



SEYCHELLES

July 2022

2022 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

In the context of the Staff Report for the 2022 Article IV Consultation, Request for EFF, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 29, 2022 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 29, 2022, following discussions that ended on May 9, 2022, with the officials of Seychelles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 14, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Seychelles.

The document listed below has been or will be separately released:

Selected Issues

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

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**International Monetary Fund
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IMF Executive Board Completes Article IV and Second Review Under the Extended Fund Facility for Seychelles

FOR IMMEDIATE RELEASE

- The Seychellois economy strongly recovered in 2021, with GDP growth exceeding expectations but the surging commodity prices are expected to weigh on the external and fiscal balances in 2022.
- The government made impressive progress in implementing the EFF program and restoring macroeconomic balances.
- Maintaining the buildup of buffers against shocks remains critical in the current global environment

Washington, DC – June 29, 2022: The executive Board of the International Monetary Fund (IMF) completed today the second review of Seychelles' economic performance under the 32-month Extended Fund Facility (EFF) arrangement that was approved on July 29, 2021. The completion of the review allows the authorities to draw the equivalent of SDR 6.5 million (about \$8.7 million), bringing total disbursements under the current EFF to SDR 54.5 million (about \$72.6 million).

Seychelles' economic recovery in 2021 vastly outperformed projections, fueled by a faster-than-expected rebound of the tourism sector. The recovery is expected to continue in 2022 with projected real GDP growth of 7.1 percent as the tourism sector shows resilience to COVID-19 waves and geopolitical tensions. The recovery has been accompanied by a significant fiscal overperformance.

The authorities' near-term priorities aim at supporting the post-pandemic recovery and addressing the repercussions of the war in Ukraine while reducing debt vulnerabilities and creating fiscal space to address future risks.

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Chair stated:

"Program implementation remains strong and all program targets at end-December 2021, except the floor on social spending, and all end-March 2022 targets were met, and appropriate progress was made toward structural benchmarks. In line with their commitment, the authorities published the audit of COVID-related emergency expenditures. To address current challenges, the authorities requested the modification of performance criteria to allow a more gradual fiscal consolidation. This will permit increased social spending to attenuate the impact of surging commodity prices on the most vulnerable households. Monetary policy remains appropriately accommodative, and the authorities are committed to closely monitoring inflationary pressures.

"The authorities are committed to reducing debt vulnerabilities and creating fiscal space to address future risks. The structural reform agenda will continue to focus on revenue administration, public financial management, and governance, including digitalization, state-owned enterprise reform, and climate change adaptation and mitigation policies.

“The Seychellois economy continues to face significant risks. The economic outlook, while positive, remains subject to external risks including a further surge of commodity prices and fewer tourist arrivals. Higher nonperforming loans in the banking sector could emerge as COVID-support and forbearance measures are being withdrawn. The country remains vulnerable to climate change.”

Following the Executive Board discussion, Mr. Li , Deputy Managing Director and Acting Chair, made the following statement:

“Fueled by a fast rebound of the tourism sector, Seychelles’ economic recovery in 2021 outperformed expectations, with stronger-than-expected growth and fiscal outturns. The tourism sector has shown resilience to COVID-19 waves and geopolitical tensions. The recovery has been accompanied by a significant fiscal overperformance, creating fiscal space to address current challenges. The economic outlook, while positive, remains subject to external risks including from spillovers of the war in Ukraine, a further surge of commodity prices and fewer tourist arrivals.

“Program implementation remains strong and all program targets at end-December 2021, except the floor on social spending, and all end-March 2022 targets were met, and appropriate progress was made toward structural benchmarks. In line with their commitment, the authorities published the audit of COVID-related emergency expenditures. To address current challenges, the authorities requested the modification of performance criteria to allow a more gradual fiscal consolidation. This will permit increased social spending to attenuate the impact of surging commodity prices on the most vulnerable households.

Monetary policy remains appropriately accommodative, and the authorities are committed to closely monitoring inflationary pressures. Higher nonperforming loans in the banking sector could emerge as COVID support and forbearance measures are being withdrawn.

“The authorities are committed to reducing debt vulnerabilities and creating fiscal space to address future risks. The structural reform agenda will continue to focus on revenue administration, public financial management, and governance, including digitalization, state-owned enterprise reform, and climate change adaptation and mitigation policies. The country remains vulnerable to climate change.”



SEYCHELLES

June 14, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

EXECUTIVE SUMMARY

Context. Seychelles' economic recovery in 2021 vastly outperformed projections, fueled by a faster-than-expected rebound of the tourism sector. The recovery is expected to continue in 2022 with projected real GDP growth of 7.1 percent as the tourism sector shows resilience to COVID-19 waves and geopolitical tensions. The recovery has been accompanied by a significant fiscal overperformance.

Outlook and Risks: The outlook is positive, but with downside risks from unanticipated spillovers of the war in Ukraine. External risks include a further surge of commodity prices and fewer tourist arrivals resulting from an erosion of real incomes in advanced economies. Higher nonperforming loans in the banking sector could emerge as COVID-support and forbearance measures are being withdrawn. The country remains vulnerable to climate change.

Program performance: Program implementation remains strong. As of end-December 2021, all quantitative performance criteria (QPCs) and indicative targets (ITs) were met, except the IT on priority social expenditures. All end-March ITs were met and appropriate progress made toward structural benchmarks.

Request for modification of performance criteria: The Seychellois authorities request modification of the June 2022 QPCs, as well as the September 2022 ITs, for a more gradual fiscal consolidation allowed by the past fiscal overperformance and reflecting increased social spending to attenuate the impact of surging commodity prices on the most vulnerable households.

Policy Recommendations. The authorities' near-term priorities aim at supporting the post-pandemic recovery and addressing the repercussions of the war in Ukraine while reducing debt vulnerabilities and creating fiscal space to address future risks. This could be achieved through a policy mix consisting of domestic fuel price adjustment, revenue collection efforts, additional social spending, and a smoother path of fiscal deficit than initially envisaged, while keeping the debt-to-GDP ratio below the level originally envisaged in the program. The structural reform agenda will continue to focus on revenue administration, public financial management, and governance, including

digitalization, state-owned enterprise reform, and climate change adaptation and mitigation policies

Staff's views. Considering the authorities' strong program implementation and policy commitments going forward, staff recommends completion of the second EFF review and supports the authorities' requests for modification of performance criteria.

Approved By
Vivek Arora (AFR) and
Maria Gonzalez (SPR)

The discussions in Victoria took place during April 27-May 9, 2022 and the team consisted of Boriana Yontcheva (head), Aissatou Diallo (resident representative), Erin Nephew, Taehoon Kim (all AFR), and Arindam Roy (MCM). Kyungsuk Lee (AFR) and Jonathan Pampolina (LEG) participated virtually in relevant meetings. Danielle Bieleu and Silvia Guadalupe Nunez (both AFR) assisted with the preparation of this report.

