$37 million thanks to the buoyant tourism receipts.

- **The end-June reserve money (RM) targets was missed by a very small margin (0.2 percent)** due to higher-than-projected foreign currency deposits.

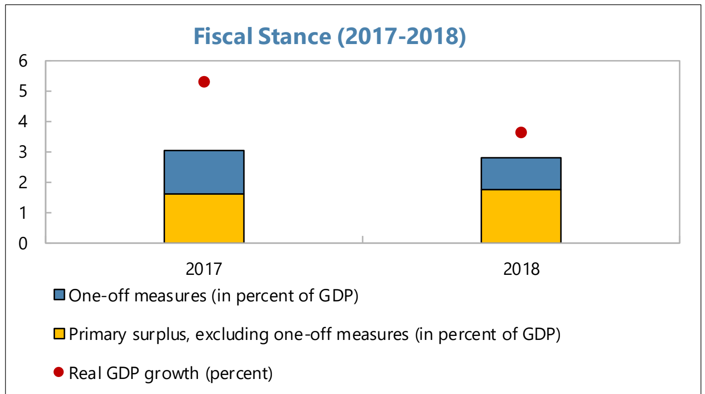
- **Implementation of the two RTs for the 2nd review is slightly delayed.** A report on cost-benefit analyses of public investment projects with a cost above 10 million Seychellois Rupees (SCRs) will be submitted to Cabinet in December 2018, later than the original target of end-June, due to technical difficulties in estimating the benefits of a few projects. An AML/CFT framework, in line with the Financial Action Task Force (FATF) standard (including on entity transparency and strengthened AML/CFT institutions) will be submitted to Cabinet in December 2018, later than the original target of end-June, to take into account subsequent findings and recommendations from the mutual evaluation report of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), among others.

- **While three 3rd review RTs are reset, the authorities are making progress toward meeting the reset targets**. The new Code of Governance for SOEs will be submitted to Cabinet in December 2018, slightly later than the original target of end-September. Risk-based approach to the supervision of banks and trust and company services providers will be implemented in March 2019, slightly later than the original target of end-December 2018. The amended legal framework for crisis management, bank resolution and safety nets will be submitted to Cabinet in June 2019, postponed from the original target of end-December 2018.

POLICIES IN THE PERIOD AHEAD

A. Fiscal Policy

5. The 2018 primary surplus target under the PCI is likely to be exceeded, which would provide support to the CBS' efforts to contain inflationary pressures. Supported by the stronger-than-budgeted tax revenue and the expected under execution of capital expenditures,[4] the primary surplus is projected to reach 2¾ percent of GDP in 2018, exceeding the program target by ¼ percent of GDP. This is a slight 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 in 2018 (text chart). This would support the CBS' efforts to contain inflationary pressures in coming months by maintaining a tight monetary policy stance.



Sources: Seychelles authorities; and IMF staff calculations.

6. The authorities remain committed to the program primary surplus of 2½ percent of GDP from 2019 onwards to buttress their medium-term debt reduction goal. Under the baseline, this primary surplus would lead to a steady decline of the public debt-to-GDP ratio from the current level of about 65 percent—near the high-risk benchmark—to below 50 percent by end-2021, assuming an unwinding of SCR200–250 million each year of government debt issued for monetary policy purposes (Annex I). This is in line with medium-term fiscal sustainability and would not complicate the CBS' monetary policy conduct, striking the right balance between preserving economic stability and addressing the authorities' priority investment needs to build up infrastructure and enhance resilience to climate change (Annex III of Country Report No. 17/401).

7. To secure the primary surplus target, the authorities have introduced permanent revenue enhancing measures in their 2019 budget and intend to keep a tight rein on current expenditure. The draft 2019 budget, which was recently approved by the Cabinet, is in line with the program primary surplus target. On the revenue side, the government would introduce a sugar tax in April 2019, reduce the fuel tax exemptions for the fishing and tourism sectors, and increase excise rates on tobacco, poultry and pork product imports (Program Statement (PS) ¶10). The accelerated investment deduction and marketing cost deduction granted for tourism related companies will be terminated at the end-2018.[5] The property tax, which was originally set to be introduced in late 2018, will be introduced in 2019. In

[4] Weak execution capacity on capital spending has led to under execution for the past several years. The 2019 budget assumes more realistic capital spending for 2019–20 (Table 3).

[5] This measure would not provide additional revenue to the government for the next few years due to the expected loss carry overs by the tourism-related companies.

addition, certain fees and charges, such as passenger and security service fees, will be increased starting in 2019. These revenue measures would provide additional revenue of around 0.6 percent of GDP from 2019 onwards, offsetting the full-year revenue loss arising from the introduction of the progressive personal income tax (PIT) in June 2018 (text table).[6] On the expenditure side, the draft 2019 budget includes various measures to contain the nominal growth of current expenditure, including procurement reforms and containing the wage bill and goods and services by removing duplication of government services performed by different agencies and by a new staffing and recruitment planning (PS¶10).[7] Meanwhile, staff argued for removing the discriminatory features in the property tax to be introduced in 2019.[8] The authorities indicated that the political economy context makes it very difficult to address this issue.

Permanent revenue enhancing measures in the 2019 budget

Measures	**Estimated saving in 2019** (in SCR millions)	(in percent of GDP)
Introduction of a sugar tax (starting in April 2019)	39	0.17
Phasing out of fuel tax exemptions for fishing and tourism industry	6	0.02
10 percent increase in tobacco excise	15	0.06
Increase in duties on poultry and pork product imports	5	0.02
Introduction of a property tax	40	0.17
Increase in various fees and charges	40	0.17
Total	145	0.62

Source: Ministry of Finance and staff estimates

8. **To shore up their medium-term debt reduction goal, the authorities intend to streamline and better target social welfare programs starting 2020.** With World Bank assistance, the authorities recently initiated a comprehensive study of social welfare programs to be completed by mid-2019. The study will help the authorities articulate social welfare reform measures to be included in the 2020 budget.[9] Meanwhile, the utility tariff rebalancing, which will gradually increase tariffs for households but reduce those for businesses and government, will also help contain the spending on goods and services over the medium term. Staff encouraged the authorities to design targeted measures to mitigate the impact of these saving measures on the most vulnerable groups.

[6] Due to the high-income threshold, the introduction of the progressive PIT is estimated to result in a revenue loss of around 0.6 percent of GDP on a full year basis.

[7] For instance, by making the Fishing Authority and the Marine Parks Authority autonomous, the government is expected to cut expenditures by 1.3 percent of GDP in 2019, though it would reduce revenues by 0.8 percent of GDP.

[8] 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 was delayed due to a lack of consensus on the definition of "foreign" entities.

[9] Social assistance spending in Seychelles is around 4½ percent of GDP, which is higher than the average for both high- and upper-middle-income countries. There is room to better target spending under the current social welfare protection system, including by adjusting means tests and benefit levels. (Country Report No. 17/161).

(continued)

9. The authorities are working on a medium-term financing strategy for the large projects announced in the 2018 State of the Nation Address (SONA) and for investments aimed at enhancing resilience to climate change.[10] While the projects announced in the 2018 SONA, which would be implemented over the medium term, would help boost medium-term growth prospects by addressing infrastructure bottlenecks and enhance resilience to climate change, their total cost over their lifespan could reach around 30 percent of 2018 GDP.[11] The President gave renewed assurance to the 2nd review mission that these projects would be implemented within the parameters of the program (a primary surplus of 2½ percent of GDP from 2019 onwards and a debt level below 50 percent GDP by end-2021), through the use of public-private partnerships (PPPs) and external grants. The conversion of electricity generation from heavy fuel to Liquefied Natural Gas (LNG), which accounts for about one-third of total cost of the authorities' climate change mitigation and adaptation efforts, is expected to reduce the current account deficit and improve the business environment over the medium term by reducing energy costs. This project will be done through a PPP with advice from the International Finance Corporation (IFC). Negotiations to secure external grants to finance the Grand Anse Dam, another large project aimed at enhancing resilience to climate change, are at an advanced stage. In addition to the projects listed in the Public-Sector Investment Plans (PSIPs) and the 2018 SONA, the authorities would need to identify the financing of climate change related investments which are estimated to cost around 17 percent of 2018 GDP over the next 15–20 years[12]. While the measures to be implemented during 2019–20 would help shift spending from current to capital outlays (see ¶7–8), the authorities would need to create further fiscal space over the medium term, beyond that required to secure the debt reduction goal under the PCI. Staff reiterated that those investment projects should be phased, in line with the country's absorptive capacity, and 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

10. The government is considering further measures to enhance the efficiency of public investments and reduce potential risks arising from PPPs. A cost-benefit analysis report on public investments, to be submitted to Cabinet by end-2018 (¶4), will cover all investment

[10] President Faure announced the government's intention to implement a few new major public investments over the medium term in the SONA in March 2018. The President assured the first review mission that the announced projects would be done within the constraint of the program fiscal targets (Country Report No. 18/196).

[11] Country Report No. 18/196.

[12] See Annex I of Country Report No. 18/196.

projects with a cost above 10 million SCRs, including those done through PPPs. The authorities have requested the Fund to conduct a Public Investment Management Assessment (PIMA) during 2019. A Fiscal Risk Statement, to be shortly finalized for submission to the Cabinet by end-2018 (3rd review RT), will cover the risks potentially arising from PPPs as well as SOEs. Given the government's emphasis on infrastructure build-up and the planned use of PPPs, efforts to enhance the quality of public investments and minimize fiscal risks would be essential to buttress long-term fiscal sustainability and enhance growth prospects.

11. The government's efforts to further reduce debt-related risks continue. Major sources of risks to public debt sustainability arise from high gross financing needs, especially those related to external debt, and debt held by non-residents. A Blue Bond of US$15 million, to finance projects to improve marine resource management and strengthen fisheries value chains (Third South West Indian Ocean Fisheries Governance and Shared Growth (SWIOFish3) project), was recently issued with guarantees by the World Bank to lower interest costs. The government will complete a liability management exercise with assistance from the World Bank to swap current US dollar obligations of US$135 million into Euros in coming months. The operation should reduce currency risks by better aligning the repayment currency with Seychelles' foreign exchange earnings (mostly Euros). The government will also continue to lengthen the maturity of domestic debt by issuing medium-term debts in early 2019. The debt management strategy would help reduce rollover risk and gross financing needs over the medium term.

12. Structural reforms to reduce potential risks arising from SOEs are progressing well. While Air Seychelles turned in a loss in 2017, all other major SOEs remained profitable. Air Seychelles began implementing its comprehensive operational restructuring this year with financial support from its shareholders.[13] It is expected to reach a break-even point during 2021–22. Staff pointed out that the government should closely monitor the progress in Air Seychelles' restructuring and take corrective actions, if needed, to ensure that no budget impact would materialize beyond that already assumed in their medium-term expenditure and debt projections. The government is finalizing the quantification of social obligations absorbed by the SOEs to be included in the 2019 budget in line with the program (3rd review RTs). Meanwhile, a new Code of Governance for the SOEs in line with the OECD Guidelines will be submitted to the Cabinet by end-2018 (3rd review RT), slightly delayed from the target of end-September. The government is drafting a new government ownership and dividend policy for SOEs for implementation in early 2019. Furthermore, in its efforts to further strengthen the oversight of SOEs, the government is undertaking a review of Public Enterprise Monitoring Committee (PEMC) Act aimed at submitting its amendments to the Cabinet by end-September 2019 (PS¶18, 5th review RT).

[13] Air Seychelles is negotiating with its majority owner on a possible financial support in the form of debt write-offs and equity injections. The government, its minority owner, paid $1.8 million in 2018 for the company's severance payments and will provide guarantees of $2 million for airplane leases during 2019–20, which are incorporated in the baseline public debt stock projections in this Staff Report.

B. Monetary and Exchange Rate Policies

13. **Staff supports the CBS' plan to stay vigilant to any sign of inflationary pressures.** Both inflation and private sector credit growth have declined in recent months following monetary policy tightening (¶1). However, possible second round effects of international fuel prices and utility tariff adjustments, as well as the introduction of the PIT with high income threshold in June, could increase inflationary pressures in coming months. In this context, staff agreed with the CBS on the need to stand ready to tighten monetary policy further, if needed. Furthermore, staff advised that the CBS consider adopting macroprudential measures, such as a targeted tightening of loan-to-value ratio, to address any potential risk build-up in household credit, once the Financial Sector Stability Act is in effect (¶17).[14] Staff also 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' monetary policy operations.

14. **Staff and the authorities agreed to replace the RM QT with a monetary policy consultation clause (MPCC) in the context of the CBS's ongoing efforts to ensure a smooth transition to a new monetary policy framework.** The CBS has argued, after the interest rate corridor was re-introduced in June 2017, that the continued use of RM as the QT under the PCI may be sending conflicting signals to market participants. In line with the policy adopted by the Fund in 2014 on review-based conditionality in countries with evolving monetary policy frameworks (IMF Policy Paper, March 2014), the CBS requested that the RM QT be replaced with an MPCC. Staff agreed that the CBS meets the criteria set for the review-based approach to monetary policy conditionality (Annex II). Staff encouraged the authorities to continue efforts to further strengthen their capacity for inflation forecasting and liquidity management, fine tune their communication policy, and develop the interbank market with the help of the Fund TA. As part of the transition to a full-fledged interest rate- based framework, the CBS should explicitly announce a policy rate. The CBS and stakeholders indicated that the Deposit Auction Arrangement (DAA) rate is the likely candidate while the reverse repurchase agreement (repo) rate is another option once the master repurchase agreement is in place.

15. **Staff reiterated its advice to stay committed to a flexible exchange rate policy and to keep international reserves coverage at around the current level.** Projected level of GIR would remain at about 125 percent of the relevant ARA metric during 2018–19 under the baseline, which is adequate. According to the latest exchange rate assessment, the Seychellois Rupee has been 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

[14] Credit growth has been driven primarily by credit to households and mortgage loans since early 2017 (Annex III, Country Report No. 18/196).

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

(continued)

be detrimental both to the debt reduction and inflation objectives.[16] Staff continued to encourage 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

16. Staff urged the authorities to step up efforts to strengthen the AML/CFT framework and continue addressing the risks of further potential loss of CBRs. The recently published FATF Mutual Evaluation Report (MER) of the ESAALMG indicates serious shortcomings and recommended measures to enhance their effectiveness at mitigating ML/TF risks. For instance, the Financial Intelligence Unit (FIU), the Police Commercial Crimes Unit, and the Anti-Corruption Commission of Seychelles need more resources. The authorities are finalizing amendments to the AML/CFT legal and institutional framework to address the concerns listed by the MER and the Fund legal department's TA report, to be submitted to Cabinet in December (PS¶32). The authorities are making progress toward an implementation of a risk-based approach to bank and trust supervision by end-March 2019, in line with recommendations of the MER, (3rd review RT), slightly later than the original target of end-2018. Meanwhile, the International Corporate Service Providers (ICSP) Act and other relevant legislations have been recently amended to eliminate non-resident preferential treatments with a view to effectively respect the OECD Base Erosion and Profit Shifting (BEPS) principles (PS¶31). Moreover, the authorities will submit to Cabinet a new offshore sector strategy by March 2019, 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 (PS¶45). Staff notes the authorities' measures to enhance capacities of financial institutions on know-your-customer (KYC) and AML/CFT compliance in order to improve CBR compliance (PS¶43), and encouraged them to further pursue solutions at the regional and international level to address current challenges to the maintenance of CBRs.[17]

17. The authorities' efforts to strengthen the financial stability framework continue. The authorities are amending the relevant regulatory framework to address weaknesses in the legal framework for crisis management, bank resolution and safety net. The amendments will be submitted to the National Assembly by end-June 2019 (PS¶42, 4th review RT), delayed from the original target of end-2018 due to technical reasons. Full transition to Basel II and adaptation of the Basel III capital definition is on track to be completed by end-December 2019 (PS¶42, 5th review RT). This would not only provide a framework to better ensure financial stability, but also support on-going efforts to reduce the risk of further loss of CBRs, especially through

[16] Staff also pointed out the complexity in accounting for exchange rate flexibility as the CBS moves to an interest-rate based monetary policy framework: a policy tightening by raising interest rates could lead to capital inflows and create appreciation pressures, which would help contain inflationary pressures unless the CBS intervenes in the foreign exchange market.

[17] The authorities have retained the services of Crown Agents Bank (CAB) to negotiate CBR for the CBS and domestic banks and build their capacity to comply with international best practices (PS¶43).

international capital adequacy requirements and the adoption of a more risk-based supervisory approach. Furthermore, the authorities intend to submit to Cabinet amendments to the Financial Sector Stability Act, which will assign macro prudential powers to the relevant institutions, by May 2019 (PS¶49, 4th review RT). This will enable the CBS and relevant institutions to take corrective actions.

D. Enhancing Inclusive Growth

18. **Addressing Seychelles' infrastructure gap would help boost prospects for inclusive and sustainable growth.** Large infrastructure projects to be implemented in a phased manner over the medium term (¶8), together with the authorities' continued efforts to enhance the quality of public investments (¶9), would go a long way to enhance prospects for inclusive and sustainable growth. The authorities recently resumed the utility tariff rebalancing, which had been delayed in the past three years. Staff encouraged the authorities to continue implementing it in a steadfast manner for the next several years. This, coupled with the ongoing project to improve the electricity network in the main island, would boost the electricity supply for business[18] and help create space for the priority climate change related projects over the medium term by reducing electricity costs for the government.

19. **The authorities are making progress in upgrading the fishery industry and diversifying the tourism sector, which should support inclusion.** The authorities recently finalized manuals for technical evaluation and financial appraisal for project selection under the SWIOFish3 initiative. The Tourism Satellite Account will be installed in coming months to collect high quality tourism market intelligence. Once it will be operational by early 2020, it would help the government and the local industry articulate a strategy to promote the local component of tourism-related activities. Both initiatives would help ensure that the benefits of economic growth are more broadly distributed.

20. **The authorities plan to finalize a National Financial Inclusion Strategy (NFIS) by end-2019.** The NFIS would focus on SMEs' access to financing, along with innovative financial services and competition in the financial sector (PS¶34). Staff reiterated that any SME financing scheme should be targeted, transparent, and not impede the conduct of monetary policy. The authorities also plan to promulgate a Credit Information System Act and a Financial Consumer Protection law by end-2019 (PS¶36, PS¶40). These legislations are expected to help enhance financial stability and deepening, leading to an enhanced monetary transmission mechanism over the medium term.