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CONTEXT AND RECENT DEVELOPMENTS

1. **Seychelles' economy rebounded strongly in 2021.** Seychelles was one of the sub-Saharan African (SSA) countries hit hardest by the COVID-19 pandemic, with output contracting 7.7 percent in 2020. Seychelles' early and widespread vaccination campaign allowed it to open its borders to tourists from March 2021, even as the world was buffeted by successive coronavirus variants in 2021-22. Partly as a result, in 2021 tourist arrivals bounced back and GDP growth reached 7.9 percent, nearly 2 percentage points more than projected at the time of the 1st EFF review (Table 1).
2. **Tourism has proved to be resilient following the pandemic.** Seychelles caters to a niche tourist market, which has diversified in recent years and proved resilient. Tourist arrivals from traditional markets in Western Europe, which fell in 2020 with the pandemic, began to recover significantly. In March-April 2022, arrivals from traditional markets more than offset a reduction in arrivals from Russia and Ukraine (Figure 1).
3. **Helped by the strong recovery and the authorities' consolidation efforts, fiscal performance has been much stronger than the program envisaged.** The primary deficit fell from 14.7 percent of GDP in 2020 to 3 percent of GDP in 2021, less than half the size of the 6.6 percent target set at the time of the first review. The substantial fiscal effort was driven by expenditure retrenchment (by 14.3 percent of GDP compared with 11.1 percent envisaged during the first review) and an overperformance in total revenue and grants (which reached 33.8 percent of GDP against 32.4 percent initially foreseen).
4. **The debt-to-GDP ratio has fallen significantly.** In 2021, the debt ratio fell from 89 percent of GDP in 2020 to around 76 percent, 5 percentage points below the first review projections. Gross financing needs (GFNs) declined from 32 percent of GDP in 2021 to 20 percent in 2022 (6 percentage points less than initially projected). Debt reduction owed to a strong economic recovery, the lowering of the fiscal deficit, a successful liability management operation implemented in July 2021 (IMF Country Report No. 22/6), and an appreciation of the exchange rate which offset the 2020 depreciation and brought back the SCR /dollar rate to the pre-pandemic level (the rupee appreciated by 32 percent against the U.S. dollar, 53 percent in NEER and 61 percent in REER terms respectively).
5. **Lower debt, together with a significant reduction in the cost of government financing has contributed to improved market prospects.** A shift towards regular domestic bond financing has been supported by declining yield-at-issuance (a reduction of 409 basis points for an average maturity of around 5 years between February 2021 and May 2022).¹ An improved sovereign rating (Fitch upgraded its sovereign ratings for Seychelles to B+ in November 2021 with an improved

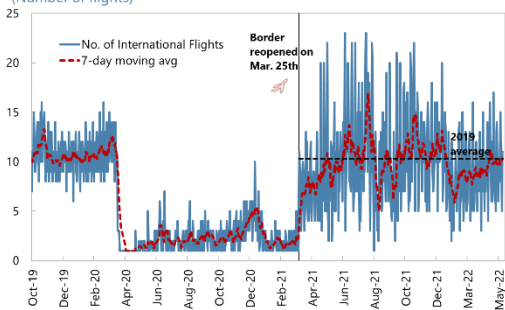
¹ The yield-at-issuance on an average maturity of 5-year domestic bonds declined from 8.6 percent in February 2021 to 4.5 percent in May 2022. At the same time, given the reduced supply of T-bills, yields on 1-year T-bills declined from 6.1 percent in May 2021 to 1.2 percent in May 2022.

ratings outlook in May 2022) together with a significant reduction in secondary market yields on the outstanding Eurobond, could open the prospects for external market access.²

Figure 1. Seychelles: Tourism Indicators

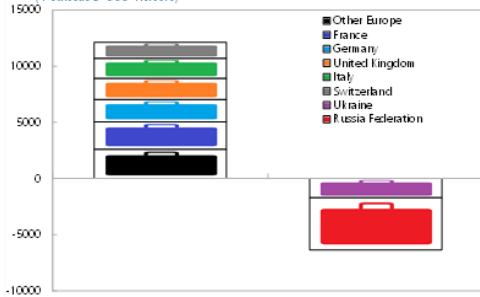
Seychelles continued to show resilient recovery in the tourism sector. The average number of international flights has returned to the pre-pandemic level.

Number of International Flights Arrivals to SEZ airport
(Number of flights)



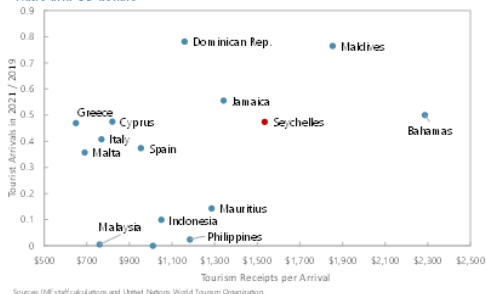
The shortfall in arrivals from Russia and Ukraine has been offset by an expansion of arrivals from the Western Europe market.

Change in Tourist Arrivals from Europe, Jan-April 2022
(1 suitcase=500 visitors)



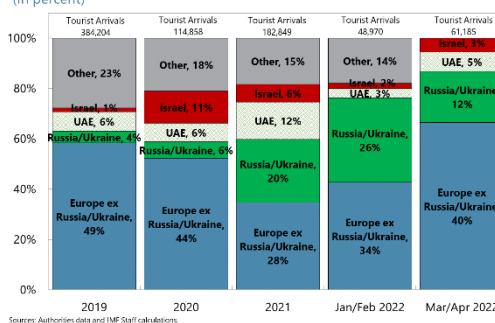
Niche luxury tourism recovered faster in the aftermath of the pandemic.

Tourist Arrival Recovery Ratios (2021/2019) and Tourism Receipts per Arrival
Ratio and US dollars



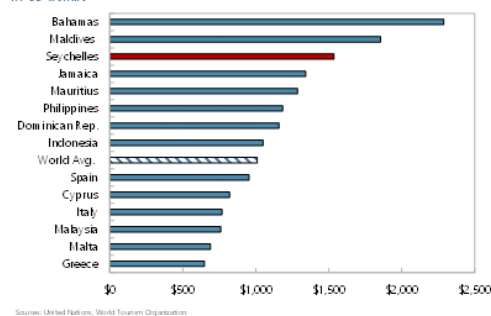
During the pandemic period, Seychelles managed to attract tourists from new markets, including Israel, Russia, and the United Arab Emirates

Share of Tourist Arrivals by Country, 2019-2022
(In percent)



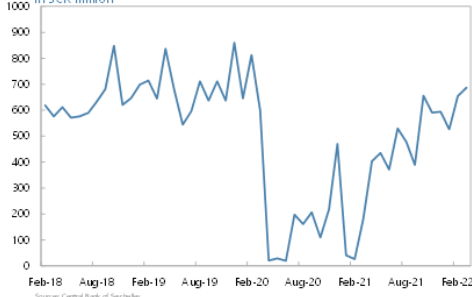
The durability of Seychelles as a destination likely reflects its luxury niche market...

Tourism Receipts per Arrival, 2019
In US dollars



Tourism earnings in Q1 2022 reached pre-pandemic levels.

Tourism Earnings
In SCR million



² Spreads on the Eurobond maturing in 2026 (against the 5-year US Treasury) declined from 2,272 basis points at end-May 2020 to 494 bps on May 18, 2022.

6. Inflation is slowing partly due to the lagged impact of currency appreciation. As a small-island economy dependent on imports, the value of the currency is a key determinant of domestic inflation, but the pass-through has a considerable lag (Figure 2).³ In early 2020, when borders closed, the currency depreciated sharply from 14 rupees per US dollar in March to more than 21 rupees per dollar in November 2020. The pass-through to domestic prices came with a 12–18-month lag and average inflation rose to 9.8 percent in 2021 from 1.2 percent in 2020. Similarly, following the sharp appreciation in April 2021 the currency appreciated sharply as tourism restarted. The appreciation fully impacted domestic prices only in 2022, and partly offset upward price pressure associated with the war in Ukraine and residual cost-push factors from the pandemic.⁴ Headline inflation fell from 7.9 percent (year-on-year) in December 2021 to 2.2 percent in March 2022. However, even though headline inflation is declining, the cumulative increase in prices in 2021 and 2022 in Seychelles (over 14 percent) is expected to be affecting households and could create inflationary expectations, as the global prices of food and fuel are fully passed through in Seychelles. In addition, low-income households with consumption baskets with higher weights for food items are disproportionately hurt by commodity price surges.

7. The external position improved in 2021 due to strong tourism arrivals. Despite the exchange rate appreciation, the current account deficit narrowed due to higher tourism receipts, and gross international reserves (GIR) increased by USD 144 million to USD 702 million in 2021, including the SDR allocation of about USD 32 million. As of June 7, GIR stood at USD 668 million.

8. The financial sector remained resilient during the pandemic although risks remain.⁵ The banking system remains adequately capitalized; regulatory capital improved to 23.61 percent of risk-weighted assets in March 2022, up from 20.2 percent a year earlier, in April 2021. Non-performing loans (NPLs) have, however, risen to 7.3 percent of total loans from 5.4 percent during the same period.⁶ The March 2022 data also show that the distribution of loan quality within NPLs has deteriorated.

³ IMF Country Report No. 2021/184. Seychelles is a small, open economy with a high import content for consumption and intermediate inputs. It does not enjoy continuous access to goods at prevailing global prices. Instead, goods arrive in discrete shipments, often weeks apart. The Seychelles Trading Company makes goods available based on the price prevailing at the time the shipment is received. It does not change the price until the next shipment (reflecting higher or lower global prices, and exchange rate fluctuations). Although the full global price is fully passed on to the consumer, with no subsidy, this does introduce delays in passthrough of exchange rate changes.

⁴ In April 2021, when the border re-opened to tourists, the rupee bounced back to its earlier dollar rate.

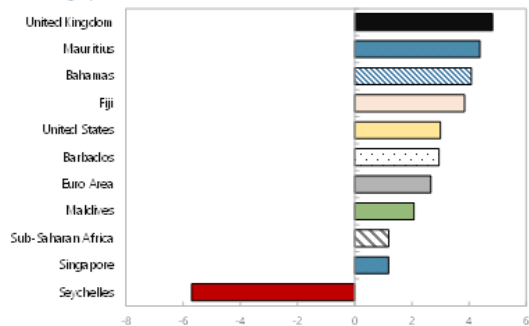
⁵ Sharp swings in the exchange rate have masked the movements in financial soundness indicators. Since most of the currency appreciation occurred in April 2021, financial soundness indicators are assessed with respect to April 2021 ratios to filter out any significant currency valuation changes.

⁶ The rise in NPLs during this period is mainly on account of loans to real estate, tourism, and manufacturing sectors, which contributed 49 percent, 28 percent, and 18 percent, respectively, to the total increase in NPLs. In contrast, loans to private households and mortgages registered a moderate decline in their NPLs. The tourism, real estate, household, and agricultural sectors remained the largest sources of NPLs, accounting for 65 percent of total NPLs in March 2022.

Figure 2. Seychelles: Inflation Indicators

Inflation is evolving differently in Seychelles than in many other countries.

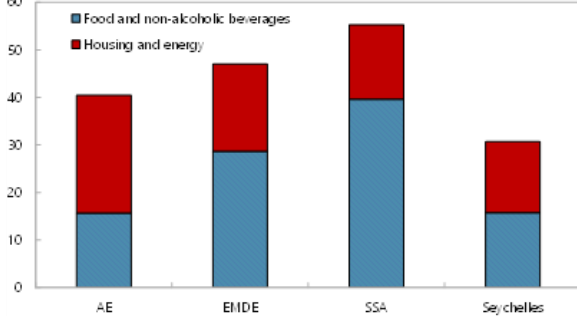
Change in Annual Average Inflation projected from 2021 to 2022
Percentage points



Sources: IMF, WEO April 2022 and IMF staff estimates.

Seychelles' consumption basket is more in line with other high-income countries which have with relatively lower weights for food and fuel items, than with other SSA countries.

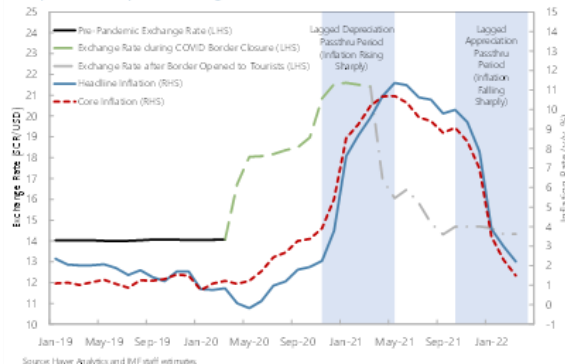
Share of Selected Items in Consumer Price Index
In percent



Sources: Haver Analytics, National Statistics Institutes and IMF staff calculations.
Notes: AE = Advanced Economies, ENDE = Emerging Market and Developing Economies, SSA = Sub-Saharan Africa. The aggregate members for ENDE include all of the 156 countries, which account for 95% of the GDP of this group (measured in PPP terms). For SSA, the figures include 20 of the 45 countries that account for 95% of the region's GDP (measured in PPP terms). The numbers refer to the most available information in each country.

As a small-island economy dependent on imports, the value of the currency is a key determinant of domestic inflation, but with a considerable lag.