PROGRAM MONITORING AND RISKS

21. **The program will continue to be monitored on a semi-annual basis.** Seychelles does not need the Fund's financial assistance under the baseline and is not seeking financial assistance

[18] Electricity is the biggest infrastructure constraint (Country Report No. 17/401).

from the Fund as the program is fully financed. 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. In addition, the applicable standard continuous targets are set out in Table 1b of the PS. Starting end-December 2018, the RM QT will be replaced with an MPCC based on the projected path of headline CPI inflation, agreed between the authorities and staff, with a ±2 percentage points tolerance band and an inner bound of ±1.5 percentage point to trigger consultation with the staff. Going forward, the band width would be determined based on circumstances specific to Seychelles and reviewed regularly to ensure it provides an adequate anchor and flexibility for the implementation of monetary policy. The end-December 2018 fiscal primary surplus and NIR targets are maintained. End-June and end-December 2019 quantitative targets are also proposed. RTs for 2018–19 are reflected in Table 2 of the PS. The authorities' capacity development efforts will continue to focus on PFM, monetary policy operations, and AML/CFT with the help of IMF TA.

22. Downside risks to the PCI remain modest. Seychelles' remaining obligations to the Fund is small and its capacity to repay the Fund is strong (Table 7). Despite risks stemming predominantly from external factors (¶3) and the restructuring of Air Seychelles (¶12), downside risks to the PCI seem moderate given Seychelles' strong track record and continued commitment to prudent policies.

STAFF APPRAISAL

23. The authorities remain committed to safeguarding the hard-won economic stability. Program implementation has been strong. It is encouraging that inflation and private sector credit growth have decelerated recently due to the monetary policy tightening earlier this year. Inflationary pressures may come to surface in coming months due to rising international fuel prices and the scheduled utility tariff and public-sector wage adjustments. The CBS plans to keep its monetary policy stance tight to contain inflationary pressures. The fiscal policy stance in 2018 is supportive of the tight monetary policy stance.

24. Staff encouraged the authorities to implement the saving measures incorporated in their 2019 budget and articulate measures to better target social welfare spending after 2020 to shore up their debt reduction goals. The 2019 budget which was recently submitted to the National Assembly is in line with the primary surplus target under the PCI. It includes permanent revenue enhancing measures and keeps a tight rein on current spending. The authorities are working out measures to streamline and better target the social welfare programs to be included in the 2020 budget. This, together with the recently resumed utility tariff rebalancing, would help shore up the primary surplus target from 2020 onwards and the authorities' medium-term debt reduction goal. The authorities are encouraged to delineate measures to mitigate the potentially negative impact of these saving measures on the most vulnerable group.

25. **Staff welcomed the authorities' renewed assurance that the large infrastructure and climate change related projects planned in the coming years would be implemented within the fiscal targets under the PCI.** The President restated that the large projects announced in the 2018 SONA would be implemented within the envelope of a primary surplus of 2½ percent of GDP from 2019 onwards as envisaged under the program and the authorities' goal of reducing debt below 50 percent GDP by end-2021. While the measures to be implemented during 2019–20 would shore up the medium-term debt reduction goal, the authorities would need to create further space in the medium term for priority investment projects to boost infrastructure and resilience to climate change. They should explore the possibility of additional revenue measures discussed at the time of the 2017 Article IV consultation, as well as implement structural reforms to improve the efficiency of public investments and appropriately manage potential fiscal risks arising from PPPs.

26. **The CBS' prudent monetary policy has helped contain inflationary pressures and the authorities are committed to staying vigilant to any sign of inflationary pressures.** Staff supports the CBS' intention to stay watchful to any sign of second-round effects of the utility tariff adjustments and rising international energy prices in coming months. The CBS should be ready to tighten monetary policy further and take macroprudential measures if needed. Given that the exchange rate is broadly in line with fundamentals and the reserves buffer is estimated to be adequate, the CBS should stick to a flexible exchange rate policy with minimal intervention to preserve reserves coverage ratios at around the current level. The CBS is committed to sustaining efforts for a smooth transition to a new monetary policy framework. To ensure a successful transition, CBS should continue to enhance its capacity for inflation forecasting and liquidity management, improve communication of its policy intentions, and develop the interbank market infrastructure with the help of the Fund TA.

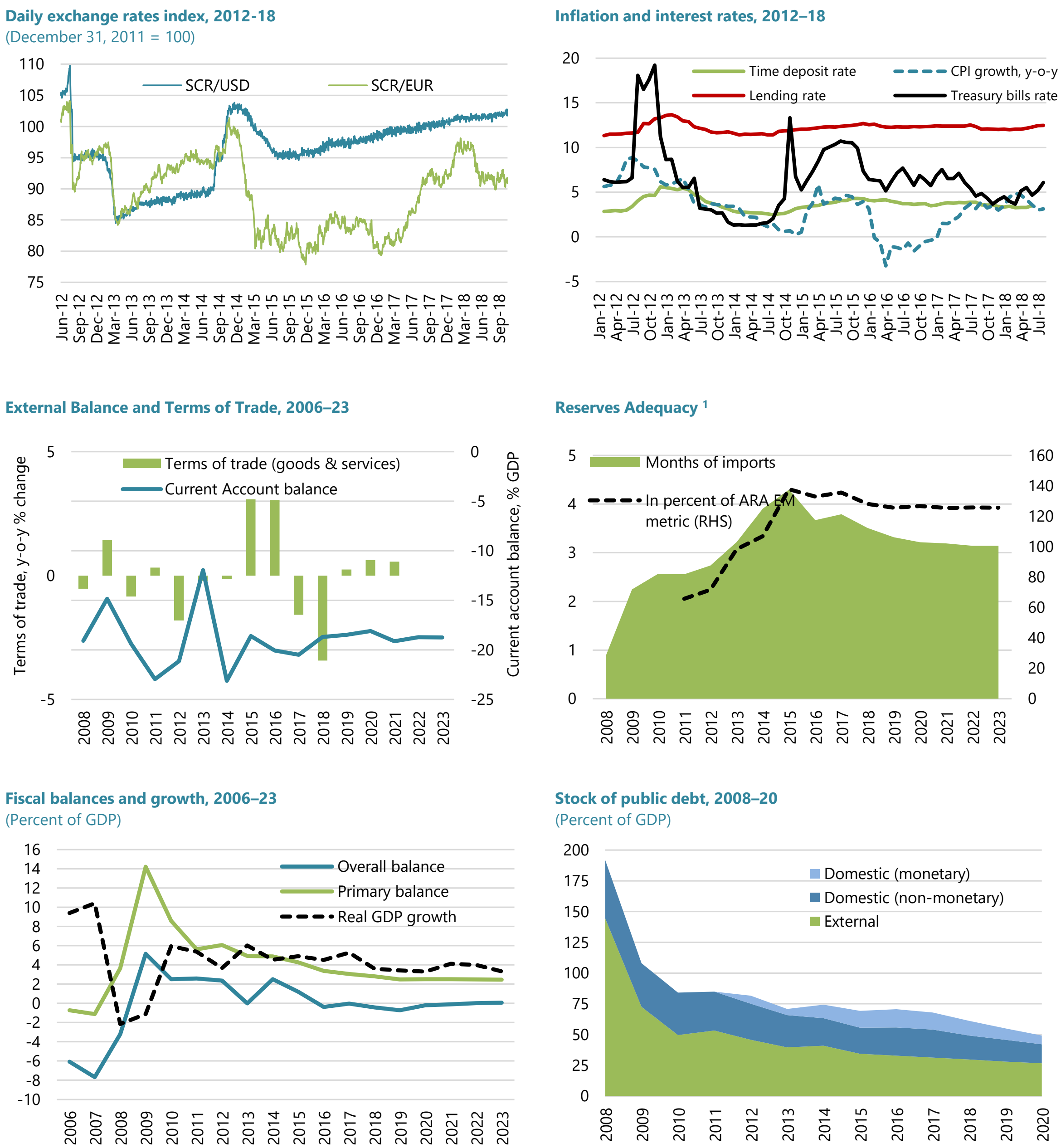
27. **The authorities are urged to step up efforts to strengthen the AML/CFT framework and address the risks of further potential loss of CBRs.** The authorities are committed to promptly amending the AML/CFT framework with international standards and best practices and enhance entity transparency in the offshore sector, in line with the recommendations listed by the ESAAMLG's MER and the Fund Legal department's TA report. They are also committed to continuing efforts at the regional/international level to develop solutions to address CBR pressures. Staff welcomes the progress made by the authorities to effectively implement the OECD BEPS principles.

28. **The authorities are encouraged to stay focused on structural reforms to minimize fiscal risks potentially arising from SOEs and enhance prospects for inclusive growth.** Air Seychelles is implementing a comprehensive restructuring plan. The government should closely monitor the progress and consider prompt actions, if needed, to ensure that no budget impact would materialize beyond that already assumed in their budget and the baseline in this Staff

Report. The authorities are also encouraged to keep momentum on structural reforms and implement RTs on SOEs governance and financial stability in a timely manner.

29. Given the authorities' strong program implementation and sustained commitment to safeguarding macroeconomic stability, staff supports the authorities' request for the completion of the second review under the PCI and the modification of end-December 2018 targets (the replacement of the reserve money quantitative target with an MPCC based on CPI inflation as of end-December 2018) and the proposed new end-June and end-December 2019 targets.

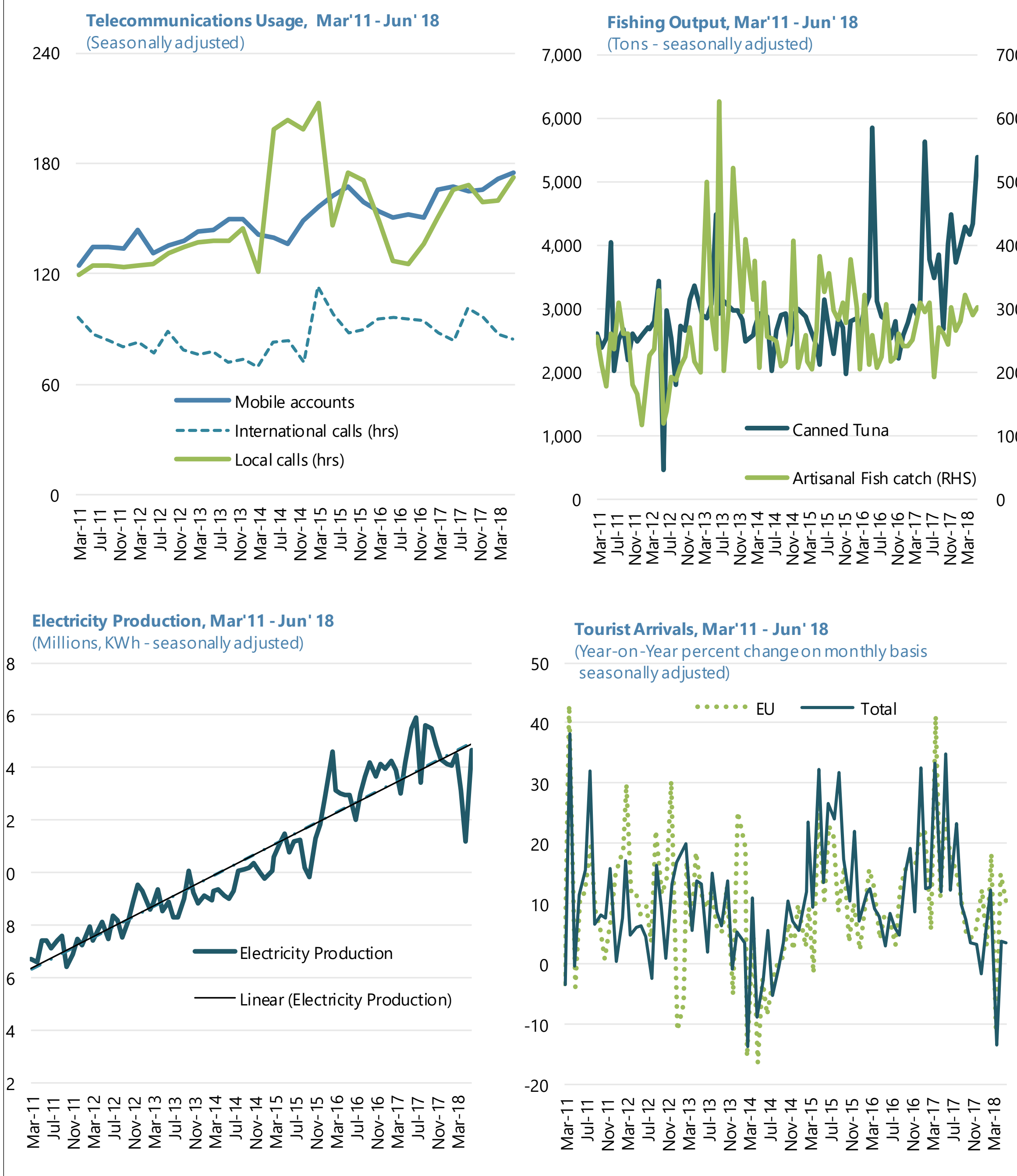
Figure 1. Seychelles: Macroeconomic Developments and Projections



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
				Prel.	1st Rev.	Proj.			Proj.		
	(Annual percent change, unless otherwise indicated)										
National income and prices											
Nominal GDP (millions of Seychelles rupees)	17,119	18,340	19,014	20,444	21,914	21,905	23,578	25,055	26,761	28,521	30,323
Real GDP	4.5	4.9	4.5	5.3	3.6	3.6	3.4	3.3	4.1	4.0	3.3
CPI (annual average)	1.4	4.0	-1.0	2.9	4.4	3.9	4.4	2.8	2.9	2.9	2.9
CPI (end-of-period)	0.5	3.2	-0.2	3.5	5.2	4.6	4.0	3.2	3.1	3.0	3.0
GDP deflator average	2.3	2.1	-0.8	2.1	3.5	3.4	4.1	2.9	2.6	2.5	2.9
Money and credit											
Broad money	26.6	2.9	12.1	16.4	7.4	9.1	5.9	...	...	...	...
Reserve money (end-of-period)	13.9	9.5	14.5	18.9	6.1	7.1	2.4	...	...	...	...
Reserve money (average of last quarter)	-14.5	7.2	10.4	19.0	...	...	...	...	...	...	...
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	4.5	4.5	4.5	4.7	...	...	...	...
Credit to the private sector	26.2	7.8	10.3	17.8	11.5	12.7	8.4	...	...	...	...
	(Percent of GDP, unless otherwise indicated)										
Savings-Investment balance											
External savings	23.1	18.6	20.1	20.5	18.2	18.7	18.5	18.1	19.1	18.7	18.7
Gross national savings	14.6	15.2	10.2	8.5	10.0	8.4	9.4	11.1	12.4	13.4	12.7
Of which: government savings	6.9	5.9	3.8	3.6	5.8	4.9	4.9	5.1	5.9	7.6	7.9
private savings	7.6	9.3	6.4	4.8	4.2	3.5	4.5	6.0	6.5	5.8	4.9
Gross investment	37.7	33.8	30.2	28.9	28.1	27.1	27.9	29.2	31.5	32.1	31.5
Of which: public investment [1]	6.7	4.8	5.0	4.4	7.2	5.6	5.4	5.2	6.1	6.4	6.5
private investment	31.0	29.0	25.2	24.5	20.9	21.5	22.5	24.0	25.4	25.7	25.0
Private consumption	50.8	47.6	47.1	50.9	47.6	47.8	48.8	49.2	48.1	48.9	49.7
	(Percent of GDP)										
Government budget											
Total revenue, excluding grants	34.3	33.4	36.6	35.6	38.0	38.0	37.1	35.5	35.1	35.0	34.9
Expenditure and net lending	34.6	32.8	38.1	37.1	40.2	39.5	38.6	36.7	35.9	35.5	35.5
Current expenditure	28.0	28.0	33.1	32.7	32.9	33.9	33.2	31.6	30.0	29.3	28.8
Capital expenditure [1]	6.6	4.8	5.0	4.4	7.2	5.6	5.3	5.2	6.1	6.4	6.8
Overall balance, including grants	2.1	0.9	-1.4	0.0	-0.3	-0.4	-0.7	-0.2	-0.1	0.0	0.1
Program primary balance	4.9	4.3	3.4	3.0	3.0	2.8	2.5	2.5	2.5	2.5	2.5
Total government and government-guaranteed debt [2]	74.6	69.3	72.7	67.2	62.6	62.7	59.0	54.5	49.7	45.8	42.4
Domestic (including debt issued for monetary purposes)	33.5	34.8	40.4	36.8	33.4	34.4	32.4	30.4	28.4	26.5	24.8
of which: Monetary debt	11.0	13.4	16.2	11.4	9.5	9.5	8.0	6.5	5.2	4.2	3.3
External	41.1	34.6	32.2	30.4	29.2	28.3	26.6	24.1	21.3	19.3	17.6
External sector											
Current account balance including official transfers (in percent of GDP)	-23.1	-18.6	-20.1	-20.5	-18.2	-18.7	-18.5	-18.1	-19.1	-18.7	-18.7
Total external debt outstanding (millions of U.S. dollars) [3]	1,588	1,368	1,404	1,500	1,559	1,549	1,593	1,625	1,671	1,730	1,798
(percent of GDP)	118.2	99.3	98.3	100.1	99.7	98.5	95.7	93.0	90.4	89.0	88.2
Terms of trade (-=deterioration)	-0.1	3.1	3.0	-1.6	-1.9	-3.4	0.2	0.6	0.6	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	546	524	535	533	552	563	579	590
Months of imports, c.i.f.	3.9	4.3	3.7	3.8	3.4	3.5	3.3	3.2	3.2	3.1	3.1
In percent of Assessing Reserve Adequacy (ARA) metric	106.9	137.8	132.9	135.6	...	128.0	125.6	126.6	125.4	125.8	125.6
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	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Est.	Est.	Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance (+ surplus; - deficit)	-310	-256	-286	-307	-294	-308	-316	-354	-364	-382
(percent of GDP)	-23.1	-18.6	-20.1	-20.5	-18.7	-18.5	-18.1	-19.1	-18.7	-18.7
Balance of goods and services (+ surplus; - deficit)	-211	-124	-146	-176	-125	-146	-153	-164	-162	-167
Exports of goods	539	449	459	535	567	609	657	705	718	742
Of which: oil re-exports	193	147	131	150	186	190	197	199	203	209
Of which: tuna exports	318	239	270	268	299	332	369	409	414	422
Imports of goods	1,081	922	991	1,155	1,192	1,264	1,328	1,421	1,451	1,516
Of which: oil imports	282	170	162	190	294	310	318	334	284	291
FDI-related	91	80	112	192	102	114	124	159	187	203
grants- and loans-related	84	63	93	80	63	69	71	71	75	76
other	624	609	624	692	733	771	815	857	904	945
Exports of services	834	848	894	998	1,038	1,076	1,127	1,194	1,238	1,302
Of which: tourism earnings[1]	398	392	414	483	519	542	580	611	642	671
Imports of services	504	498	507	554	538	566	610	641	667	695
Balance on primary income (+ surplus; - deficit)	-102	-105	-133	-136	-146	-137	-134	-159	-168	-180
Of which: interest due	42	27	40	25	43	39	41	42	43	42
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	28	25	27	23	21	23
Financial account	258	271	237	276	261	291	313	347	364	374
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	194	207	191	119	101	81
Government and government-guaranteed	22	-14	-35	-16	-7	2	-4	-7	-12	-12
Disbursements	21	0	5	5	19	28	31	34	42	41
Project loans	3	0	5	0	19	28	31	34	42	41
Program loans	27	10	10	15	0	0	0	0	0	0
Amortization	-16	-24	-54	-19	-33	-32	-40	-44	-53	-52
Private sector	32	100	142	80	201	205	195	127	113	93
Net errors and omissions	50	21	-18	-1	0	0	0	0	0	0
Overall balance	36	72	5	22	-5	8	24	16	21	15
Financing	-36	-72	13	-23	5	-8	-24	-16	-21	-15
Change in net international reserves (increase: –)	-36	-72	13	-23	5	-8	-24	-16	-21	-15
Change in gross official reserves (increase: –)	-38	-74	14	-24	12	-1	-17	-11	-16	-11
Liabilities to IMF, net	1	2	-1	2	-6	-7	-7	-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	4.7	4.9	5.9	6.4	3.0	4.5
Tourism growth, percent	-7.6	-1.3	5.4	16.7	7.5	4.5	6.9	5.5	5.0	4.5
Exports of goods volume growth, percent	-4.7	-12.1	8.7	0.5	7.0	7.0	7.2	7.4	1.6	2.2
Imports G&S growth, percent	17.5	-10.3	5.5	14.1	1.2	5.8	5.9	6.4	2.7	4.4
Imports of goods volume growth, percent	8.4	0.2	14.4	9.5	-4.7	5.4	5.5	7.6	2.7	3.5
Exports G&S, percent of GDP	102	94	94.77	102	102	101	102	103	101	100
Imports G&S, percent of GDP	118	103	105	114	110	110	111	112	109	108
FDI, percent of GDP [2]	16.1	10.8	12.8	18.0	10.6	10.8	10.8	12.9	14.1	14.5
Gross official reserves (stock, e.o.p.)	463	537	523	546	535	533	552	563	579	590
(Months of imports of goods & services)	3.9	4.3	3.7	3.8	3.5	3.3	3.2	3.2	3.1	3.1
Percentage of IMF reserve adequacy metric	107	138	133	136	128	126	127	125	126	126
Government and government-guaranteed external debt	501	482	454	450	442	438	420	392	372	356
(Percent of GDP)	37.3	35.0	31.8	30.0	28.1	26.3	24.0	21.2	19.1	17.5
GDP (Millions of U.S. dollars)	1,343	1,377	1,427	1,498	1,573	1,665	1,748	1,850	1,944	2,038

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 a. Seychelles: Consolidated Government Operations, 2014-23[1]

	2014	2015	2016	2017	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018	2019	2020	2021	2022	2023
	Act.	Act.	Act.	Act.	Proj.				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of Seychelles rupees)													
Total revenue and grants	6,413	6,276	7,205	7,448	1,773	2,058	2,296	2,451	8,578	8,946	9,132	9,589	10,132	10,779
Total revenue	5,870	6,132	6,965	7,275	1,703	1,995	2,259	2,374	8,331	8,739	8,887	9,398	9,971	10,581
Tax	5,294	5,557	6,188	6,600	1,582	1,754	1,930	1,924	7,190	7,491	7,600	8,090	8,577	9,099
Personal income tax	878	948	939	900	222	237	213	206	878	886	930	983	1,038	1,104
Trade tax	376	326	359	285	70	51	79	98	299	329	350	378	397	417
Excise tax	858	962	1,144	1,312	325	321	333	354	1,333	1,446	1,528	1,610	1,688	1,779
Goods and services tax (GST) / VAT [2]	1,803	1,803	1,996	2,151	466	656	637	685	2,443	2,592	2,754	2,942	3,135	3,333
Business tax [3]	782	757	1,039	1,364	340	361	480	341	1,522	1,434	1,445	1,543	1,645	1,749
Corporate Social Responsibility Tax (CSR) [3]	84	79	87	95	25	25	28	26	105	113	120	128	136	145
Marketing Tourism Tax (MTT) [3]	40	45	45	60	13	18	18	19	68	74	78	83	89	95
Other	472	637	581	434	120	85	142	195	541	617	394	421	449	477
Nontax	576	575	777	675	121	241	329	450	1,142	1,249	1,287	1,308	1,394	1,482
Fees and charges	347	322	403	349	75	84	99	134	391	434	463	478	509	542
Dividends from parastatals	151	228	330	280	21	83	166	262	531	665	669	671	715	761
Other	78	25	44	45	25	75	65	55	219	150	155	159	169	180
External grants	543	144	240	173	70	63	37	77	246	207	245	191	161	198
Expenditure and net lending	5,981	6,057	7,277	7,455	1,882	1,757	2,140	2,890	8,668	9,113	9,184	9,615	10,126	10,757
Current expenditure	4,798	5,130	6,295	6,687	1,657	1,620	1,923	2,225	7,425	7,836	7,915	8,031	8,344	8,732
Primary current expenditure	4,393	4,566	5,581	6,056	1,497	1,502	1,738	1,982	6,719	7,080	7,233	7,335	7,644	8,004
Wages and salaries [4]	1,229	1,753	2,002	2,074	599	527	602	689	2,417	2,674	2,815	2,853	3,001	3,158
Goods and services [4]	1,288	2,126	2,489	2,562	531	628	763	922	2,844	2,820	2,801	2,858	2,965	3,094
Transfers [4]	1,855	659	1,063	1,380	351	341	366	366	1,424	1,552	1,582	1,589	1,640	1,712
Social program of central government	343	79	130	114	22	28	27	48	125	205	230	210	221	234
Transfers to public sector from central government	1,070	123	80	97	6	15	15	25	62	53	53	53	55	59
Benefits and programs of Social Security Fund	442	458	853	1,169	323	298	324	292	1,237	1,294	1,300	1,326	1,364	1,420
Other	21	29	27	41	16	6	7	6	35	35	35	35	37	40
Interest due	404	564	714	631	160	118	184	243	705	756	682	697	700	728
Foreign interest	175	181	190	218	84	21	101	29	235	252	282	301	311	342
Domestic interest	229	383	524	413	76	97	84	214	470	505	399	396	389	387
Capital expenditure	1,011	801	909	747	171	132	209	540	1,053	1,005	1,001	1,419	1,286	1,536
Domestically financed	656	651	644	564	97	63	150	401	711	658	618	942	1,053	1,262
Foreign financed	355	150	265	183	74	70	59	139	342	347	383	477	234	274
Net lending	120	77	35	-1	49	0	-2	97	143	222	248	145	475	466
Contingency	53	49	38	21	5	4	10	28	47	50	20	20	21	23
Primary balance	836	783	642	623	51	419	341	-196	615	589	630	670	706	750
Overall balance, commitment basis [5]	431	219	-72	-7	-109	302	156	-439	-90	-167	-52	-26	6	22
Change in float	-70	-48	-201	3	0	-200	200	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	361	171	-273	-5	-109	101	356	-439	-90	-167	-52	-26	6	22
Financing	-361	-171	273	5	109	-101	-236	488	90	167	52	26	-6	-22
Foreign financing	8	-84	-304	-407	-84	-23	-56	-71	-207	-63	-128	-144	-149	-132
Disbursements	230	102	287	11	53	7	61	112	260	396	447	497	617	612
Project loans	4	6	25	11	53	7	61	112	260	396	447	497	617	612
Program/budget support	226	96	262	0	0	0	0	0	0	0	0	0	0	0
Scheduled amortization	-222	-186	-591	-418	-137	-30	-117	-183	-466	-458	-576	-641	-780	-773
Of which Paris Club buy-back	...	...	-269	...	...	...	...	...	...					
Domestic financing, net	-412	130	578	316	-82	28	-61	607	297	230	80	170	143	110
Bank financing	-873	-172	389	419	-141	-162	-27	856	331	207	72	153	128	99
CBS	-1,076	-488	-191	438	-155	-139	156	389	250	200	250	250	200	200
Commercial banks	203	316	579	-19	15	-23	-183	468	81	7	-178	-97	-72	-101
Nonbank financing	461	302	190	-103	59	190	-34	-249	-34	23	8	17	14	11
Privatization and long-term lease of fixed assets	77	46	76	82	0	0	0	0	0	0	100	0	0	0
Transfer of SSF deposits to SPF	...	-176	...	...	...	...	...	...	...					
Statistical discrepancy	-34	-86	-77	15	275	-106	-120	-49	0	0	0	0	0	0
Memorandum item:									0					
Pension Fund contribution	180	196	251	237	0	0	65	186	251	266	280	295	310	326
Pension Fund benefits payment	77	85	91	90	45	45	67	20	177	195	213	233	254	277
Pension Fund operating expenses	21	36	37	31	8	8	9	8	33	34	35	36	37	39
External debt service due	397	367	781	636	221	51	217	212	701	710	858	942	1,091	1,115

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 b. Seychelles: Consolidated Government Operations, 2014-23[1]

	2014	2015	2016	2017	2018					2019	2020	2021	2022	2023
					Q1	Q2	Q3	Q4						
	Act.	Act.	Prel.	Proj.	Proj.				Proj.	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	9.4	10.5	11.2	39.2	37.9	36.4	35.8	35.5	35.5
Total revenue	34.3	33.4	36.6	35.6	7.8	9.1	10.3	10.8	38.0	37.1	35.5	35.1	35.0	34.9
Tax	30.9	30.3	32.5	32.3	7.2	8.0	8.8	8.8	32.8	31.8	30.3	30.2	30.1	30.0
Personal income tax	5.1	5.2	4.9	4.4	1.0	1.1	1.0	0.9	4.0	3.8	3.7	3.7	3.6	3.6
Trade tax	2.2	1.8	1.9	1.4	0.3	0.2	0.4	0.4	1.4	1.4	1.4	1.4	1.4	1.4
Excise tax	5.0	5.2	6.0	6.4	1.5	1.5	1.5	1.6	6.1	6.1	6.1	6.0	5.9	5.9
Goods and services tax (GST) / VAT [2]	10.5	9.8	10.5	10.5	2.1	3.0	2.9	3.1	11.2	11.0	11.0	11.0	11.0	11.0
Business tax	4.6	4.1	5.5	6.7	1.6	1.6	2.2	1.6	6.9	6.1	5.8	5.8	5.8	5.8
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	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	0.3	0.3	0.3
Other	2.8	3.5	3.1	2.1	0.5	0.4	0.6	0.9	2.5	2.6	1.6	1.6	1.6	1.6
Nontax	3.4	3.1	4.1	3.3	0.6	1.1	1.5	2.1	5.2	5.3	5.1	4.9	4.9	4.9
Fees and charges	2.0	1.8	2.1	1.7	0.3	0.4	0.5	0.6	1.8	1.8	1.8	1.8	1.8	1.8
Dividends from parastatals	0.9	1.2	1.7	1.4	0.1	0.4	0.8	1.2	2.4	2.8	2.7	2.5	2.5	2.5
Other	0.5	0.1	0.2	0.2	0.1	0.3	0.3	0.3	1.0	0.6	0.6	0.6	0.6	0.6
External grants	3.2	0.8	1.3	0.8	0.3	0.3	0.2	0.4	1.1	0.9	1.0	0.7	0.6	0.7
Expenditure and net lending	34.9	33.0	38.3	36.5	8.6	8.0	9.8	13.2	39.6	38.7	36.7	35.9	35.5	35.5
Current expenditure	28.0	28.0	33.1	32.7	7.6	7.4	8.8	10.2	33.9	33.2	31.6	30.0	29.3	28.8
Primary current expenditure	25.7	24.9	29.4	29.6	6.8	6.9	7.9	9.0	30.7	30.0	28.9	27.4	26.8	26.4
Wages and salaries [3]	7.2	9.6	10.5	10.1	2.7	2.4	2.7	3.1	11.0	11.3	11.2	10.7	10.5	10.4
Goods and services [3]	7.5	11.6	13.1	12.5	2.4	2.9	3.5	4.2	13.0	12.0	11.2	10.7	10.4	10.2
Transfers [3]	10.8	3.6	5.6	6.8	1.6	1.6	1.7	1.7	6.5	6.6	6.3	5.9	5.8	5.6
Social program of central government	2.0	0.4	0.7	0.6	0.1	0.1	0.1	0.2	0.6	0.9	0.9	0.8	0.8	0.8
Transfers to public sector from central government	6.2	0.7	0.4	0.5	0.0	0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.2
Benefits and programs of Social Security Fund	2.6	2.5	4.5	5.7	1.5	1.4	1.5	1.3	5.6	5.5	5.2	5.0	4.8	4.7
Other	0.1	0.2	0.1	0.2	0.1	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1
Interest due	2.4	3.1	3.8	3.1	0.7	0.5	0.8	1.1	3.2	3.2	2.7	2.6	2.5	2.4
Foreign interest	1.0	1.0	1.0	1.1	0.4	0.1	0.5	0.1	1.1	1.1	1.1	1.1	1.1	1.1
Domestic interest	1.3	2.1	2.8	2.0	0.3	0.4	0.4	1.0	2.1	2.1	1.6	1.5	1.4	1.3
Capital expenditure	5.9	4.4	4.8	3.7	0.8	0.6	1.0	2.5	4.8	4.3	4.0	5.3	4.5	5.1
Domestically financed	3.8	3.6	3.4	2.8	0.4	0.3	0.7	1.8	3.2	2.8	2.5	3.5	3.7	4.2
Foreign financed	2.1	0.8	1.4	0.9	0.3	0.3	0.3	0.6	1.6	1.5	1.5	1.8	0.8	0.9
Net lending	0.7	0.4	0.2	0.0	0.2	0.0	0.0	0.4	0.7	0.9	1.0	0.5	1.7	1.5
Contingency	0.3	0.3	0.2	0.1	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Primary balance	4.9	4.3	3.4	3.0	0.2	1.9	1.6	-0.9	2.8	2.5	2.5	2.5	2.5	2.5
Overall balance, commitment basis [4]	2.5	1.2	-0.4	0.0	-0.5	1.4	0.7	-2.0	-0.4	-0.7	-0.2	-0.1	0.0	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	0.0	0.0	0.0
Change in float	-0.4	-0.3	-1.1	0.0	0.0	-0.9	0.9	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	1.6	-2.0	-0.4	-0.7	-0.2	-0.1	0.0	0.1
Financing	-2.1	-0.9	1.4	0.0	0.5	-0.5	-1.1	2.2	0.4	0.7	0.2	0.1	0.0	-0.1
Foreign financing	0.0	-0.5	-1.6	-2.0	-0.4	-0.1	-0.3	-0.3	-0.9	-0.3	-0.5	-0.5	-0.5	-0.4
Disbursements	1.3	0.6	1.5	0.1	0.2	0.0	0.3	0.5	1.2	1.7	1.8	1.9	2.2	2.0
Project loans	0.0	0.0	0.1	0.1	0.2	0.0	0.3	0.5	1.2	1.7	1.8	1.9	2.2	2.0
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	0.0	0.0	0.0
Scheduled amortization	-1.3	-1.0	-3.1	-2.0	-0.6	-0.1	-0.5	-0.8	-2.1	-1.9	-2.3	-2.4	-2.7	-2.6
Of which Paris Club buy-back	...	...	-1.4	...	...	...	...	...	...					
Domestic financing, net	-2.4	0.7	3.0	1.5	-0.4	0.1	-0.3	2.8	1.4	1.0	0.3	0.6	0.5	0.4
Bank financing	-5.1	-0.9	2.0	2.0	-0.6	-0.7	-0.1	3.9	1.5	0.9	0.3	0.6	0.4	0.3
CBS	-6.3	-2.7	-1.0	2.1	-0.7	-0.6	0.7	1.8	1.1	0.8	1.0	0.9	0.7	0.7
Commercial banks	1.2	1.7	3.0	-0.1	0.1	-0.1	-0.8	2.1	0.4	0.0	-0.7	-0.4	-0.3	-0.3
Nonbank	2.7	1.6	1.0	-0.5	0.3	0.9	-0.2	-1.1	-0.2	0.1	0.0	0.1	0.0	0.0
Privatization and long-term lease of fixed assets	0.5	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Transfer of SSF deposits to SPF	...	-1.0	...	...	...	...	...	...	...					
Statistical discrepancy	-0.2	-0.5	-0.4	0.1	1.3	-0.5	-0.5	-0.2	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	21,905	21,905	21,905	21,905	21,905	23,578	25,055	26,761	28,521	30,323
Transfer of assets of SSF to SPF														
Pension Fund contribution	1.1	1.1	1.3	1.2	0.0	0.0	0.3	0.8	1.1	1.1	1.1	1.1	1.1	1.1
Pension Fund benefits payment	0.4	0.5	0.5	0.4	0.2	0.2	0.3	0.1	0.8	0.8	0.8	0.9	0.9	0.9
Pension Fund operating expenses	0.1	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Public domestic debt [5]	31.7	32.8	36.8	33.2	...	...	...	31.2	31.2	29.1	26.7	24.7	23.0	21.3
Excluding t-bills issued for monetary purposes	20.7	19.5	20.7	21.8	...	...	...	21.7	21.7	21.1	20.2	19.5	18.8	18.1
Publicly guaranteed domestic debt	1.8	1.9	3.6	3.6	...	...	...	3.2	3.2	3.3	3.7	3.7	3.6	3.5