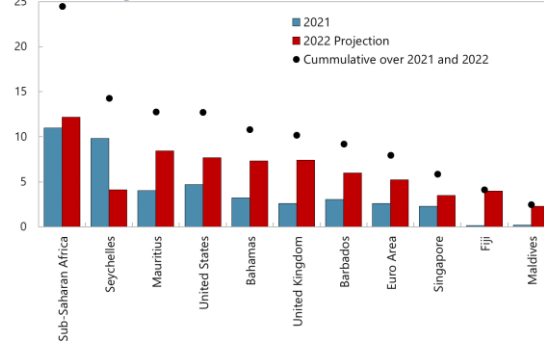
Exchange Rate and Inflation
SCR per USD and percent change



Sources: Haver Analytics and IMF staff estimates.

The cumulative increase of higher prices in 2021 and 2022 in Seychelles is expected to be larger than in many other countries.

Annual Average Inflation
Percent change



Sources: IMF, WEO April 2022 and IMF staff estimates.

OUTLOOK AND RISKS

9. In 2022, real GDP growth is expected to remain robust at 7 percent, helped by the return of tourists from traditional markets. Headwinds include erosion of real incomes from higher food and energy costs. Over the medium term, growth is expected to return to its long-term trend of nearly 4 percent, with continued reliance on tourism and fisheries. Annual inflation in 2022 is expected to reach 4.1 percent, reflecting rising global energy and food prices due to spillovers from the war in Ukraine.⁷ With higher import prices, the current account deficit is expected to widen by 2.3 percentage points to 22.4 percent of GDP in 2022.

10. The outlook remains subject to considerable risks. External risks include unanticipated spillovers from the war in Ukraine, the impact of surging commodity prices, and shocks to tourism

⁷Seychelles' consumption basket has relatively low weights for food and fuel items.

as new travel restrictions or war-related disruptions (Annex 1, Risk Assessment Matrix). Higher NPLs could emerge as COVID-support and forbearance measures are withdrawn. The country remains vulnerable to climate change.

Authorities' Views

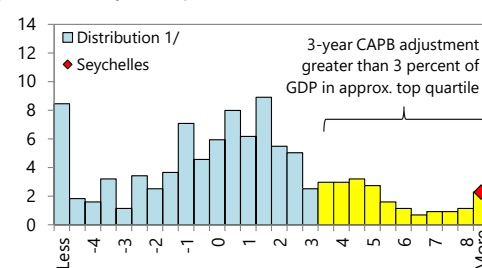
11. The authorities shared staff's views regarding Seychelles' positive economic performance and outlook. They welcomed the resilience of the tourism sector and economic growth performance but expressed concerns that global fuel and food price increases have hit the population hard. They noted the large uncertainty surrounding the outlook and underlined that the full impact of the war in Ukraine is yet to be felt.

PROGRAM PERFORMANCE

12. Performance under the program has been strong. As of end-December 2021, all quantitative performance criteria (QPCs) and indicative targets (ITs) were met, except the IT on priority social expenditures.⁸ All end-March ITs were met and appropriate progress was made toward structural benchmarks. Seychelles benefited from stronger than initially foreseen growth, and fiscal deficits were maintained below program targets. As a result, public debt is on a faster-than-foreseen downward trajectory. The authorities requested a modification of the June 2022 QPCs and September 2022 ITs to reflect a more gradual consolidation in response to rising commodity prices. QPCs and ITs will be set until June 2023.

13. In cross-country comparison, Seychelles' fiscal consolidation and debt reduction efforts have been exceptional. Seychelles reduced its debt-to-GDP ratio by 13 percentage points of GDP from 2020 to 2021. Over the program period, the cyclically adjusted primary balance for Seychelles is expected to fall by 14 percentage points of GDP, which would place Seychelles in the top 1 percent of a sample of fiscal adjustment episodes of all advanced and emerging economies with debt greater than 60 percent of GDP from 1990-2011. The fiscal and debt reduction effort in Seychelles reflects the authorities' program ownership and commitment as well as the vulnerability of small economies to large swings in macroeconomic indicators.

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



Source: IMF staff calculations.
1/Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

14. Structural reforms are progressing appropriately. Contingent liabilities from Air Seychelles have been reduced as Air Seychelles achieved haircuts on its debt in 2022 and has begun implementing a new operational strategy since May 2022. The SBs on the publication of the Annual

⁸ The government's reform of the social safety net has streamlined the number of beneficiaries in 2021. The authorities are conducting a review of the reform to assess the coverage of the SSN.

Borrowing Plan and new domestic debt management strategy (structural benchmarks for end-March 2022) were not met and are delayed by the uncertainty associated with the war in Ukraine and its impact on the macro-framework and fiscal projections. Publication is now scheduled for end-September 2022 following the mid-year budget revision.⁹ The authorities have started publishing an issuance calendar for government bonds for the second quarter of 2022 and met the structural benchmark related to approval of a quarterly borrowing plan in February 2022. The Policy Paper on Financial Stability (structural benchmark for March 2022) was implemented with delay; it was submitted to the Cabinet and approved in May 2022. The policy paper for the amendment of the Financial Institutions (Capital Adequacy) Regulations to adopt the Basel III capital definition was presented to Cabinet and approved in May 2022 (structural benchmark for end-May 2022). The authorities committed to publish the audit of COVID-related expenditures prior to the completion of the second review. The authorities are making appropriate progress on efforts to ensure the accuracy of the beneficial ownership databases.

POLICY DISCUSSIONS

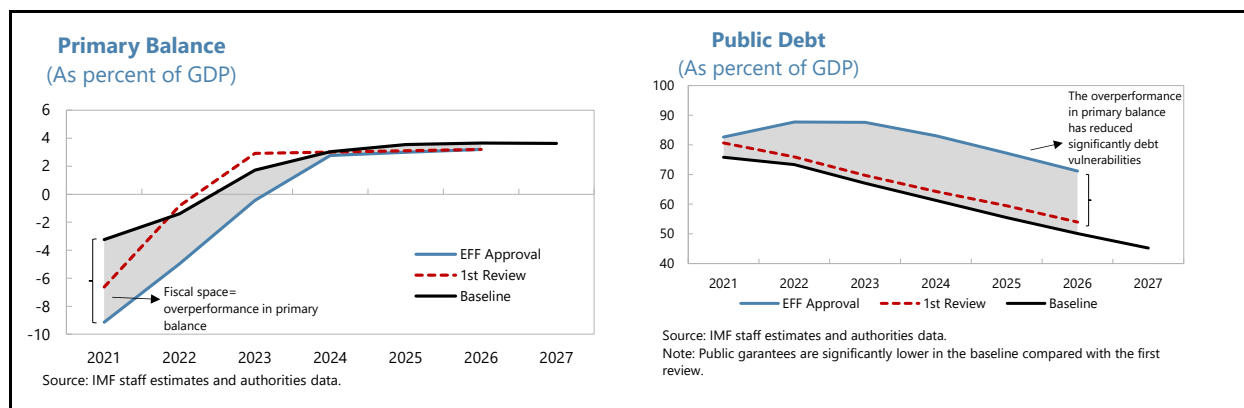
Discussions focused on near and medium-term policies: (i) mitigating spillovers from the war in Ukraine and supporting the recovery from the pandemic, (ii) continuing to bolster debt sustainability and build fiscal buffers; (iii) modernizing the monetary and financial system, and (iv) promoting climate change adaptation.

A. Short-Term Fiscal Policy: Dealing with the Commodity Price Shock

15. Staff and the authorities agreed that the fiscal overperformance in 2021 allowed to recalibrate the budget to better balance supporting vulnerable households with bolstering debt sustainability. To deal with the commodity price shock, the authorities envisage a more gradual fiscal consolidation than at the time of the 1st review. The primary deficit is expected to reach 1.4 percent of GDP in 2022, compared with the 2022 budget goal of 0.8 percent of GDP (MEFP para 22). On the expenditure side, higher-than-initially-planned current expenditures (by about 1.4 percent of GDP) reflect additional security expenditure for the police and anti-corruption commission, and higher targeted temporary transfers to offset the impact of surging commodity prices on vulnerable households (MEFP para 24, 35-36). On the revenue side, external grants are projected to fall short by 1.8 percent of GDP compared to the first review. Tax revenue would remain stable (just over 28 percent of GDP), while non-tax revenue is expected to be slightly above the first review target (MEFP para 23). The authorities plan to partly offset the grants shortfall by curtailing capital expenditure. Such a strategy is consistent with the project implementation capacity challenges facing the country. For 2023, a further substantial consolidation is envisaged but at a more moderate pace: The authorities now target a primary surplus of 1.7 percent of GDP instead of

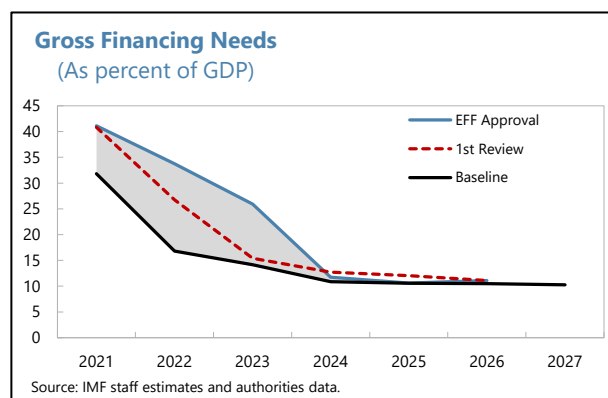
⁹ With Fund TA, the authorities had prepared a new domestic debt management strategy document in February 2022. However, the other structural benchmark on debt management was met, with the National Public Debt Management Committee approving a quarterly borrowing plan by end March 2022.

2.9 percent projected during the first review. This still reflects a substantial fiscal consolidation, and the debt-to-GDP ratio will remain well below the level originally envisaged in the program.



16. The government recognized the need to strengthen the social safety net (SSN). They have started a review of SSN programs to identify the shortcomings of the current system and to improve benefits for and coverage of low-income and vulnerable households. In the short-term and given the limitations of the current system, they intend to offset the impact of rising food and fuel prices on vulnerable households through targeted and temporary cash transfers. SCR 82 million, or 0.3 percent of GDP, has been added to the 2022 budget for a plan to assist the most vulnerable over a duration of six months (MEFP para 22).

17. Debt sustainability has improved substantially but risks remain. The debt to GDP ratio is projected to continue declining to 50 percent by 2026 3.8 percentage points below the first review projections. The recent increase in long-term domestic bond issuance has extended the maturity of domestic debt. Gross financing needs (GFN) are projected to further decline to 9.6 percent by 2026 1.5 percentage points below the first review projections. However, public debt sustainability remains vulnerable to macroeconomic shocks and is particularly sensitive to currency depreciation shocks.



18. Fiscal risks from Air Seychelles have been reduced with the completion of the company's debt restructuring in May 2022. Air Seychelles settled its debts in May 2022 with no fiscal cost to the government, and without disrupting critical ground operations. An agreement was reached with the bondholders for a 66.7 percent haircut on the company's debts that put Air Seychelles on a more sustainable financial footing and allowed for an operational restructuring that is ongoing. The government has committed to provide no further funds to Air Seychelles (MEFP para 42 and 43) and has pre-paid its own obligations to Etihad Airways. Given the strategic nature of the airport for the economy, the operational restructuring will ringfence ground-handling operations

into a separate legal entity, (structural benchmark for end-December 2022). Other public enterprises in Seychelles are profit-making and pose substantially lower fiscal risks. Therefore, contingent liability risks to the government from state-owned enterprises have now been substantially reduced. Work is ongoing to improve the transparency of information related to public enterprises via the Public Enterprises Management Committee (PEMC).

Authorities' views

19. The authorities acknowledged the need to mitigate the impact of the fallout of the war in Ukraine but remain prudent. Having experienced the radical swings in the fiscal position in 2020 and 2021, they underlined the importance of continuing to build buffers as Seychelles is extremely vulnerable to exogenous shocks. The government recognizes the need to strengthen the social safety net and has started a review of related programs to identify the shortcomings of the current system to improve benefits for and coverage of low-income and vulnerable households.

B. Medium-Term Fiscal Priorities

20. The execution of capital expenditures needs to be improved. The authorities' sizeable fiscal consolidation has been partly achieved by under-executing capital expenditures due to a shortfall in external financing compounded by absorption capacity issues. Investments in electricity generation, water systems, sewerage, roads, and other infrastructure will be necessary to continue growing the economy, including tourism. In addition, investments in renewable energy and other efforts to respond to climate change will be especially important. Expenditure targets for 2023 have been increased to allow for the postponement of some capital spending from 2022.

21. The authorities are committed to improving revenue performance. Despite the marked GDP growth since the depths of the COVID-19 crisis, tax revenue has been slow to catch up. The authorities' planned reforms in tax administration focus on digitalization initiatives (MEFP para 27), stronger compliance monitoring (MEFP para 28, 30, and 31), and upgrade in ASYCUDA system at customs (MEFP para 26). In January 2022, the authorities adopted a business tax reform which aims to unify the profit tax rates for different productive sectors at 25 percent (currently tourism, fishery, and agriculture benefit from a lower 15 percent tax rate), (MEFP para 32);¹⁰ reduce the accelerated depreciation provisions for tourism, agriculture, and fishery; and revise the taxation of security dealers. A revised Excise Tax bill, aiming at modernizing the tax regime has been submitted to the National Assembly (MEFP para 32). These reform measures are expected to generate additional 0.7 percent of GDP in 2023.