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, 2015-19

	2015	2016	2017	2018				2019			
				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Prel.	Proj.		Proj.			
				(Millions of Seychelles rupees)							
Depository corporations survey											
Net foreign assets	9,349	9,817	10,754	11,640	11,402	11,429	10,899	11,211	11,483	11,544	11,025
Central bank	6,506	6,550	6,982	7,133	7,175	6,930	6,911	6,949	6,987	7,025	7,063
Deposit money banks	2,844	3,267	3,771	4,507	4,227	4,500	3,988	4,262	4,496	4,519	3,963
Net domestic assets	2,823	3,831	5,134	4,633	5,020	5,538	6,433	6,554	6,345	6,539	7,332
Domestic credit	6,229	7,110	8,476	8,419	8,389	8,695	9,808	9,689	9,622	9,841	10,586
Net claims on the government	1,309	1,791	2,209	2,034	1,940	1,913	2,769	2,584	2,496	2,423	2,975
Of which: Government deposits at the Central Bank	-3,164	-3,355	-3,355	-3,072	-3,211	-3,055	-2,667	-2,872	-2,961	-2,805	-2,467
Of which: Change in monetary debt [1]	-488	-191	670.0	0.9	-292.3	196.3	345.1	50.0	50.0	50.0	50.0
Credit to the economy	4,920	5,319	6,267	6,385	6,449	6,783	7,039	7,105	7,126	7,417	7,610
Of which: credit to the private sector	4,644	5,122	6,032	6,139	6,208	6,542	6,798	6,863	6,885	7,176	7,369
Other items, net	-3,406	-3,279	-3,342	-3,786	-3,369	-3,157	-3,374	-3,135	-3,277	-3,302	-3,254
Broad money	12,173	13,648	15,888	16,272	16,422	16,968	17,333	17,765	17,828	18,083	18,357
Currency in circulation	932	1,026	1,116	1,142	1,114	1,155	1,196	1,225	1,196	1,245	1,288
Foreign currency deposits	4,732	5,029	6,115	6,550	6,649	6,918	6,818	7,200	7,211	7,303	7,384
Local currency deposits	6,509	7,592	8,657	8,581	8,658	8,895	9,318	9,340	9,421	9,535	9,685
Central bank											
Net foreign assets	6,506	6,550	6,982	7,133	7,175	6,930	6,911	6,949	6,987	7,025	7,063
Foreign assets	7,062	7,059	7,560	7,715	7,707	7,513	7,496	7,537	7,578	7,619	7,660
Foreign liabilities	556	508	578	582	533	583	585	588	591	594	597
Net domestic assets	-3,892	-3,558	-3,423	-3,325	-3,821	-2,716	-3,100	-3,167	-3,204	-2,950	-3,158
Domestic credit	-3,301	-2,855	-2,629	-2,563	-3,019	-2,012	-2,234	-2,266	-2,267	-1,978	-2,151
Government (net)	-1,979	-2,170	-1,731	-1,887	-2,026	-1,870	-1,481	-1,687	-1,776	-1,620	-1,281
Commercial banks	-1,180	-610	-705	-500	-852	0	-611	-437	-349	-216	-727
Other (parastatals)	-142	-75	-192	-176	-142	-142	-142	-142	-142	-142	-142
Other items, net	-591	-703	-794	-763	-801	-704	-866	-901	-937	-972	-1,008
Reserve money	2,614	2,992	3,559	3,806	3,354	4,214	3,811	3,782	3,783	4,075	3,904
Currency in circulation	932	1,026	1,116	1,142	1,114	1,155	1,196	1,225	1,196	1,245	1,288
Commercial bank reserves (includes cash in vault)	1,682	1,966	2,443	2,664	2,240	3,059	2,615	2,557	2,586	2,830	2,617
Of which: vault cash	165	193	212	205	178	…	…	…	…	…	…
Of which: excess reserves (excl. bank vault cash)	-67	9	182	283	-120	…	…	…	…	…	…
Of which: required reserves in foreign currency [2, 3]	654	703	841	920	916	953	939	992	993	1,006	1,017
required reserves in domestic currency [2]	930	1,061	1,208	1,256	1,266	1,280	1,335	1,340	1,353	1,370	1,392
Memorandum items:											
Gross official reserves (millions of U.S. dollars) [4]	537	523	546	554	541	538	535	541	527	533	533
Foreign currency deposits (millions of U.S. dollars)	360	372	442	473	479	495	487	511	509	513	516
Broad money growth (12–month percent change)	2.9	12.1	16.4	16.9	14.0	11.5	9.1	9.2	8.6	6.6	5.9
Credit to the private sector (12–month percent change)	7.8	10.3	17.8	19.7	17.1	13.5	12.7	11.8	10.9	9.7	8.4
Reserve money (end-of-period; 12–month percent change)	9.5	14.5	18.9	34.7	5.0	23.2	7.1	-0.6	12.8	-3.3	2.4
Reserve money (daily average over quarter; 12–month perce	7.2	10.4	19.0	18.5	17.4	…	…	…	…	…	…
Money multiplier (broad money/reserve money)	4.7	4.6	4.5	4.3	4.9	4.0	4.5	4.7	4.7	4.4	4.7
Velocity (GDP/broad money; end-of-period)	1.5	1.4	1.3	1.3	1.3	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, 2012-2018[1]

	2012	2013	2014	2015	2016	2017				2018	
	Q4	Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	(Percent, end-of-period)										
Capital adequacy											
Regulatory capital to risk weighted assets	26.7	26.7	21.7	25.5	26.6	25.7	23.4	22.4	23.5	23.5	22.0
Regulatory tier 1 capital to risk weighted assets	19.3	21.0	16.3	18.1	20.4	18.3	19.7	18.3	18.1	17.5	18.8
Capital to assets (net worth)	10.3	9.7	8.5	11.0	11.8	11.5	10.8	10.7	11.0	10.9	9.7
Net tangible capitalization [2]	10.4	9.8	8.6	11.2	12.0	13.6	11.0	10.9	11.2	11.1	9.9
Asset quality											
Foreign exchange loans to total loans	18.7	18.7	23.8	28.6	25.0	24.7	21.6	27.2	27.7	28.4	30.4
Non-performing loans to gross loans	9.3	9.4	8.2	7.6	6.8	7.0	6.9	6.5	7.1	6.5	7.1
Provision as percentage of non-performing loans	29.5	39.2	43.9	41.1	37.4	36.0	35.6	35.4	31.9	35.8	40.0
Provisions as percentage of total loans	2.7	3.7	3.6	3.1	2.5	2.5	2.5	2.3	2.3	2.3	2.8
Earnings and profitability											
Return on assets (annualized)	3.1	1.9	3.3	3.8	3.8	3.4	4.0	3.3	3.9	1.1	2.3
Return on equity (annualized)	29.8	19.6	38.2	34.7	32.7	29.8	36.8	30.6	35.1	10.0	24.0
Interest margin to gross income	62.7	56.6	57.5	60.1	62.7	61.7	61.6	61.7	53.1	59.7	55.4
Noninterest expense to gross income	56.6	65.1	50.3	52.9	45.5	51.4	51.6	48.7	49.7	53.3	56.7
Net interest margin (annualized) [3]	4.1	3.2	2.8	4.3	4.6	4.3	5.0	4.0	4.1	3.7	2.9
Net noninterest margin (annualized) [4]	0.0	-0.4	0.0	-0.4	-1.0	-0.9	-1.1	-0.8	-0.2	-0.8	-0.6
Expense to income	46.4	54.5	52.6	50.3	55.2	57.1	57.5	56.0	54.2	59.3	63.8
Interest expense to gross income	11.8	15.3	10.7	11.1	10.7	13.1	13.8	12.3	12.5	12.1	19.8
Liquidity											
Core liquid assets to total assets [5]	39.6	41.6	40.8	33.0	28.6	28.7	40.2	38.8	38.2	42.0	41.9
Broad liquid assets to total assets [6]	52.0	54.7	54.2	49.1	47.9	47.2	57.2	55.2	55.4	58.4	59.0
Liquid assets (broad) to short term liabilities	58.1	61.2	60.0	55.9	55.0	54.1	65	62.4	62.4	65.8	64.7
Liquid assets (broad) to total liabilities	58.0	60.6	59.2	55.2	54.3	53.4	64.1	61.8	62.2	65.6	65.3
Liquid assets to deposit liabilities	62.5	64.3	62.7	59.5	57.8	57.1	69.1	65.5	65.7	69.4	69.7
Foreign exchange exposure											
Net open foreign exchange position to capital	7.9	8.9	8.8	1.9	3.0	0.5	-1.9	-0.2	0.0	0.1	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

Table 7. Seychelles: Indicators of Fund Credit, 2014-23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				(Millions of SDR)						
Existing Fund credit										
Stock [1]	29.2	29.0	28.0	27.9	24.8	19.9	14.7	10.7	7.0	4.2
Obligation	2.7	2.1	0.9	3.0	1.7	5.4	5.6	4.4	3.9	2.9
Principal (repayments/repurchases)	2.4	1.8	0.9	2.8	1.7	4.9	5.2	4.1	3.7	2.7
Charges and interest	0.3	0.2	0.0	0.2	0.0	0.5	0.4	0.3	0.2	0.2
Disbursements	3.3	3.3	...	3.3	...	...	...	...	...	...
Prospective Fund credit										
Disbursement	...	...	0.0	1.6	...	...	...	...	...	...
Stock [1]	9.9	13.1	13.1	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Obligations [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit [1]	29.2	30.6	28.0	29.5	24.8	19.9	14.7	10.7	7.0	4.2
In percent of quota	267.5	280.7	122.2	128.8	108.2	86.9	64.3	46.6	30.4	18.4
In percent of GDP	3.3	3.1	2.8	2.8	2.3	1.7	1.2	0.8	0.5	0.3
In percent of exports of goods and services	3.1	3.3	2.9	2.7	2.2	1.7	1.2	0.8	0.5	0.3
In percent of gross reserves	9.2	8.0	7.6	7.7	6.6	5.3	3.8	2.7	1.7	1.0
Obligations to the Fund from existing and prospective Fund arrangements										
Disbursements	3.3	3.3	0.0	4.9	0.0	0.0	0.0	0.0	0.0	0.0
Obligations	2.7	2.1	0.9	3.0	1.7	5.4	5.6	4.4	3.9	2.9
Principal (repayments/repurchases)	2.38	1.83	0.92	2.77	1.71	4.90	5.16	4.07	3.70	2.73
Charges and interest	0.34	0.23	0.00	0.25	0.00	0.53	0.42	0.33	0.24	0.17
In percent of quota [3]	25.1	8.9	4.0	13.2	7.5	23.7	24.4	19.2	17.2	12.7
In percent of GDP	0.3	0.2	0.1	0.3	0.2	0.5	0.5	0.3	0.3	0.2
In percent of exports of goods and services	0.3	0.2	0.1	0.3	0.2	0.5	0.4	0.3	0.3	0.2
In percent of gross reserves	0.9	0.5	0.2	0.8	0.5	1.5	1.4	1.1	0.9	0.7

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

[1] End-of-period.

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

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

Annex I. Debt Sustainability Analysis

Seychelles' public debt trajectory is projected to remain on a steadily downward path if the authorities take the necessary fiscal measures to ensure primary surpluses of the order of 2½ percent of GDP as envisaged under the PCI. While public debt is currently around the high-risk benchmark, it is expected to fall below 50 percent of GDP by 2021 and decline further thereafter. While the heat map indicates substantial vulnerability centered around the high level of gross financing needs, the authorities' public debt management and steadfast reduction in the level of public debt would reduce gross financing needs and improve the heat map significantly over the medium term. External private debt remains elevated, but this largely reflects foreign investment in the tourism industry, with the foreign currency earnings of the sector mitigating risks. However, as a small island economy Seychelles remains vulnerable to various shocks: gross public and external financing needs remain very high for the foreseeable future, and the large foreign currency-denominated debt remains a key source of risk. Further progress in reducing the public debt stock and extending the maturities of the domestic public debt is therefore warranted.

1. Evolution of the public debt stock since the previous DSA: The DSA is broadly in line with the previous DSA conducted for the PCI request. The public debt stock is slightly lower than previously projected, reflecting an upward revision of the primary surplus in 2018 to 3 percent of GDP from 2½ per-cent of GDP in the previous DSA.

2. Macroeconomic and fiscal assumptions: The assumptions underpinning the DSA are those of the baseline scenario of this Staff Report. Real GDP growth is projected at around 3½ percent in 2018 and stay around 3 to 4 percent in the medium term—around the estimated potential rate, which are similar to the estimates in the previous DSA. Inflation is projected at around 3 percent over the medium term. The program primary fiscal surplus is expected to be 2½ percent of GDP from 2019 onwards, in line the authorities' target envisaged under the PCI.

3. The definition of public debt in this DSA includes: (i) central government debt as reported by the authorities; (ii) government guarantees issued for loans extended to state-owned enterprises; and (iii) obligations to the IMF. In view of the structural excess liquidity in the Seychelles, debt issued by the central government for monetary purposes, which stood at 11½ percent of GDP at end-2017, is included in the public debt stock in this analysis: while there is an offsetting unremunerated deposit in the central bank, the debt does impose an interest cost and rollover need for the public sector.[1] However, a portion of this monetary debt is projected to be unwound as the central bank develops other instruments for managing monetary policy.

4. The DSA framework suggests that Seychelles' public debt (including government guarantees) is currently around the high-risk benchmark but is falling steadily provided that the authorities implement fiscal consolidation to be envisaged under the PCI. Debt was

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

still high at around 67 percent of GDP at end-2017, around the indicative threshold used in the DSA framework to highlight the high debt level. However, assuming the authorities' commitment to debt reduction and fiscal discipline remains unchanged with no major negative economic shocks, the debt level is projected to fall significantly over the medium term under the baseline scenario, falling below 50 percent by end-2021, or by end-2019 if the domestic debt issued for monetary purposes is excluded.

5. Given that the red (high vulnerability) blocks of the Heat Map arise from the high gross financing needs resulting from the high level of debt stock, the authorities are urged to implement the fiscal consolidation steadfastly to reduce public debt vulnerability. High gross financing needs arise from the high level of public debt and the short maturity of domestic debt.[2] The authorities would need to implement fiscal consolidation as stipulated in the program baseline to reduce the public debt-to-GDP ratio below 50 percent by end-2021. They would also need to extend the maturities of the domestic debt where possible to mitigate the risks arising from the high gross financing needs. Lengthening of domestic debt maturity would reduce the gross-financing needs over the medium term to a level lower than projected in the baseline.[3]

6. Realism of baseline assumptions. With forecast errors for real GDP growth over the period 2009–17 broadly centered around the median, staff projections have been fairly unbiased in the past, suggesting little tendency towards over optimism. While the projected primary balances imply a relatively high fiscal surplus, Seychelles' strong track record since 2009 means that this does not require any further fiscal adjustment.

7. The debt path remains below the high-risk benchmark under most shock scenarios but remains vulnerable to a real exchange rate shock. Under the real exchange rate shock (real depreciation by around 100 percent after 2019), the debt-to-GDP ratio would peak at around 75 percent in 2019 and fall thereafter but would remain around 15 percentage points above the 50 percent target for 2021. Other shocks to the real GDP growth (lower than the baseline by 3 percent during 2019–20) and the real interest rate (637 basis points after 2019) would merely moderate the pace of the fall in the debt-to-GDP ratio, but could delay the authorities' attainment of their debt reduction goal by several years. The asymmetric fan chart, however, highlights that a persistently looser fiscal position would keep debt at an elevated level and could prevent the authorities' debt target from being attained in the foreseeable future.

8. A combined macro-fiscal shock would send the debt-to-GDP ratio well above the critical value of 70 percent. The combined macro-fiscal shock is an aggregation of the shocks to real growth (lower than the baseline by 3 percent during 2019–20), the interest rate (637 basis points after 2019), the primary balance (around 2 percent of GDP during 2019–20) and the

[2] While there is virtually no short-term external public debt (on original maturity basis), most of the domestic debt has a maturity of less than one year.

[3] The baseline does not incorporate the lengthening of domestic debt maturity which the authorities plan to implement over the medium term.

(continued)

exchange rate. Under this scenario (real depreciation by around 100 percent after 2019), the debt-to-GDP ratio would peak at around 110 percent before falling very gradually thereafter, while the debt-to-revenue ratio would increase to almost 300 percent. To reduce currency risks on public debt, the government will conduct a liability management exercise to swap current US dollar obligation into euros later in 2018 (see ¶11 of the Staff Report).[4]

9. The baseline scenario and the numerous shocks produced by the DSA template indicate that, while Seychelles remains very vulnerable to exogenous shocks, continued strong policy implementation should see these risks diminish over the medium term. Under the baseline, gross financing needs fall over the projection period but remains elevated at over 20 percent of GDP until 2023, reflecting the short tenor of the majority of domestic debt. Moreover, gross financing needs increase significantly under various shocks, especially under the combined macro-fiscal shock or the real GDP growth shock, and remain above the indicative threshold even under the baseline. While the steadfast implementation of fiscal consolidation will help to reduce gross financing needs, further measures to extend the average maturity of domestic issuance wherever possible would also reduce rollover risks.

10. The existence of substantial debt contracted by state-owned enterprises requires careful analysis of the related potential risks. Preliminary analysis suggests additional debt liabilities of the SOEs total around 13 percent of GDP, the majority of which is owed by SEYPEC and Air Seychelles. While these debts do not benefit from an explicit government guarantee, in the past such obligations have at times been assumed by the government. In 2012, for example, the government assumed liabilities and obligations of Air Seychelles amounting to around 5 percent of GDP. This DSA therefore provides a scenario where SOEs' external debts of a similar magnitude are assumed by the government in 2019. Under this scenario, the government's goal of reducing the debt below 50 percent of GPD would be delayed by three years, highlighting the need to monitor such debts carefully with a view to mitigating any risk of SOEs' obligations migrating to the government balance sheet.

11. The results of the updated external DSA reveals that total external debt remains elevated at around 90 percent of GDP. However, the risks continue to be mitigated by the composition of external debt and maturity profile: Seychelles' debt stock consists largely of borrowing by the public and tourism sectors. As of end-2017, about one third of the country's external debt is medium to long-term government borrowing, largely from official sources and at favorable interest rates and maturities, and a further third is FDI-related borrowing, largely to the hotel sector, with less than 20 percent of the debt being short-term, largely trade credits and other lines of credit.