22. Improving government spending efficiency will be key to ensuring fiscal sustainability and enhancing medium-term growth prospects. A Public Investment Management Assessment (PIMA) planned for FY23 will help identify opportunities to increase the efficiency of public investment, including the scope for the procurement system to support PPPs. The authorities have

¹⁰ Projected tax revenues in 2023 include some revenue measures (0.7 percent) which were already accounted in the first review projections

expressed their interest in Fund technical assistance (TA) combining PIMA and PIMA Climate Change. Staff discussed TA needs related to public financial management (MEFP para 37). Finally, the cash flow unit has been integrated in the Treasury function and progress is being made to reduce the deviation between the forecast and the outcome in the monthly cash flow plan (end-March/June structural benchmark, MEFP para 38).

23. Additional TA support in strengthening the credibility of the Medium-Term Fiscal Framework is scheduled for FY23. The authorities have started technical discussions with IMF staff on strengthening fiscal forecasting (including improving costing methodologies, and estimation of binding expenditure ceilings), fiscal reporting, budget institutions, fiscal risk analysis, and enforcement of budget ceilings (MEFP para 33 and 34).

Authorities' views

24. The authorities emphasized several measures implemented to enhance revenue and strengthen public spending management and efficiency. They stressed recent initiatives that should bolster revenue (MEFP para 26 – 32). Looking ahead, they expressed concerns on the efficiency of the VAT and requested IMF technical assistance¹¹. They are also determined to improve absorption capacity and boost investment through improving the Public Sector Investment Plan (PSIP) and highlighted the role of the recently created Infrastructure Agency improving the planning and execution of capital projects across Government. (MEFP para 31-34).

C. Monetary and Exchange Rate Policy

25. Monetary policy is expected to remain accommodative. Private sector credit growth is sluggish, as the effects of COVID-19 linger on bank balance sheets. Monetary policy rates have been on hold since July 2021 in the presence of abundant liquidity. Despite a sharp economic recovery, private sector credit contracted by 12 percent (year-on-year) in 2021 across all sectors (except mortgage loans) reflecting a mismatch between demand for credit and banks' risk appetite due to the uncertainty of impact from COVID-19 pandemic.¹² There are early signs of a revival in private credit, which is projected to increase by 5 percent in 2022.¹³ The recovering appetite for lending to the tourism sector, supported by rising tourism earnings, provides a foundation for stronger credit growth.

26. The Central Bank of Seychelles (CBS) stands ready to act if inflationary pressures persist. Global economic uncertainty and second round effects could lead to further price pressures,

¹¹ A technical assistance mission on VAT exemption is scheduled for 2022

¹² Without the sharp currency appreciation effect, foreign currency credit in U.S. dollar terms would have remained unchanged, while local currency credit would have contracted marginally by 1 percent.

¹³ Between December 2021 and February 2022, local currency credit increased by 2 percent while credit in US dollar terms declined by 2 percent. The latter component could be driven by the sharp recovery in outstanding balances from the private sector credit relief facility that was initiated in August 2020. The nascent recovery in private credit is especially visible for the telecommunications and manufacturing sectors.

that could require monetary tightening to help anchor inflation expectations. Close monitoring of the effectiveness of the government's planned targeted support for the most vulnerable population to deal with rising prices will be crucial to gauge inflation expectations. Staff urged CBS to reactivate its bi-annual Survey on Consumer Confidence and Expectations in collaboration with the National Bureau of Statistics (NBS).

27. The monetary policy operating framework should be further strengthened through capacity development and reforms of the government securities market. As the economic recovery normalizes and the COVID-19 measures unwind, staff advised CBS to focus its evolving monetary policy framework on interest rate targeting. Weaknesses in liquidity management, absence of benchmark rates in money and bond markets, and lack of collateralized intra-day lending facility constrain interest rate transmission channels. The reform to strengthen monetary policy operating framework would include deployment of tools for mopping up excess reserves, development of an interbank market, resumption of repo operations, and fine-tuning CBS communications policy. As the supply of T-bills will continue to decline in line with government's debt management policy, and as efforts are being made to develop a secondary market for government securities, there will be a need to review the policy for access to government securities by the CBS for its open market operations.

Authorities' Views

28. The authorities recognized that in the face of abundant liquidity, the effectiveness of the transmission mechanism has been a challenge for the interest rate channel.¹⁴ They agreed that strengthening monetary policy instruments and communications policy could support monetary policy implementation and welcomed the ongoing IMF TA in this context. The authorities agreed for Seychelles to be part of the pilot IMF central bank transparency assessment that would support to strengthen monetary policy implementation.

External Sector Assessment

29. Staff's external sector assessment indicates that the external position appears significantly weaker than implied by fundamentals and desirable policies (Annex II). Risks are mitigated by a favorable debt composition and a large share of FDI. Although the EBA-lite approach results were mixed, the external balance sheet is a source of risk for Seychelles.¹⁵ Gross international

¹⁴ Following a cumulative reduction in Monetary Policy Rate by 200 basis points (bps) in 2020, the average lending rate declined by 33 basis points in January 2021 over December 2020 level. Although the MPR was further reduced by 100 bps in July 2021 along with a structural downward shift in the short-term corridor rates, lending rates remained sticky, declining by 26 bps between March 2022 and June 2021, while average savings rates declined by 63 bps.

¹⁵ The current account (CA) model implies a CA gap of -8.7 percent of GDP and an over-valuation of the exchange rate by almost 12.0 percent while the real effective exchange rate index (IREER) model shows a 20 percent under-valuation of the exchange rate.

reserves (GIR) rose to \$702 million in 2021, remaining equivalent to 4.7 months of prospective imports of goods and services or about 120 percent of the ARA metric.

30. Market determination of the exchange rate will continue to play the role of a shock absorber. Recognizing that exchange rate flexibility has served Seychelles well, CBS reiterated its commitment to limiting foreign exchange market interventions only to avoid disorderly market conditions and to build external buffers (MEFP para 48). Staff recommend removing the discriminatory property tax measure applied to non-residents that was assessed as a capital flow management measure (IMF Institutional View on Liberalization and Management of Capital Flows, 2012).¹⁶

Authorities' Views

31. The authorities underlined that continued exchange rate flexibility would be essential to guard against possible exogenous external shocks. Although the availability of structured data on housing prices is limited, they expressed concerns that surging non-resident investment could fuel real estate prices. In the absence of any concrete evidence on any potential surge in real-estate prices which could result in systemic risks, staff urged the authorities to remove the discriminatory feature in property tax on non-residents.

D. Debt Management Strategy

32. The authorities will continue to strengthen the debt management operating framework and market structures. Prior to the war in Ukraine, they were at an advanced stage to publish their medium-term debt management strategy (MTDS) and an annual borrowing plan (ABP) (MEFP para 44 and 45, and structural benchmarks for end-March 2022). These measures are expected to be implemented with a delay (reset structural benchmark for end-September 2022) following a need for greater clarity on the fiscal impact from the spillovers of the war.¹⁷ A move to an electronic bond auction mechanism from the current manual process will improve the efficiency of bond auctions.¹⁸ A greater supply of bonds needs to be supported by a secondary market for government securities. A policy framework for a secondary market mechanism will be published by end-2022 (MEFP para 44 and structural benchmark for end-December 2022), with support from IMF TA.