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

12. Standardized stress tests confirm that the country's external debt is particularly sensitive to currency depreciation shocks. A 30 percent depreciation of the domestic currency would lead to a spike in external debt-to-GDP ratio to above 150 percent in 2019 and it would stay around that level the end of the projection period, compared to about 90 percent under the baseline scenario. The interest rate, growth and current account shocks would have a more muted, yet significant effect on the country's external debt profile. A permanent ½ standard deviation shock to either growth or the current account (excluding interest payments) would lead to a gradual increase in the external debt-to-GDP ratio to nearly 120 percent by the end of the projection period.

Seychelles Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

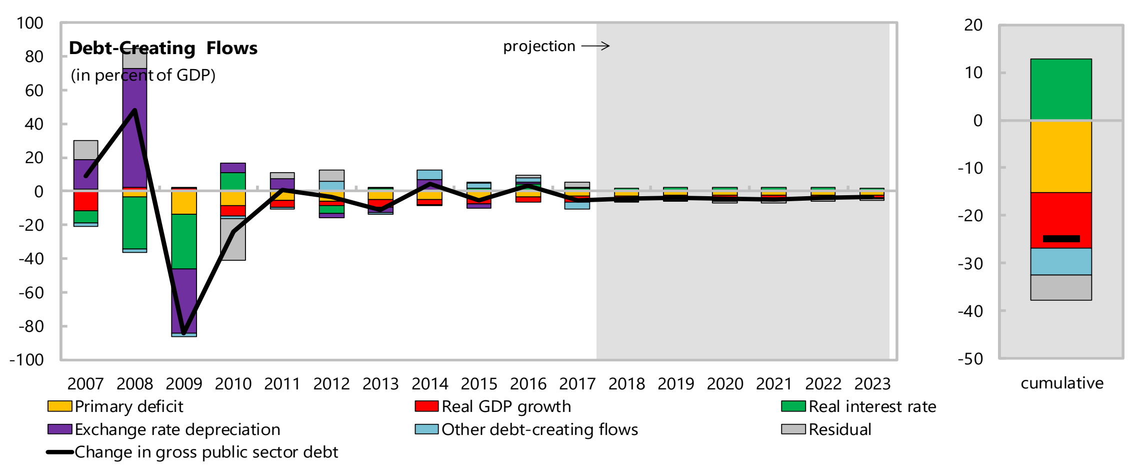
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	101.0	72.7	67.2	62.7	59.0	54.5	49.7	45.8	42.4
Of which: guarantees	1.7	3.9	3.9	3.4	3.2	3.0	2.8	2.6	2.5
Public gross financing needs	24.8	32.3	30.2	28.0	29.0	27.8	25.3	22.5	20.1
Net public debt		56.5	55.8	53.2	51.0	47.9	44.5	41.6	39.1
Real GDP growth (in percent)	4.2	4.5	5.3	3.6	3.4	3.3	4.1	4.0	3.3
Inflation (GDP deflator, in percent)	10.2	-0.8	2.1	3.4	4.1	2.9	2.6	2.5	2.9
Nominal GDP growth (in percent)	14.5	3.7	7.5	7.1	7.6	6.3	6.8	6.6	6.3
Effective interest rate (in percent) [4/]	5.4	5.8	4.8	6.5	8.1	7.2	7.2	7.2	7.3

As of June 30, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		276
5Y CDS (bp)		258
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-7.3	3.3	-5.4	-4.6	-3.7	-4.6	-4.7	-3.9	-3.4	-24.8	
Identified debt-creating flows	-8.3	1.7	-8.1	-4.3	-3.1	-3.4	-3.2	-2.9	-2.7	-19.6	
Primary deficit	-5.6	-3.3	-3.0	-2.8	-2.5	-2.5	-2.5	-2.5	-2.5	-15.3	-0.2
Primary (noninterest) revenue and gra	36.6	37.9	36.4	39.2	37.9	36.4	35.8	35.5	35.5	220.5	
Primary (noninterest) expenditure	31.0	34.5	33.4	36.4	35.4	33.9	33.3	33.0	33.1	205.2	
Automatic debt dynamics [5/]	-3.3	2.4	-1.1	-0.4	0.3	0.5	0.2	0.3	0.4	1.4	
Interest rate/growth differential [6/]	-10.0	1.4	-1.8	-0.4	0.3	0.5	0.2	0.3	0.4	1.4	
Of which: real interest rate	-6.5	4.4	1.7	1.9	2.3	2.4	2.3	2.2	1.8	12.8	
Of which: real GDP growth	-3.5	-3.0	-3.6	-2.3	-2.0	-1.8	-2.1	-1.9	-1.4	-11.5	
Exchange rate depreciation [7/]	6.7	0.9	0.7	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.6	2.7	-4.0	-1.1	-0.8	-1.4	-0.9	-0.7	-0.7	-5.7	
Privatization Proceeds (negative)	-1.1	-0.4	-0.4	0.0	0.0	-0.4	0.0	0.0	0.0	-0.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic debt issuance for monetary	1.7	3.1	-3.6	-1.1	-0.8	-1.0	-0.9	-0.7	-0.7	-5.3	
Residual, including asset changes [8/]	1.0	1.6	2.7	-0.2	-0.6	-1.2	-1.5	-1.0	-0.7	-5.2	



Source: IMF staff.

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

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

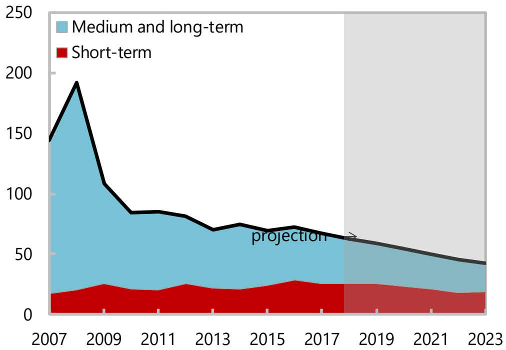
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

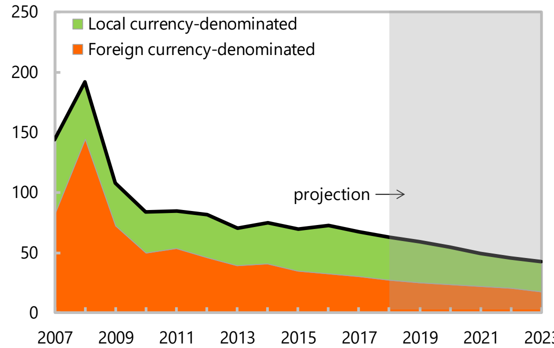
Seychelles Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



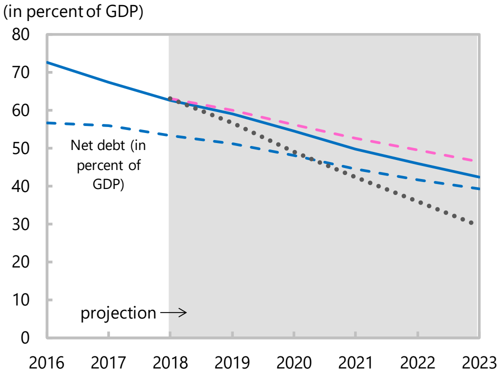
By Currency
(in percent of GDP)



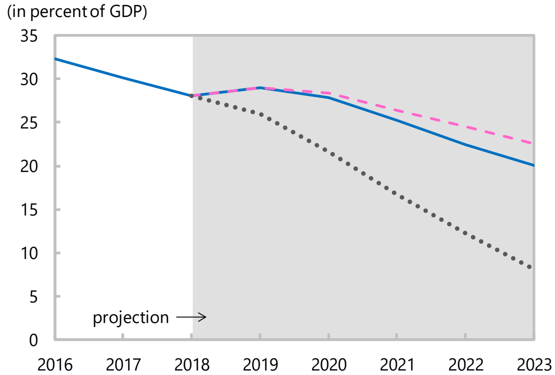
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



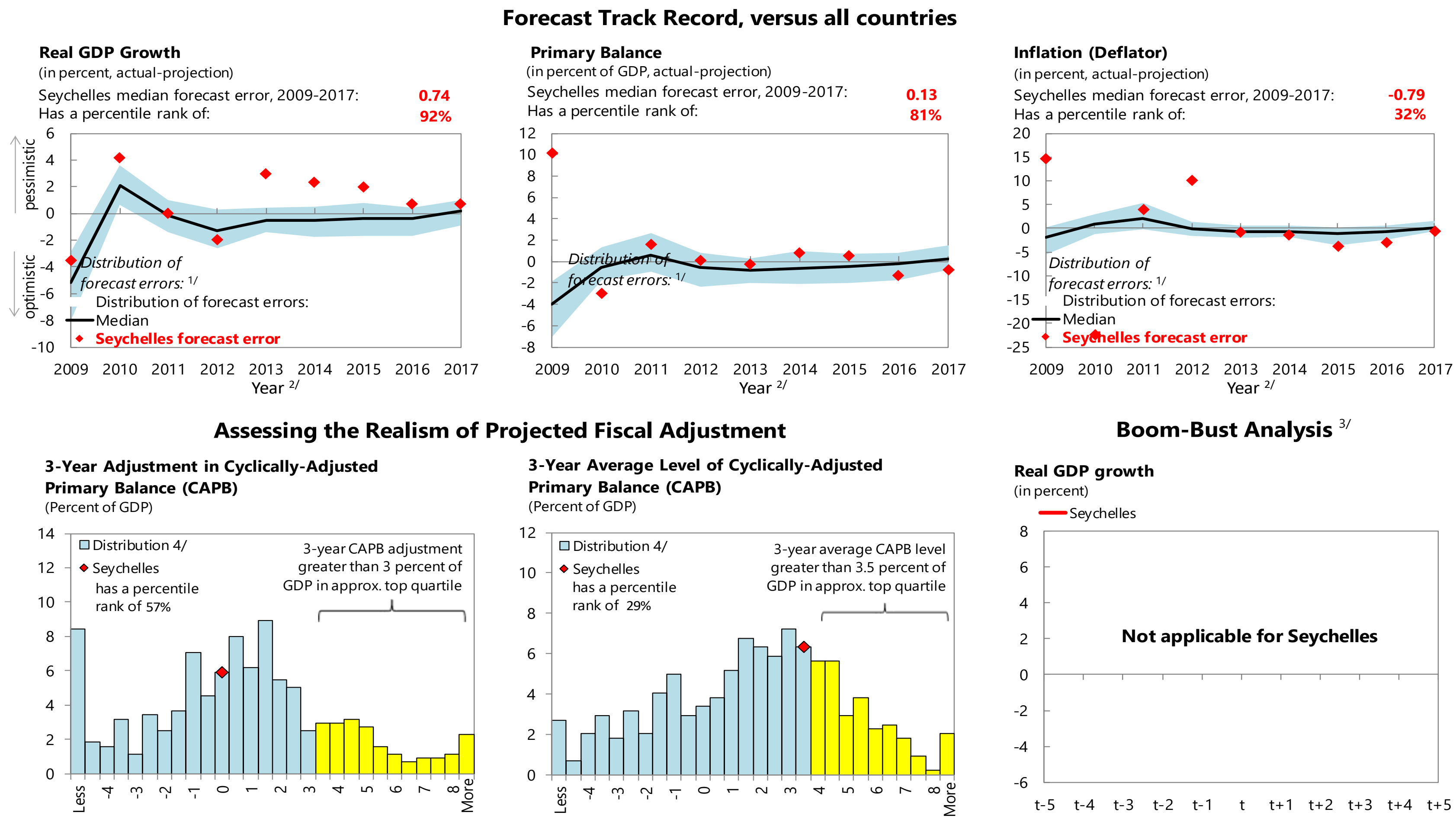
Underlying Assumptions
(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.6	3.4	3.3	4.1	4.0	3.3
Inflation	3.4	4.1	2.9	2.6	2.5	2.9
Primary Balance	2.8	2.5	2.5	2.5	2.5	2.5
Effective interest rate	6.5	8.1	7.2	7.2	7.2	7.3
Constant Primary Balance Scenario						
Real GDP growth	3.6	3.4	3.3	4.1	4.0	3.3
Inflation	3.4	4.1	2.9	2.6	2.5	2.9
Primary Balance	2.8	2.8	2.8	2.8	2.8	2.8
Effective interest rate	6.5	8.1	7.2	7.1	7.0	7.0

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.6	3.7	3.7	3.7	3.7	3.7
Inflation	3.4	4.1	2.9	2.6	2.5	2.9
Primary Balance	2.8	5.8	5.8	5.8	5.8	5.8
Effective interest rate	6.5	8.1	5.9	6.0	6.2	6.5

Source: IMF staff.

Seychelles Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

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

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

3/ Not applicable for Seychelles, as it meets neither the positive output gap criterion nor the private credit growth criterion.

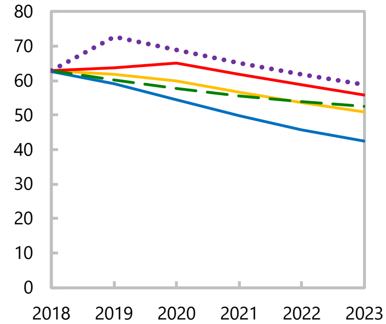
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Seychelles Public DSA - Stress Tests

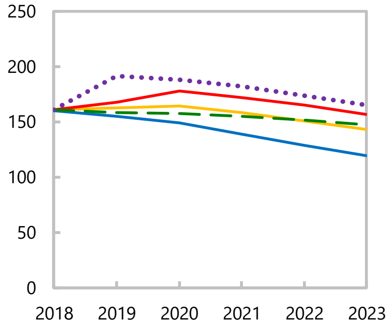
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

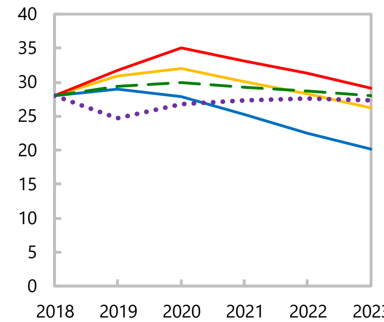
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



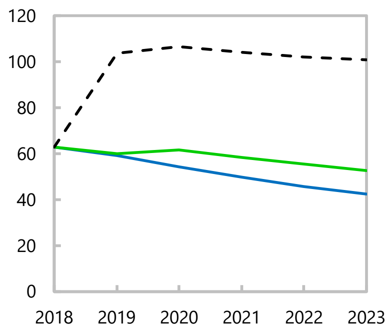
Public Gross Financing Needs
(in percent of GDP)



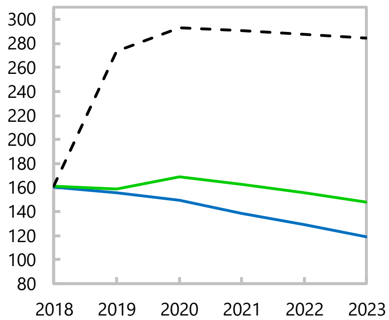
Additional Stress Tests

Baseline
SOE bailout
Combined Macro-Fiscal Shock

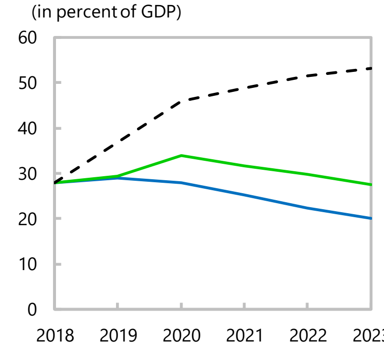
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

	2018	2019	2020	2021	2022	2023
Primary Balance Shock						
Real GDP growth	3.6	3.4	3.3	4.1	4.0	3.3
Inflation	3.4	4.1	2.9	2.6	2.5	2.9
Primary balance	2.8	0.9	0.9	2.5	2.5	2.5
Effective interest rate	6.5	8.1	7.1	7.0	6.8	6.7
Real Interest Rate Shock						
Real GDP growth	3.6	3.4	3.3	4.1	4.0	3.3
Inflation	3.4	4.1	2.9	2.6	2.5	2.9
Primary balance	2.8	2.5	2.5	2.5	2.5	2.5
Effective interest rate	6.5	8.1	8.9	9.2	9.4	9.6
Combined Shock						
Real GDP growth	3.6	0.5	0.4	4.1	4.0	3.3
Inflation	3.4	3.3	2.1	2.6	2.5	2.9
Primary balance	2.8	0.9	0.0	2.5	2.5	2.5
Effective interest rate	6.5	10.4	6.9	7.2	7.5	7.9

	2018	2019	2020	2021	2022	2023
Real GDP Growth Shock						
Real GDP growth	3.6	0.5	0.4	4.1	4.0	3.3
Inflation	3.4	3.3	2.1	2.6	2.5	2.9
Primary balance	2.8	1.2	0.0	2.5	2.5	2.5
Effective interest rate	6.5	8.1	7.1	7.0	6.7	6.7
Real Exchange Rate Shock						
Real GDP growth	3.6	3.4	3.3	4.1	4.0	3.3
Inflation	3.4	39.8	2.9	2.6	2.5	2.9
Primary balance	2.8	2.5	2.5	2.5	2.5	2.5
Effective interest rate	6.5	10.4	5.7	5.7	5.5	5.5

Source: IMF staff.

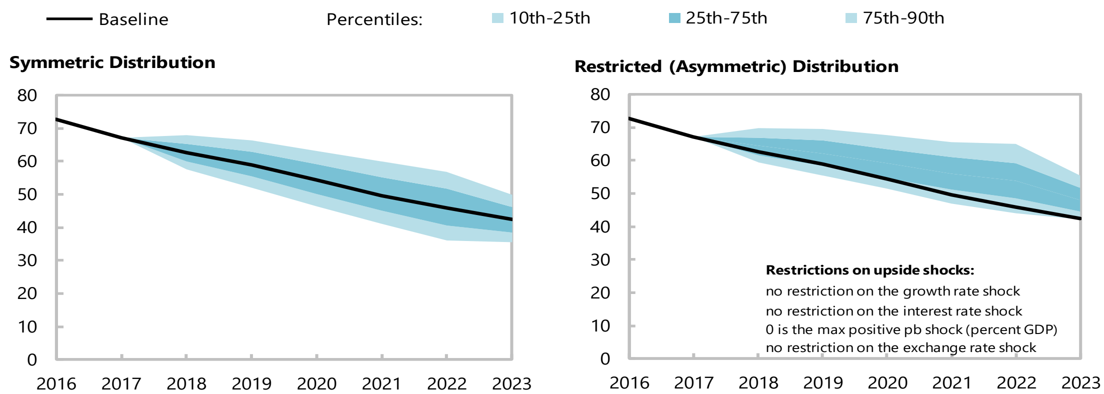
Seychelles Public DSA Risk Assessment

Heat Map

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

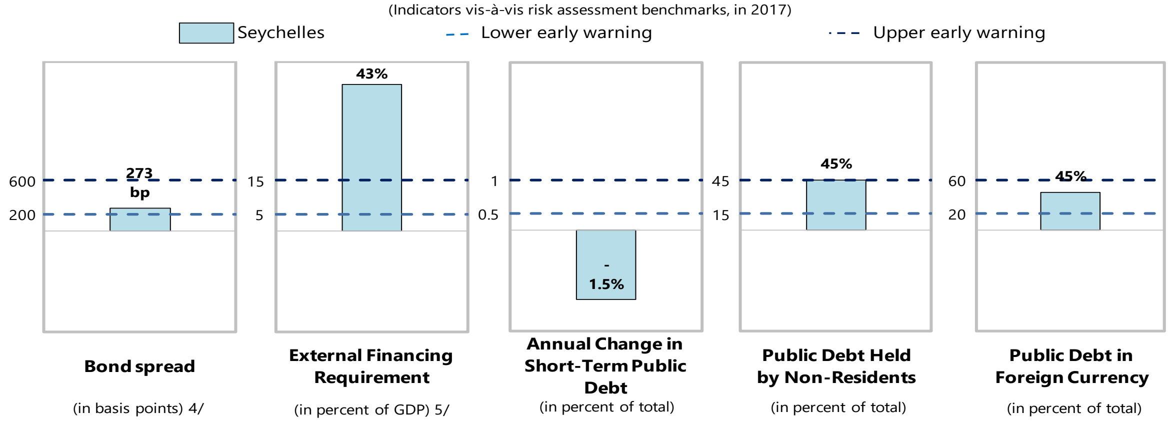
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 01-Apr-18 through 30-Jun-18.

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

External Debt Sustainability Framework, 2013-2023
(In percentage of GDP; unless otherwise indicated)

	Actual						Projections						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	167.8	125.2	118.2	99.3	98.3	100.1	**98.5**	**95.7**	**93.0**	**90.4**	**89.0**	**88.2**	**-14.5**
2 Change in external debt	-15.2	-42.5	-7.0	-18.9	-1.0	1.8	-1.7	-2.8	-2.7	-2.6	-1.4	-0.8	
3 Identified external debt-creating flows (4+8+9)	28.1	-29.5	0.3	8.2	12.7	6.3	4.3	4.6	4.4	4.7	3.4	4.3	
4 Current account deficit, excluding interest payments	19.9	10.8	22.1	18.1	18.7	20.1	17.6	17.4	16.9	18.0	17.6	17.6	
5 Deficit in balance of goods and services	-227.6	6.9	15.7	9.0	10.2	11.8	8.0	8.8	8.8	8.8	8.4	8.2	
6 Exports	105.2	94.7	102.2	94.2	94.8	102.4	102.0	101.1	102.1	102.7	100.6	100.3	
7 Imports	-122.5	101.5	118.0	103.2	105.0	114.1	110.0	109.9	110.9	111.5	108.9	108.5	
8 Net non-debt creating capital inflows (negative)	14.1	-7.5	-21.4	-7.5	-3.9	-9.5	-11.0	-10.7	-10.7	-10.8	-11.8	-11.6	
9 Automatic debt dynamics 1/	-5.9	-32.7	-0.4	-2.5	-2.2	-4.2	-2.3	-2.1	-1.9	-2.5	-2.3	-1.7	
10 Contribution from nominal interest rate	1.2	1.2	1.0	0.5	1.3	0.4	1.1	1.1	1.1	1.1	1.1	1.1	
11 Contribution from real GDP growth	-6.5	-8.1	-5.6	-5.7	-4.3	-5.0	-3.4	-3.2	-3.0	-3.6	-3.4	-2.8	
12 Contribution from price and exchange rate changes 2/	-0.6	-25.8	4.2	2.7	0.8	0.3	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-43.3	-13.1	-7.3	-27.1	-13.6	-4.6	-6.0	-7.4	-7.0	-7.3	-4.8	-5.1	
External debt-to-exports ratio (in percent)	159.5	132.3	115.6	105.5	103.8	97.8	96.5	94.6	91.1	88.0	88.5	88.0	
Gross external financing need (in billions of US dollars) 4/	830.9	772.2	828.7	848.6	699.8	647.9	676.8	692.8	713.9	755.7	783.3	797.2	
in percent of GDP	78.4	58.2	61.7	61.6	49.0	43.3	43.0	41.6	40.8	40.9	40.3	39.1	
Scenario with key variables at their historical averages 5/							**104.4**	**108.5**	**111.9**	**112.2**	**113.5**	**113.9**	**-13.0**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.7	6.0	4.5	4.9	4.5	5.3	3.6	3.4	3.3	4.1	4.0	3.3	
GDP deflator in US dollars (change in percent)	0.4	18.2	-3.2	-2.3	-0.8	-0.3	1.4	2.4	1.6	1.6	1.1	1.5	
Nominal external interest rate (in percent)	0.7	0.9	0.8	0.4	1.4	0.4	1.2	1.2	1.3	1.3	1.3	1.3	
Growth of exports (US dollar terms, in percent)	9.2	12.8	9.2	-5.5	4.3	13.3	4.7	4.9	5.9	6.4	3.0	4.5	
Growth of imports (US dollar terms, in percent)	9.3	3.9	17.5	-10.3	5.5	14.1	1.2	5.8	5.9	6.4	2.7	4.4	
Current account balance, excluding interest payments	-19.9	-10.8	-22.1	-18.1	-18.7	-20.1	-17.6	-17.4	-16.9	-18.0	-17.6	-17.6	
Net non-debt creating capital inflows	-14.1	7.5	21.4	7.5	3.9	9.5	11.0	10.7	10.7	10.8	11.8	11.6	

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

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

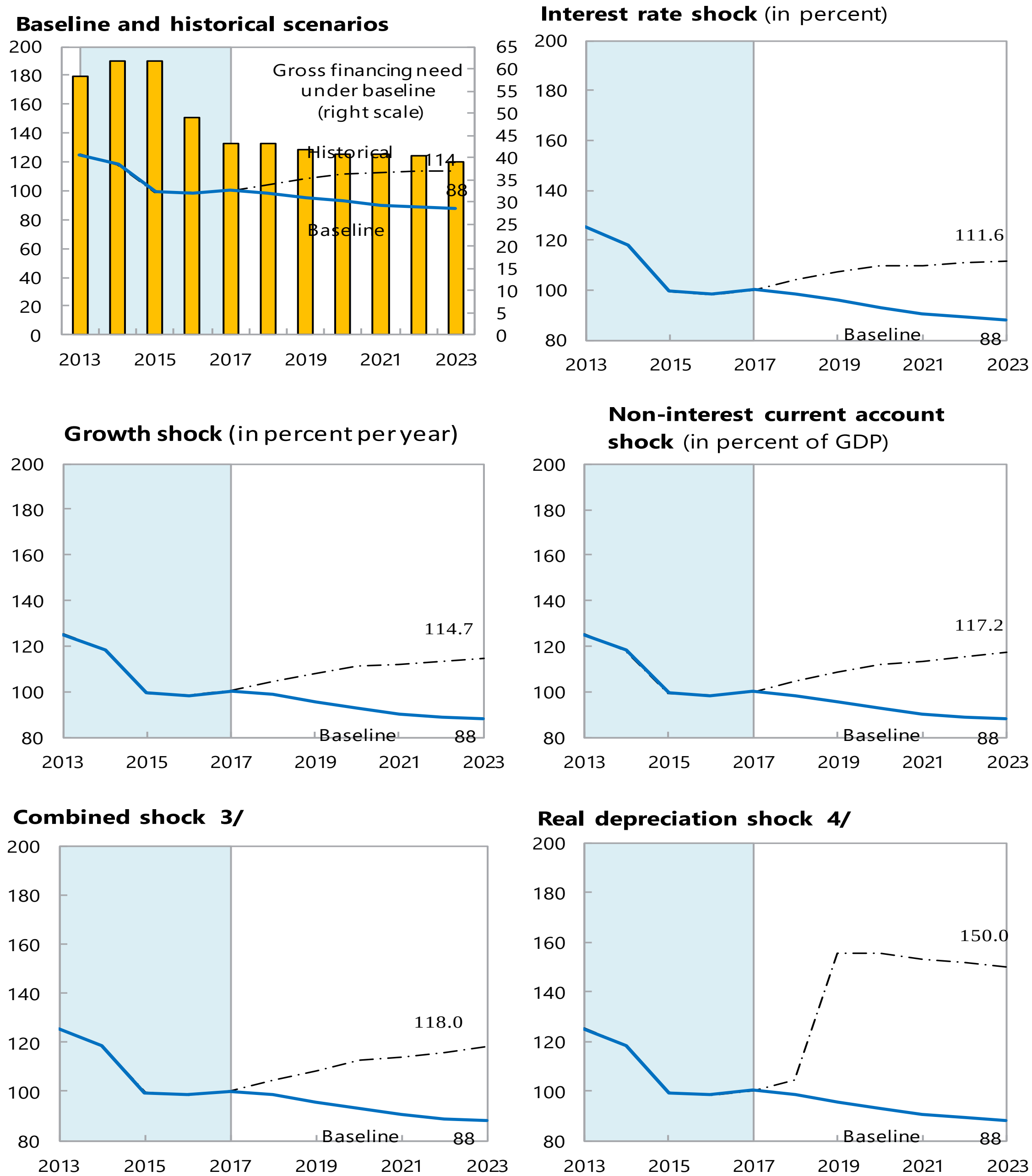
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

External Debt Sustainability: Bound Tests 1/ 2/



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

Annex II. Switching to a Monetary Policy Consultation Clause[1]

1. **The CBS is set to transition toward a forward-looking interest rate-based monetary policy framework.** The re-introduction of the interest rate corridor (overnight standing deposit/credit facilities) in mid-2017 signaled the move to using interest rates as operating targets of monetary policy to achieve the CBS's inflation objectives.[2] However, until the current program review cycle, reserve money (RM) continued to be the primary operating target and, under the PCI, RM is used as a quantitative target (QT).

2. **To align program conditionality more closely with the CBS's policy-making framework, staff and the authorities propose replacing the RM QT with a monetary policy consultation clause (MPCC).** Simultaneously using RM and interest rates as operating targets sends conflicting signals to market participants. In addition, the mechanics of meeting RM QTs are operationally onerous and are consuming the CBS's scarce human resources. In line with the policy adopted by the IMF in 2014 on review-based conditionality in countries with evolving monetary policy frameworks (IMF Policy Paper, March 2014), the CBS requested that the RM QT be replaced with an MPCC.

3. **In line with the Fund TA recommendations, the CBS developed a six-phase action plan aimed at accelerating and facilitating the transition from RM to interest rates as the operating target of monetary policy.** Considerable progress has been made in the implementation of the six-phase action plan. For example, the revision of the policy underlying the Minimum Reserve Requirement (MRR) is underway and all recommended updates to the online portal aimed at facilitating a more efficient access to standing deposits and credit facilities have been completed.

4. **However, more work is needed to finalize the implementation of the six-phase action plan.** The CBS has an implicit policy rate, the Deposit Auction Arrangement (DAA) rate, but has not yet announced it to the public. Also, the revisions of the minimum reserve requirement (MRR) policy were delayed as the changes were initially part of a full revision of the Central Bank Act. Given that a full revision of the Central Bank Act will take more time, staff agreed with the CBS that MRR policy revisions should be completed as a stand-alone change to facilitate swift revisions of the liquidity management operations. In addition, the development of an interface between the CBS's core system and that of the government has not been finalized. However, the CBS has re-assessed all the requirements under the six-phase plan and expects the remaining requirements, including the announcement of a policy rate, to be completed by the beginning of 2019.

[1] Prepared by Salifou Issoufou

[2] See Annex II, IMF Country Report No. 18/196

Table Annex II.1. Implementation of the 6-Phase Plan	
Phase	**Progress**
Phases 1-2	Completed
Phase 3	More than 50 percent completed. The remaining measures are expected to be finalized by the end of 2018 once the revision of MRR policy is approved.
Phases 4&5	This phase revolves around revising the relevant operational guidelines and sensitizing the relevant stakeholders about the revisions. The phase also includes the establishment of a dedicated interbank trading window. Completion is expected in the first quarter of 2018, contingent on the approval of the revised MRR policy.
Phase 6	This phase pertains to the inclusion of the Credit Auction Arrangement on the Open Market Operations online portal. The phase also includes the development of an interface between the central bank's core system and the government to make the retrieval of actual cash spending and revenue data feasible. It is expected to be completed by the end of 2019.

5. **Staff therefore supports the CBS's request to switch from RM QT to a MPCC.** In staff's view, the CBS can signal the monetary policy stance through a policy rate and has the capacity to adjust policies in a flexible way to achieve its monetary policy objectives. The Forecasting and Policy Analysis System (FPAS) was formally incorporated into monetary policy decision making as of the second quarter of 2017. Since then, forecast errors have improved. However, more is needed to further enhance the quality of forecasts and the Fund TA remains needed in this area. Also, Seychelles has a strong track record of policy implementation, inflation has been low (below 10 percent) since the end of the 2008-2009 crisis. Furthermore, staff is of the view that the CBS meets the criteria set for the review-based approach to monetary policy conditionality—namely[3]:

- *Central bank institutional set up*. The CBS is de facto independent and price stability is the de facto primary objective of monetary policy. The CBS is working to enhance its communication strategy and monetary policy decisions are transparent and aligned with the way monetary policy is designed and implemented.

- *Macro and financial development and stability*. Dollarization (as measured by the ratio of foreign currency deposits to broad money) is low in Seychelles and the CBS has a set of foreign exchange and monetary instruments for policy implementation. Fiscal dominance appears non-existent and the financial sector is resilient.

- *Data and analytical capacity*. High frequency data is available and of relatively good quality. Also, the CBS staff has a good understanding of the inflation process and the transmission channels of monetary policy. Furthermore, considerable progress has been made to improve liquidity forecasting with technical assistance from the Fund.

6. **The RM QT will be replaced by an MPCC based on an agreed quarterly inflation path.** This path is within a ±2 percentage points tolerance band to trigger consultation with the IMF Board and an inner bound of ±1.5 percentage point to trigger consultation with the staff. The quarterly

[3] See IMF Policy Paper, March 2014.

inflation path is not tied to an inflation target. As a result, the introduction of the MPCC should not be interpreted as implying a move to an inflation targeting regime.

Appendix I. Program Statement

Victoria,

November 20, 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 2018 and 2019.

Macroeconomic performance continues to be strong in 2018 and outlook remains favorable. Program implementation is largely on track.

The government continues to believe that the policies and measures set forth in the attached PS are adequate for achieving the objectives of the Policy Coordination Instruments (PCI)-supported program, which was approved by the IMF Executive Board on December 13, 2017. Given our 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 whether 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 second review of the PCI-supported program and approve the proposed modification of the end-December 2018 quantitative targets as reflected in Table 1a in the attached PS.

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,

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

/s/
Caroline Abel
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 2019 and updates the Program Statement dated June 5, 2018.

A. Macroeconomic Performance in 2018 and Outlook for 2019

2. Economic performance in 2018 has been satisfactory, with real GDP growth rate now expected to attain 3.6%, in line with forecasts at the beginning of the year, and an average consumer price inflation (year on year) of 4.1%, compared with a forecast of 4.4% at the time of the first program review. GDP growth is sustained by a good performance of production of manufactured goods and food, information and communication, while tourism earnings are expected to rise by about 8% faster than tourism arrivals.

3. Consumer price inflation in 2018 is affected by the increase in electricity tariffs as part of the tariff rebalancing exercise in September and by the rise of international fuel price. The external current account deficit is expected to decline in 2018 in line with initial forecasts, on account of lower services imports and higher tuna exports, despite an increase in the value of fuel import, reflecting higher international prices. Gross international reserves will increase modestly, as programmed, reflecting the issuance of the Blue Bond on the international markets (US$ 15 million) in the last quarter of 2018, and strong tourism earnings.

4. In 2019 the real GDP growth rate is expected to reach 3.4%, with tourism arrivals expected to increase by about 4 % and continuous growth of the manufacturing and construction sectors. The CPI is expected at 4 % on an annual average basis in 2019, reflecting higher fuel price on average during the year, and further adjustment of public utility tariffs. The external current account is expected to be broadly stable as a ratio to GDP between 2018 and 2019.

B. Performance Under the PCI for 2018

5. Up to end-June 2018, program is broadly on track. QTs for end-December are likely to be met. The floor on the primary surplus and net international reserves (NIR) for end-June 2018 were met by a comfortable margin. Meanwhile, the ceiling on daily average reserve money (RM) during the second quarter of 2018 was missed by a small margin (0.2 percent) due to stronger than anticipated growth in currency in circulation coupled with lower than anticipated participation in CBS' open market operations. Structural RTs for end-June were delayed. As to a report on cost-benefit analyses of public investment projects with a cost above 10 million Seychellois Rupees (SCRs) will be submitted to Cabinet in December 2018, later than the original target of end-June, due to delays to receive timely and complete submissions of new project proposals that would require cost benefit analysis to the Development committee. Amendments to the AML/CFT framework in line with the Financial Action Task Force (FATF) standard will be submitted to Cabinet in December 2018, later than the original target of end-June, in order to take into account the recommendations in the intervening IMF TA report and the mutual evaluation report of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG. The new Code of Governance for the SOEs will be submitted to the Cabinet in December 2018, slightly later than the original target of end-September. Risk-based approach to the supervision of banks and trusts and company service providers will be implemented in March 2019, slightly later than the original target of end-December 2018. Amended legal framework for crisis management, bank resolution and safety nets will be submitted to Cabinet in June 2019, postponed from the original target of end-December 2018. Other RTs for end December 2018 are progressing in line with program.