33. Greater reliance on domestic bond financing is not expected to create absorption challenges. Despite steady bond issuance at around SCR 1 billion during 2022-27, net domestic financing at 0.6 percent of GDP in 2022 is expected to turn negative at an annual average of 0.7

¹⁶ The Immovable Property tax, which is applicable only to foreigners who own property, was introduced in 2020 with a rate of 0.25 percent on the value of the property.

¹⁷ Legal reforms to make domestic bond issuance a regular operation based on the ABP without requiring issuance-specific legal approvals would further support the operating framework.

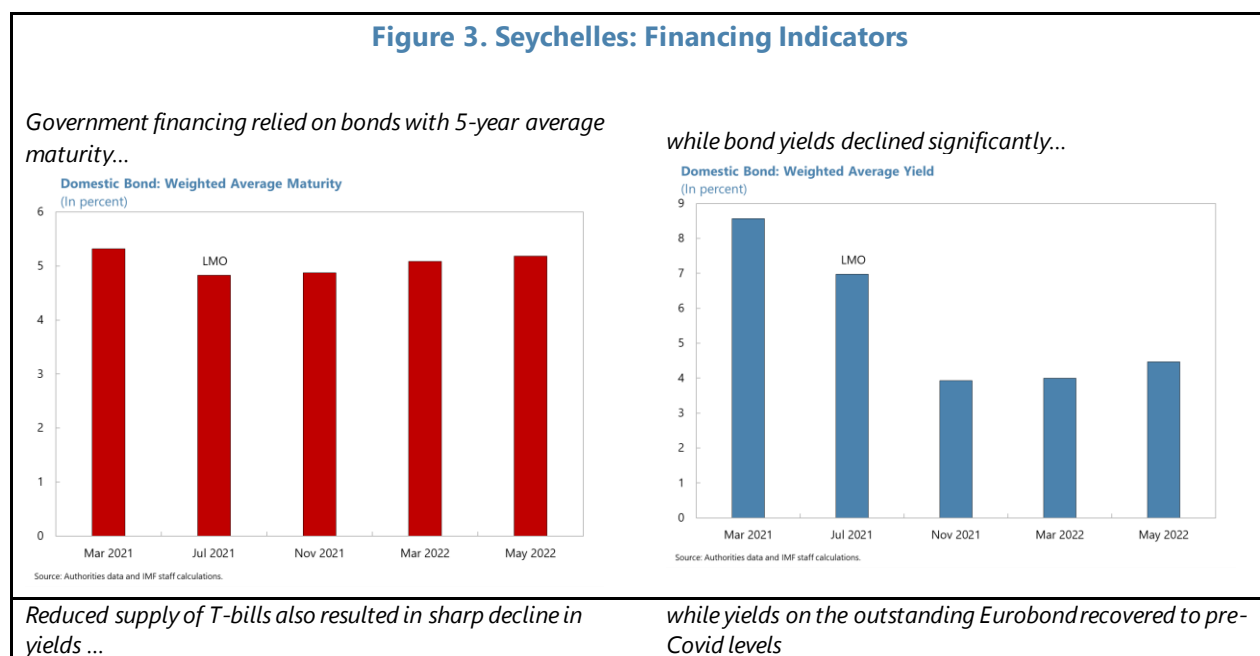
¹⁸ Bids amounting to 35 percent of the total offered amount of bonds auctioned in March 2022 could not be processed due to late submission and manual errors in bids. The auction was undersubscribed by 45 percent.

percent of GDP during 2023-26 mostly due to the expected budgetary surplus from 2024 onwards. In 2023 the net external financing remains higher than the net negative domestic financing and sterilization needs might arise, thereby warranting greater coordination between debt management and monetary policies. The mix of T-bills and bonds should be based on the updated MTDS being prepared.

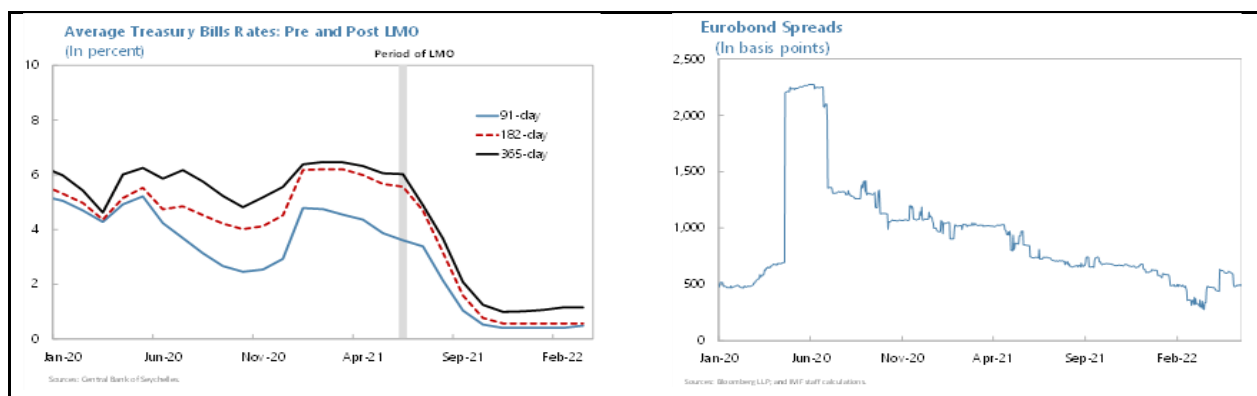
34. External multilateral financing is expected to slow down. External financing dominated by multilateral creditors is expected to decline from an annual average of 5.1 percent of GDP during 2022-23 to 0.8 percent during 2023-27 in line with the projected fiscal surplus. Staff encouraged the authorities to diversify their financing options, including to Eurobonds and sovereign environmental social and governance (ESG) bonds. Utilization of the existing Blue Bonds through bankable projects will remain a priority for the authorities to save on carry cost.¹⁹

Authorities' Views

35. The authorities reiterated their commitment reducing debt vulnerabilities under the Fund-supported program. They stressed the success in extending the maturity of domestic debt to lower the costs of debt and refinancing risks. They recognize the need to pursue a financing strategy that balances domestic and external financing, utilizes bilateral financing where available.