C. Budgetary Performance in 2018 and Outlook for 2019

6. The budget performance in 2018 is generally in line with the program and the primary surplus target of 2.5% of GDP is expected to be reached, supported by strong tax revenues, which is expected to be 1.3% of GDP higher than in the initial budget, and lower-than-budgeted capital spending. Primary current expenditure in 2018 will remain in line with the revised forecast made in mid-year, which reflected higher expenses for social protection than in the initial budget. These are partly offset by lower capital expenditure.

7. In 2019, the budget aims at a primary surplus equivalent to 2.5% of GDP. A number of measures will be taken to boost tax revenue and offset some reduction in business tax receipts which benefited in 2018 of payments of tax arrears. The measures include: (i) the reduction in the fuel tax exemptions for the fishing and the tourism sector; (ii) the introduction of a sugar tax on beverages including alcohol; (iii) the introduction of a property tax on real estate owned by non-residents. In total these measures will yield the equivalent of 0.6 % of GDP. Other taxes will be boosted by the receipt of the stamp duty on the sale of a major telecom company to a new operator made in 2016-17.

8. On the expenditure side, primary current expenditure to GDP ratio will decline by 0.75% from the expected 2018 outcome. Goods and services to GDP ratio is expected to decline by 1% from the expected outcome in 2018. However, this is due to fiscal space that is being created by from several agencies that will be removed from the budget in 2019, and the funds catering for pressing social expenditure in health and retirement benefits (see Section D below). A comprehensive review of the mechanisms of social protection, in particular of the care of old age persons, is under preparation with World Bank assistance, and will lead to adoption of reforms to be introduced in time for the 2020 budget. The effort of rationalizing functions and programs will continue, with the aim to increase efficiency in service delivery and achieve savings.

9. The process of rationalizing capital expenditure will continue in 2019. The construction of a "Government house" with an Indian grant will allow to achieve savings in renting offices from 2020 on. The legislation on the public private partnership framework has been sent to the National Assembly in the month of October 2018. The government has further examined the large public investment projects announced in the 2018 State of the Nation Address (SONA) by the President which are to be implemented with private participation with careful evaluation of the risks; they will be carried out in a medium term framework consistent with the observance of the medium term debt target to bring the public debt-to-GDP ratio below 50% by end-2021.

D. The Medium Term Fiscal Framework from 2019 Onwards

10. In 2019, the government aims to contain expenditure, in wages and salaries by limiting recruitment to priority areas such as to cater for positions in the Financial Intelligence Unit, office of the attorney general, registrar general) and spending in goods and services at 2018 level, except for key spending in Health Care Agency, Landscape and waste management agency, social benefits and in the Ministry of Education. Only key priorities as identified in the medium term expenditure strategy will be implemented.

- Government will implement a long service allowance for non-contract staff in July 2019. This is aimed at retaining staff in government and incentivizing long tenure by public servants in the civil service. It will allow non-contract staff to receive a structured increase in their salary package at 5-year intervals, because the current framework does not provide for an increase in salary, except for contract holders, unless a national salary review is implemented.

- On the other hand, all contract holders will start to receive their end of contract payment inclusive of their schemes of service allowances, excluding marketable skills allowance, starting from all contracts that expires as from January 2019. Currently on the basic salary is being recognized in the end of contract payment. This is expected to only cost an additional R5 million annually.

- In addition, a revision in the wage grid will also be implemented in July 2019. A 5% increase on the current salary table has been approved by government following recommendation of the salary review committee. This is in line with the Salary Act, which stipulates that a revision is to be carried out at least once in every five years.

- An excise tax of R4/L will be implemented on all drinks with a sugar content exceeding 5 grams of sugar per 100 ml. This is aimed at reducing the high occurrence of health diseases associated with the consumption of too much sugar. Government will also implement a phased-out approach in removing fuel concessions and exemptions previously provided under the Tourism Incentive Act (TIA) as most of the TIA certificates expires. The concessions will be reduced to all TIA entities except to licensed accommodation not yet connected to the Public Utility Corporation (PUC) grid as well as establishments on the inner islands. 25% fuel subsidy will be removed in 2019 and the remaining 25% in 2020.

- Certain fees and charges will also be revised in 2019. This will be mostly in government ministries, departments and agencies that have not had a revision in their charges for a number of years. In order to curtail the increasing pressure on the health care system and to attempt to sustain the rising cost, the Health Care Agency will introduce for the first time a prescription fee in the health care system of the country. In total, it is expected that around R40 million in additional revenues will be collected from revision in fees and charges across government.

- The Seychelles Fishing Authority and Seychelles Marine Parks Authority will become autonomous entities as of January 2019. As a result, R 306.7 million in expenditure and R 189. 1 million in revenues, from these two entities have been removed from the whole budget.

- Seychelles Business Financing Agency (SBFA) will be dissolved and the administration of the fund will be taken over by the Development Bank of Seychelles (DBS) and will manage the concessionary financing of all small and medium financing. Therefore, SBFA will not feature in total outlays as from 2019, but classified in social programme of government as a transfer to DBS.

- Pension and special pension payments have been removed from the classification of wages and salaries to central programme of government. This is in view that these are payments relating to non-public servants but rather to retired citizens, which therefore necessitates a revision in the definition in the treatment of how these are recorded. This will result in a decline in total wages and salaries and increase in social programmes of central government by the same amount in view of this reclassification.

11. **Climate change mitigation and adaptation remains high on the government agenda.** The mitigation component of Seychelles' National Determine Contribution (NDC) is given in terms of absolute economy-wide emission reductions covering public electricity, land transport and solid waste management. Government will in 2019 continue with the implementation of various measures against single use plastics. We will also be shortly launching the expression of interest for a waste to energy project.

12. As Seychelles embraces renewable energy as part of its sustainable development agenda, one important initiative to facilitate this process is the formulation and adoption of the Energy Act. The Energy Act has created a more dynamic market for stimulating energy efficiency and encourages the import of more efficient appliances into Seychelles. This has allowed the private sector to fully participate in the production and supply of clean and renewable energy. For the first time, individual is able to produce their own electricity using renewable energy technology.

13. Solar energy offers a clean, climate friendly and inexhaustible energy resource with an unprecedented opportunity to bring energy security to our people and improve their lives. Seychelles, therefore, has embarked on a serious solar energy implementation programme to help achieve the target of renewable energy of 5% by 2020 and 15% by 2030. To achieve these targets, we have launched the following important initiatives in 2018 and will continue in 2019:

- **'Smart Energy in Public Spaces' programme** of which the Government of India provided US$3.24 million to focus on installing rooftop PV solar panels on the State House, which houses the President's Office, the National Assembly building, home to the country's parliament, and the Palais du Justice which comprises the law courts. The, the three branches of Government will lead by example.

- **'SMART Energy in Homes and Businesses' programme** has also been launched where the PUC has tendered two contracts to companies to build the first two solar farms on Ile Romainville. A 5MW PV solar farm financed by IRENA and the Abu Dhabi Development Fund. In addition, a contract was awarded to an Indian Company in January of 2018 for a 1 Megawatt solar photo voltaic democratisation farm. This is also being financed by the generous grant of US$3.4 million from the Government of India. This project will provide free energy to 500 Seychellois families that are currently receiving social assistance from the Government.

- Seychelles plans to light up the road network with LED lights (9,000 lights of 22 – 30 W and 1,000 lights of 140 – 150 W). Further, about 5,000 – 10,000 lights would be required for replacement of existing less efficient lights.

- Public sector and the Government buildings use 4% of national electricity generated in Seychelles. In order to increase the renewable energy portfolio in the energy mix, Government has decided to set up roof-top solar PV units on 22 public buildings to a total capacity of 2.2 MW.

- The two 1.0 MW solar PV plants to be installed on Praslin and La Digue Islands would be provided with energy storage facility to counter unexpected fluctuations in solar power generation and smoothen the power output.

E. The implementation of the Structural Reform Agenda

Revenue Management

14. The Seychelles Revenue Commission (SRC) is embarking on an improvement program, aiming at (i) modernizing its processes, (ii) reducing revenue leakages and (iii) improving efficiency in operations and service delivery.

- 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 by the end of March 2019 with the aim to improve risk assessment and permit targeted inspections.

- In order to address revenue leakages, SRC is coming up with a new debt recovery approach. This involves structural change, whereby the debt recovery function would be centralized under the Director for Enforcement, in the Domestic Tax Division. This is expected to enhance efficiency and effectiveness.

- A number of reforms in legislation have also been identified for amendment and implementation in 2019. In addition to Excise and Customs legislations, there will also be further changes to the Business Tax Act regarding territorial tax system. That is to reflect Seychelles' obligations towards the adoption of the Base Erosion and Profit Shifting (BEPS).

Public debt Management

15. The issuance of the Blue Bond was implemented in October 2018; the bond will be guaranteed by the World Bank in combination with GEF resources in order to secure attractive terms. The identification of projects in the Blue Economy that will benefit from the proceeds of this bond, and associated the World Bank's SWIOFish 3 credit, is ongoing, with the assistance from the World Bank. The cross currency swap of the government Eurobond issued in 2009, which currently stand at US$135 million (about 35% of the government external debt stock), to convert US$ obligations in euro obligations at lower interest rate, will be finalized in the coming months with World Bank assistance. This will provide for significant interest savings, as the interest coupons is expected to fall, and better match debt payments obligations with the main currency of denomination of export earnings. The currency swap allows converting the country's liabilities, currently in USD by intermediating with standard financial market instruments. The World Bank can assist to convert our exposure of USD loans with third parties in euros, in view that Seychelles generates far more our revenues in Euro than USD.

16. Extending the maturity of public debt. Following the issuance of 5 and 7 years bonds in 2017 that were over-subscribed by domestic investors, further medium-term bonds will be issued in early 2019, with the view to extend the average maturity of the government domestic debt. The debt management strategy has been reviewed in the context of the Medium Term Fiscal Framework for 2018-22, with the aim to ensure that the government debt –GDP ratio will decline to below 50% by end-2021.

Minimizing the Fiscal Risk of State Owned Enterprises (SOEs) and PPPs

17. As envisaged under the program, a comprehensive legal review has been undertaken to update all the laws and regulations regarding corporate governance of non-financial public enterprises, with the aim to bring them up-to-date and make them consistent and coherent with each other's and with international good practice. On this basis, a new Code of Governance for all non-financial SOEs based on OECD guideline will be submitted to Cabinet by [end-December (third review RT) for enactment starting January 2019. Government has published a fiscal risk statement with the 2019 budget which provide a general economic risks and uncertainties, specific fiscal risks related to the budget execution and a risk framework for public enterprises. The fiscal risk statement also includes information on all contingent liabilities and fiscal risks arising from PPPs for the 2019 budget (third review RT). This follows several technical assistance received from the AFRITAC South mission. It will also calculate the cost of social obligations of SOEs and provide that information in the budget document for the 2019 budget by end-December 2018 (third review RT).

18. In its effort to continue reinforce the monitoring and oversight of SOEs, the PEMC is currently undertaking a review of the PEMC Act with the aim of having a strengthened legal mandate. Draft amendments on PEMC Act will be submitted to the Cabinet by September 2019 (fifth review RT). The PEMC Act 2013 is being reviewed with the objectives of defining the relationship between GOS as shareholder, PEMC as monitoring/ownership entity (on behalf of GOS) and SOE boards & management. The review aims to give PEMC more enforcement powers, such as administrative penalties for non-compliance and the carrying out of due diligence for the appointment and reappointment of directors. At the moment, PEMC is mandated to monitor financial and performance targets. Hence, the new Act will empower PEMC to set the said targets and closely monitors the set targets. A comprehensive Government Ownership Policy and a Dividend Policy for SOEs is also currently being worked on for implementation early 2019.

19. PPPs comes with various risks such as financial, technical, operation, construction, revenue, force majeure, political and project default risks. Prior to entering a PPP contract the Government ensures that all risks relating to the contract and are identified, therefore it is important that the project is carefully appraised to identified all the risks (including contingent liabilities). To mitigate and manage risks, Government takes on risks which it is best able to manage in terms of controlling the likelihood of the risks occurring. Government is exposed only to manageable and affordable levels of risk. Some of the more specific measures that the Government can manage these risks are through insurance in case the private party default. In order to mitigate financial risks, especially exchange rate risks, the Government can consider signing the contract in Seychelles Rupees or opting for hedging, futures contracts and derivatives.

F. Monetary and Exchange Rate Policies

20. Monetary and exchange rate policies continue to be aimed at anchoring marketexpectations and maintaining orderly market conditions. The Central Bank of Seychelles (CBS) has tightened monetary policy since late March 2018 amid concerns over potential inflationary pressures emanating from both domestic and external sources. Consistently, the interest rates on the Bank's Standing Deposit Facility and Standing Credit Facility have been set at 2.0% and 8.0% respectively. In addition to managing the level of reserve money, in line with the revised framework, monetary policy implementation is also focused on steering short-term interest rates within the corridor. However, in view of stronger than anticipated growth in currency in circulation coupled with lower than anticipated participation in CBS' open market operations, the CBS faced challenges in meeting the end-June reserve money target.

21. Mindful of anticipated inflationary pressures, the CBS will maintain a tight monetary policy stance until the end of the 2018 and will cautiously continue tightening if current conditions continue. Despite a moderation in external inflation, the main potential domestic pressures are anticipated to stem from revisions in domestic utility tariffs combined with second round effects of the depreciating currency. In addition, certain announced policies earmarked for 2018/2019 that are yet to be implemented have the potential to add inflationary impulses, such as public-sector wage adjustments in 2019. In terms of credit growth, whilst the year-on-year growth in total credit to the private sector has slowed down to 13 per cent in August 2018, it is anticipated to remain above 10% by the end of 2018.

22. In agreement with the IMF staff, and subject to the IMF Executive Board approval, the monetary policy program conditionality under the PCI will be aligned with the CBS new monetary policy framework. Starting from the December 2018 test date, the Reserve Money (RM)

Quantitative Target (QT) will be replaced by a monetary policy consultation clause (MPCC) based on the agreed quarterly path of inflation averaged over the past 12 months within the ±2 percentage points tolerance band and an inner bound of ±1.5 percentage point to trigger consultation with the IMF staff. The quarterly inflation path is not tied to an inflation target. As a result, the introduction of the MPCC should not be interpreted as implying a move to an inflation targeting regime.

23. The CBS will therefore place increased emphasis on the use of the interest rate corridor, to guide the market on its policy stance. The CBS has encountered some challenges in meeting the reserve money target while simultaneously guiding the market on short-term rates. To enhance the prominence of interest rates, the CBS will focus on steering short-term rates within the corridor. This will be done primarily using the Deposit Auction Arrangement (DAA), with the DAA rate as policy rate and reserve money as a longer-term operational target. The CBS will continue to build internal capacity in modelling and forecasting to support the transition to an interest-rate based framework.

24. Having in place an effective money market with a functioning interbank market continues to be a challenge. To promote interbank activity, the CBS has reduced its intervention in the money market and put in place a more predictable and transparent liquidity management policy actions. In addition, communications have been enhanced through consistent dialogue with market participants on the evolution of the monetary policy framework. It is hoped that under such conditions, the effectiveness of the transmission mechanism from interbank interest rates to banks' interest rates are enhanced.

25. To ensure continued policy coordination, the CBS will continue to work in close collaboration with the Ministry responsible for Finance on the issuance of government securities for monetary policy purposes. Such assistances remain critical given the environment of structural excess liquidity as well as the reserves accumulation objective of the country. However, such fiscal support will be done in line with government's public debt target to below 50 percent of GDP by end-2021.

26. Implementation of monetary policy under an interest rate corridor framework, was part of a gradual process as defined by a six-phased action plan, viewed as necessary to improve the transmission of the policy signal to the real economy. With deficiencies identified under the current framework, which targets a monetary aggregate, the action plan aimed to transition CBS onto a revamped framework, which focusses on targeting an interest rate level. This would require stipulating a policy rate and changing operational guidelines and practices presently in place.

27. The progress made regarding all requirements under the six-phased plan were re-assessed and the expected implementation time-frame of the new framework has been amended. With the exception of few action points that were in delay, many anticipated changes highlighted by the initial plan had either been implemented or were on target. After an extended assessment and consideration given to all necessary parameters to implement the new framework, the CBS anticipates adopting a monetary policy regime hinged on a defined policy rate by the beginning of 2019. The CBS expects that all core requirements for the shift would be achieved within the period.

External Stability

28. Following a worsened position to 20.5 percent of GDP in 2017, the current account deficit is projected to improve to 18.7 percent of GDP in 2018 mainly due to a reduction in imports of services. Tuna exports are also projected to increase between 2017 and 2018 despite the quotas on yellowfin tuna. Further growth in tourism earnings is also expected, although at a slower pace than in 2017. The external current account deficit to GDP ratio is expected to be broadly stable between 2018 and 2019. 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 inflationary pressures locally in 2019.

29. The CBS remains committed to a floating exchange rate and will only intervene to smooth out excess volatility. Interventions conducted since March 2018 have been guided only by the reserves accumulation objective of the CBS, and it is not perceived to have introduced pressure on the exchange rate. To ensure adequate protection against external shocks, the Bank will maintain sufficient external reserves, whilst ensuring that reserves accumulation strategies do not threaten the CBS' primary objective and government's debt reduction strategy. The 2018 projection for gross international reserves is expected to remain at around the level to adequately buffer the country's liabilities against external shocks. This is also consistent with the IMF-calculated metrics on foreign reserves adequacy. Critical for its reserves management activities, the CBS is to continue with its policy to purchase reserves from the market whenever the opportunity arises.

30. The CBS remains committed to strengthening the institution's capacity in reserves management. In this regard, the CBS has maintained its engagement with the Reserves Advisory and Management Programme (RAMP) provided by the World Bank initiated in 2015. The mandate includes several reserves management-related workshops and on-site assistance missions. The current engagement with RAMP which was to end in July 2018, has been extended until end November 2018. This is to give the CBS enough time to prepare for full engagement with RAMP on a 3-year Advisory and Investment Management (AIM) mandate, as approved by the Board in the last week of September. Under the new mandate, which is to be signed later this year, the CBS will benefit from additional training opportunities as well as an asset management service. Through the latter, the CBS will be able to better diversify its international reserves exposure. The amount of fund to be managed by RAMP is US$100 million.

G. Financial Sector Stability and Development

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

31. The financial services sector regulatory framework continues to be modernized to ensure that the sector diversifies and remains compliant to international best practice. This includes work on Base Erosion and Profit Shifting (BEPS) and the adoption of the common reporting standards. Amendments in late 2016 to the International Business Companies Act requires international business companies (IBC) to keep a register of the beneficial owners in Seychelles, and its implementation by the IBC's registered agents would need to be supervised. Also, the International Corporate Service Providers Act, the Mutual Fund and Hedge Fund Act of 2008, the International Trusts Act and the Company Special Act have been modified by the National Assembly in October 2018, to eliminate non-residents preferential tax treatment, which is inconsistent with the BEPS principles. At the same time, the business tax regime was modified to adopt the territorial taxation principle. A risk-based supervision framework for the regulation of Pensions and Insurance has been adopted, which will allow the expansion of financial sector activity in the area of wealth management.

32. The AML/CFT framework is under review to strengthen its effectiveness. The National Risk assessment against AML/CFT risk was finalized in October 2017, and the Mutual Evaluation by the FATF regional body (ESAAMLG) was completed in August 2018; a draft report was prepared which includes a number of recommendations, which should lead to strengthening the AML/CFT regulatory framework. In particular, a new AML/CFT law will be submitted in December 2018 to the Cabinet after additional review, including by the IMF legal Department (second review RT). The law will establish a high level national committee to oversee AML/CFT enforcement, and the administrative functions of the Financial Intelligence Unit (FIU) will be governed by an independent board. The FIU along with the sector regulators will adopt a risk based operational framework to guide its activity, and its inspection staff will be increased. It is anticipated that implementation will begin by end of first quarter 2019. Memorandum of understandings will be established to improve cooperation on AML/CFT issues between the three regulators, the CBS, the Financial Service Authority (FSA) and the FIU.

33. Work on developing the national payments system is ongoing, including the establishment of a Real Time Gross Settlement system. The Credit information system is being redesigned, and a new Credit Reporting Act is expected to be promulgated before the end of 2019.

34. It is the CBS' objective to formulate a National Financial Inclusion Strategy (NFIS) in 2019. Further to the launching of the National Financial Education Strategy, the authorities have deemed it equally important to formulate a roadmap at the national level with the ultimate objective for all stakeholders to cooperate in a coordinated approach in promoting a more effective and efficient process to enhance financial inclusion in the Seychelles. Particular emphasis is being placed in addressing issues regarding the efficient use of financial services including innovative financial services, reduction in the use of cash for payments, SMEs' access to finance and competition in the financial sector. In this context, the Central Bank also has as objective to work in collaboration with the Ministry responsible for Finance to enhance the efficiency of government payments as well as the remittance market. The latter refers to the assessment that was undertaken in 2016, whereby the main issues highlighted are in respect to pricing and increased competition, the need to enhance the regulatory framework, fair and equitable access, lack of transparency and consumer protection as well as lack of guidance on appropriate risk management and governance programmes for AML/CFT in the remittance landscape. The CBS is therefore emphasising on capturing data and diagnostics on the status quo to support the content and priorities of the NFIS, covering both the demand and supply side. In the lead to formulating the NFIS, the CBS is emphasising on capturing data and diagnostics to support the content and priorities of the NFIS, covering both the demand and supply side.

35. **Digitalising the economy is an item that is high on the Central Bank's agenda.** The CBS is in the process of designing a modernisation plan to further develop the payments infrastructure, to allow for a wider choice of e-payment/digital channels for financial services consumers. The modernisation plan of the payments infrastructure includes the implementation of a CSD, an RTGS and a national payment switch/ACH, which is scheduled to begin in 2019. The CBS is further collaborating with the Ministry responsible for Finance to digitise government payments and enhance the use of e-payment facilities in the country in the effort to drive the move to a digital economy.

36. **Work is ongoing to enhance the current Credit Information System and also to promulgate the Credit Information System Act.** The latter is to make provision for extension of the coverage of credit information to allow for better assessment by banks of the credit worthiness to support risk-based pricing of credit. The project is expected to be finalized by December 2019.

37. **The issue of competition in the financial sector requires explicit attention particularly in view that three main banks hold the majority of the financial assets.** It is therefore imperative that a thorough assessment be undertaken on the adequacy of competition in the financial sector to support the policy decisions on the subject matter. Whilst work is expected to begin before December 2018, it is further anticipated that the project would extend into 2019 given the extent and nature of such a project.

38. **The 3-year rolling implementation plan of the National Financial Education Strategy (NFES) is underway.** The strategy is targeting 4 segments namely Adults in the formal workplace, Micro, Small and Medium Enterprises, Youth and the socially and financially vulnerable. Further to the launching of the NFES in December 2017, emphasis will now be on the monitoring and evaluation of its implementation to ensure the implementation of the strategy is on track and adjust policies and other measures when required. Technical assistance is required to support the relevant authorities in designing a monitoring and evaluation framework and provide capacity building for staff of the relevant authorities to execute the monitoring and evaluation.

39. **The CBS has identified that Financial Technologies (Fintech) can enhance financial sector development especially in areas identified in the Financial Sector Development Plan.** It has therefore been approved for a National Strategy for Fintech to be formulated to provide for a coordinated approach regarding the adoption of Fintech for both the onshore and offshore financial

sector of the country, whilst considering the associated risks. The strategy is to further take into consideration the national initiatives to digitise the economy and the potential of Fintech being an enabling factor to achieving a digitised economy. The strategy is expected to be finalised by the first half of 2019.

40. The CBS and the FSA are liaising with the Attorney General's Office to promulgate a Financial Consumer Protection law by the end of 2019. The aim of the law and its supporting Regulations is to give the competent authorities explicit mandate to address financial services complaints, provide consumer redress and make provision for equitable and fair treatment of consumers. In conjunction with the promulgation of the law, the competent authorities are equally working towards establishing a framework that aims at preventing possible violations of market conduct rules that would in turn increase consumer trust in financial products and services.

41. Building on the work of the Financial Sector Development Implementation Plan, the CBS is in the process of seeking further technical assistance from the World Bank under the Reimbursable Advisory Services (RAS) agreement. With completion of the National Risk Assessment (NRA) and adoption of the NRA roadmap, the focus is now being placed on developing AML/ CFT supervision through guidance, tools and effective capacity building of relevant stakeholders to support a risk-based approach to AML/CFT. Assistance is also being sought from the World Bank to formulate a National Strategy for Fintech. Moreover, given that competition in the financial sector has the potential to affect the efficiency and quality of financial services and degree of innovation in the sector, technical assistance is being sought from the World Bank regarding the diagnosis of competition in the financial services sector.

Financial Stability

42. The CBS continues efforts to strengthen the 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 end-2019 (fifth review RT). 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. 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 Cabinet by end-June 2019 (fourth review RT), delayed from the original target of end-December 2018 due to technical reasons. The aim is to ensure that the resolution authority has adequate powers and tools to ensure it is capable of dealing with problematic banks and non-bank financial institutions under the purview of CBS, without leading to financial stability issues. IMF TA has been received in this regard and work is ongoing towards implementation of the recommendations. It is expected that further TA will be required to finalise the framework.

43. With regards to financial stability risks, pressures to CBR remain amongst the most significant threats which are further complicated by the AML/CFT risk. The authorities have undertaken initiatives to improve the CBR conditions via the actions of the high-level committee and the CBS endeavours. Such undertakings include the negotiation of CBR by Crown Agents Bank (CAB) for the CBS and other banks operating domestically. The CAB project aims to not only provide CBR but to assist in capacity building for the sector and participating institutions whilst providing assessments of the level of compliance with necessary international best practice such that areas for improvement can be properly identified. Whilst not all banks have opted to be on-boarded by CAB, those that are engaging have commenced the KYC process and are undergoing necessary steps to be on-boarded shortly.

44. As part of the financial sector strategy, the authorities remain 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. Such includes compliance with international standards on access by competent authorities to beneficial ownership information and compliance with BEPS. Furthermore, this strategy should take into consideration the outcome and recommendations of the latest Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) mutual evaluation report and subsequent discussions and that of the National Risk Assessment. In particular, further measures are needed to ensure entity transparency (including availability of beneficial ownership information, especially with respect to IBCs) and enhance the effectiveness of supervision of company service providers in the offshore sector.

45. **The authorities continue with intensive efforts to address the risks of further potential loss of correspondent banking relationships (CBRs).** The authorities are finalising a Financial sector strategy including the offshore sector 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 arrangement for money laundering activities. The strategy will be submitted to Cabinet in the first quarter of 2019.

46. In addition, the authorities remain committed to improving the jurisdiction's AML/CFT framework. Technical Assistance has been received from the Fund's Legal Department. Moreover, the Mutual Evaluation report (MER) by ESAAMLG has been adopted by the Council of Ministers in September. Based on the recommendations made, work is ongoing to prepare a national strategy for AML/CFT and reviewing the legal and institutional framework. It is to be noted that, there has been a delay in the completion of these as the MER has been finalised in September 2018. It is anticipated that the national strategy and a new AML/CFT law will be submitted to Cabinet before the end of 2018.

47. Similarly, the authorities are making progress toward implementation of risk-based approach to bank supervision, in line with FAFT Recommendations by 1st quarter of 2019 (3rd review RT), slightly delayed from the original target of end-December 2018. The factors leading to global banks' withdrawals from CBRs being multiple and interrelated, IMF staff have 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.

48. The CBS has continued work in relation to cybersecurity in order to mitigate the risk exposure of the financial system to cybercrime. In line with the recognition of the need for greater resource dedication, the CBS is finalising its Cyber Security Framework and introducing a set of guidelines for financial institutions within its supervisory purview. Same has been discussed at the Financial Stability Committee (FSC) level to broaden the scope of application to other financial institutions or use as the basis for a financial sector cyber security framework. Furthermore, the Department of Information, Communication and Technology (DICT) has issued a draft cyber security policy and strategy which will be used by the CBS given its impact on the CBS Cyber Security Guidelines and steer the national cyber security agenda.

49. Legislative framework is strengthened regarding supervision, oversight and financial stability, work is ongoing across a range of financial sector developments. In efforts to further strengthen the financial stability mandate of the CBS, and the FSC, a policy paper pertaining to a standalone Financial Stability Act that assigns macro prudential powers to the relevant regulators is being drafted. Amendments on the Financial Stability Act, which would assign macro prudential powers to the relevant institutions, will be submitted to the National Assembly by May 2019 (fourth review RT). The Act will enable the FSC to take collective action and same is expected to be enacted by end of June 2019. Whilst IMF TA support will likely be anticipated, the CBS is exploring the potential for consultants to be engaged in the process and to assist with the drafting instructions.

50. Other areas of legislative amendment and additions pertain to Non-Bank Credit Granting Institutions and amendments to the Financial Institutions Act (FIA) 2004, as amended. With regards to the former, a policy paper is being drafted to detail the proposed template and structure for regulation and supervision of same by the CBS. It is expected that draft legislation will be completed by mid-2019 dependent on the policy decision taken by relevant stakeholders. Amendments to the FIA include revisions to the licensing procedures, enforcement actions, and corporate governance amongst others. Furthermore, the inclusion of sections that permit for the regulation and supervision of investment banking, Islamic banking and finance, and private banking is underway with relevant policy papers being drafted. The policy papers are expected to be completed by 2019.

51. Oversight of the national payment system is being further developed. A Principles for Financial Market Infrastructures (PFMI) Assessment is expected to be completed by January 2019 with the identification of appropriate consultants to assist with same underway. The assessment aims to identify challenges and weaknesses in the financial market infrastructures whilst the consultant will also provide capacity building to relevant staff. In addition to the PFMI Assessment, a review of the National Payments Systems Act (NPSA) 2014, is underway. Such amendments aim to address shortcomings of the current legislation that impair oversight and enforcement measures undertaken by the CBS and are expected to be completed in 2019.

H. Safeguards at the CBS

52. The CBS is making progress in implementing the safeguards recommendations of the voluntary assessment completed in February 2018. Draft amendments to the CBS Act, including provisions to enhance the governance arrangements, are expected to be presented to the National Assembly in December. The CBS has also strengthened its reserves management operations and risk management function, and is developing a comprehensive AML/CFT framework for its banking operations. An external quality assessment of the CBS internal audit is being finalized by BDO (Mauritius), and the recommendations will be included in an action plan to be submitted to the Audit and Risk Committee (ARC).

I. Program Monitoring

53. The modification of end-December 2018 targets as well as new end-June and end-December 2019 targets are being 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 third review is scheduled to be completed 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 2019[1]

	2017			2018							2019	
	December			March	June			September	December		June	December
	QT				QT					QT	QT	QT
	Proposed in Dec. 2017	Act.	Status	Act.	1st Review	Act.	Status	Proj.	1st Review	Proposed	Proposed	Proposed
Quantitative Targets												
Net international reserves of the CBS, millions of U.S. dollars (floor) [2]	391	424	Met	427	393	430	Met	413	375	375	403	412
Reserve money target (ceiling on daily average during the quarter) [3]	3,766	3,559	Met	3,546	3,624	3,632	Not met	...	4,003	...	...	...
Primary balance of the consolidated government (cumulative floor)	615	623	Met	51	284	470	Met	811	538	538	302	589
Accumulation of external payments arrears by the public sector (ceiling) [4]	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Monetary Policy Consultation Clause [5]												
Inflation (mid-point, percent) [6]	...	...		...	...	...		...	...	3.9	4.1	4.4
Inflation (upper bound, percent) [6]	...	...		...	...	...		...	...	5.9	6.1	6.4
Inflation (lower bound, percent) [6]	...	...		...	...	...		...	...	1.9	2.1	2.4
Inflation (upper inner-bound, percent) [6]										5.4	5.6	5.9
Inflation (lower inner-bound, percent) [6]										2.4	2.6	2.9
Memorandum items:												
Nominal public debt (millions of Seychelles Rupees) [2]	13,536	13,337	Met	13,633	13,719	13,653	Met	13,550	13,614	13,698	13,728	13,757
Program accounting exchange rates [7]												
SR/US$ (end-of-quarter)		13.67		13.84		13.84		13.94		13.94	13.94	13.94
US$/Euro (end-of-quarter)		1.19		1.20		1.20		1.16		1.16	1.16	1.16
US$/UK pound (end-of-quarter)		1.29		1.35		1.35		1.30		1.30	1.30	1.30
US$/AUD (end-of-quarter)		0.79		0.78		0.78		0.72		0.72	0.72	0.72
US$/CAD (end-of-quarter)		0.80		0.80		0.80		0.77		0.77	0.77	0.77
US$/CNY (end-of-quarter)		0.15		0.15		0.15		0.15		0.15	0.15	0.15
US$/SDR (end-of-quarter)		1.41		1.45		1.45		1.40		1.40	1.40	1.40

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] The ceiling is the upper bound of a symmetrical band of six percent in both directions around the reserve money target. Until June 2018, this is a QT.

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

[5] When the end of period year-on-year headline inflation is above/below the upper/lower bound, a formal consultation with the Executive Board would be triggered.

[6] Average of year-on-year headline inflation for the past 12 months.

[7] 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, 2018–19

Actions	Timing	Objective/Status
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	Not met. It is expected to be Implemented in December 2018.
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 Cabinet for enactment.	End September 2018	Not met. It is expected to be implemented in December 2018.
Submit the amendments on Public Enterprise Monitoring Committee (PEMC) Act to the Cabinet to strengthen enforcement power of PEMC.	End September 2019	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	Not met. It is expected to be Implemented in December 2018.
Implement a risk-based approach to the supervision of banks and trusts and company service providers, consistent with the FATF standard.	End-March 2019	Reduce AML risks in financial and off-shore sectors.
Submit draft legislation to Cabinet to solidify the legal framework for crisis management, bank resolution, and safety nets.	End-June 2019	Buttress financial sector stability.
Complete a full transition to Basel II and adopt the Basel III capital definition.	End-December 2019	Buttress financial sector stability.
Submit a draft Financial Stability Act to the Cabinet to assign macro prudential power to relevant institutions.	End-May 2019	Buttress financial sector stability.

Attachment I. Technical Memorandum of Understanding

1. **This technical memorandum of understanding presents the definitions of variables included in the quantitative targets and continuous targets set out in the Program Statement (PS), the key assumptions, and the reporting requirements of the Government and the Central Bank of Seychelles (CBS) needed to adequately monitor economic and financial developments.** The quantitative targets, the continuous targets, and the reforms targets for 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, the fourth review will assess end-June 2019 test date, and the fifth review will assess end-December 2019 test date.

2. **Program exchange rate:** For the program, the exchange rates of the Seychellois Rupee (SCR) to the U.S. dollar will be SCR13.94 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	1.16
GBP	1.30
SDR	1.40
AUD	0.72
CAD	0.77
ZAR	0.07
CNY	0.15

I. QUANTITATIVE AND CONTINUOUS 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.

Projections: December 2018 - December 2019 (millions of US$)[1]

	2018	2019	
	Dec.	June	Dec.
External non-project loan	0.0	0.0	0.0
External non-project cash grants	0.0	0.0	0.0
External debt service payments	49.8	26.1	52.3

[1] Cumulative from the beginning of each year.

Reserve Money and Reserve Money Band (Ceiling)

Definition

Reserve money is equivalent to currency issued and deposits held by other depository corporations at the central bank (bank reserves), including those denominated in foreign currencies. The reserve money targets are the projected daily averages of the quarter preceding the test date, surrounded by a symmetrical band of 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

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.

Monetary Policy Consultation Clause (MPCC)

Definition

6. MPCC headline inflation is defined as the year-on-year rate of change of the Consumer Price Index (CPI), averaged for the past 12 months, as measured by Seychelles' National Bureau of Statistics (NBS).

- If the observed headline inflation falls outside the ±2 percentage point range around the mid-point of projected value for end-December 2018, end-June 2019, and end-December 2019 test dates as specified in Table 1a in the PS, the authorities will complete a consultation with the Executive Board which would focus on : (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviation, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary.
- If the observed headline inflation falls outside the ± 1.5 percentage point range around the mid-point of projected value for end-December 2018, end-June 2019, and end-December 2019 test dates, the authorities will conduct discussions with the Fund staff.

Program Primary Balance of the Consolidated Government (Cumulative Floor)

7. 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)

8. 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.

9. 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

10. 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.

The National Bureau of Statistics will report

Monthly (within 10 days from the end of the month):

- CPI headline inflation, by category.