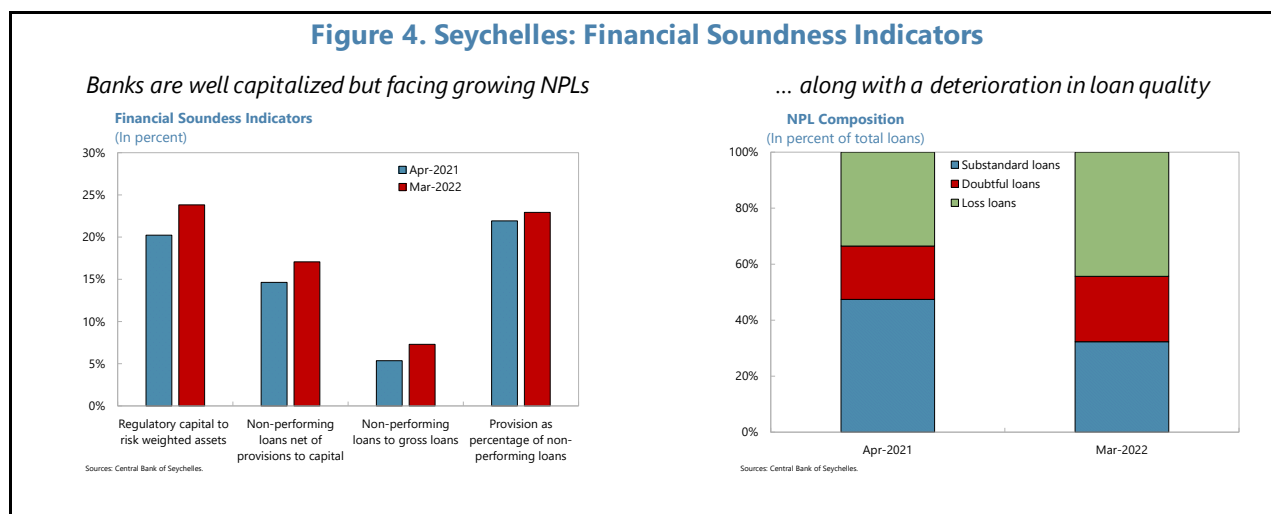
¹⁹Seychelles' Blue Bonds were issued in 2018 with World Bank support and were the world's first sovereign blue bond. Proceeds from the Blue Bonds are designed to support sustainable marine and fisheries projects.



E. Financial Stability

36. The financial sector has weathered the crisis well, but risks remain. No significant COVID-19 impact on loan portfolios has yet materialized, but there are downside risks from forbearance measures making active monitoring of asset quality imperative to reflect the true state of the banking system. In February 2022, before the war in Ukraine, the authorities announced a comprehensive series of unwinding measures relating to monetary and financial sector support extended during the COVID-19 pandemic.²⁰ While the unwinding of COVID support measures is a welcome step to preserve credit discipline, it could bring an uptick in NPLS and reveal the possibility of a deterioration in the asset quality of banks. As the forbearance measures have now been unwound, obtaining reliable information on NPLs, potential losses, and capital shortfalls will be crucial to formulate the most appropriate policy responses to manage balance sheet risks. The CBS will undertake an assessment of the asset quality in the system that also considers the impact of withdrawal of forbearance measures, including asset classification through expanded bank reporting on forborne and restructured loans (MEFP para 56 and new structural benchmark for September 2022).

²⁰ The unwinding measures cover reversing liquidity support; advances to central government; private sector credit facility; dividend payments by banks; and forbearance policies relating to asset classification and provisioning, including for restructured and moratoria loans.



37. To maintain a stable and well-capitalized banking system, the CBS intends to provide guidance on NPL management strategies. If a bank were to become undercapitalized, CBS will use the set of relevant early intervention measures, including suspension of dividend payments. Viable but undercapitalized banks would be required to submit capital plans while nonviable financial institutions would be resolved using the appropriate resolution tools (MEFP para 53 and 58). If NPL level rise excessively following the withdrawal of forbearance measures, the authorities should closely monitor and develop internal NPL management plans for banks with high NPLs. Operational targets should be set for reducing the NPL level or write-off problem loans. The Fund can provide necessary guidance to strengthen insolvency and debt enforcement framework capacity.

38. To enhance financial stability, the CBS continues to strengthen its regulatory and supervisory framework. For the adoption of a risk-based supervision (RBS) framework, which integrates Basel II Pillar 2 requirements, work is being finalized to calibrate the risk scores of the banks. The CBS is finalizing a policy paper for adoption of Basel II Pillar 1 and a set of disclosure guidelines based on Basel II Pillar 3 by December 2022. The policy paper for the amendment of the Financial Institutions (Capital Adequacy) Regulations, 2010 to adopt the Basel III capital definition was presented to Cabinet and approved in May 2022 (MEFP para 54 and 55 and structural benchmark for end-May 2022). To strengthen the financial stability framework, including establishing the legal basis of the Financial Stability Committee, the CBS submitted the policy paper of a financial stability bill to Cabinet, and it was approved in May 2022 (MEFP para 57 and revised structural benchmark delayed from March 2022). As 40 percent of the loans are in foreign currency, staff encouraged the CBS to integrate the management of systemic risks from FX loans through macroprudential policies with its current initiative.

39. The CBS remains committed to strengthening its crisis management and bank resolution framework. By drafting a policy paper on Bank Resolution Bill, the authorities are aiming to enhance the powers of resolution authorities in respect of co-ordination and co-operation

mechanisms, as well as instruments to deal with evolving types of crises. By end-July 2022, CBS will submit the updated policy paper to Cabinet (MEFP para 58 and structural benchmark delayed from end-June 2022). The draft Bank Resolution Bill is expected to be approved by the Cabinet by the end of June 2023 (MEFP para 58 and structural benchmark for end-June 2023).

40. Correspondent banking relationship pressures have abated. Following the 21st Council of Ministers and 42nd ESAAMLG Task Force of Senior Officials Virtual Meetings held in September 2021, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) approved 9 re-ratings for Seychelles, out of 20 recommendations which had deficiencies. Seychelles will be submitting another request for re-rating in October 2022 for upgrades to a further set of 9 recommendations (MEFP para 64). The authorities continue to make progress on AML/CFT and transparency initiatives related to the financial sector.

Authorities' Views

41. The authorities are committed to enhance the regulatory and supervisory framework to ensure financial stability. For this purpose, much of the focus of the CBS have been on legal reforms. The CBS noted that mitigation of systemic risks relating to FX loans through introduction of the macroprudential toolkit would require further amendments to CBS legislation. Going forward, the authorities consider digitalization of the banking sector to be a crucial factor to support effective supervision.

F. Governance and Transparency

42. The authorities are building on their strong governance, including in the areas of fiscal transparency, beneficial ownership transparency, anti-corruption measures, and audits (MEFP para 29, 64, 65, and 66).

43. The authorities remain committed to ensuring that beneficial ownership information of legal persons and legal arrangements established in Seychelles is adequate, accurate and up-to-date (MEFP para 65).

- **Compliance:** The centralized database of beneficial ownership with the Financial Intelligence Unit (FIU) became operational in July 2021 and as of end-April 2022, 90 percent of the roughly 59,000 foreign legal persons and legal arrangements (international business companies, trusts, and foundations) have complied with their obligation to submit information to the database. The FIU is working closely with the resident agents²¹ to reach 100 percent compliance by end-June 2022²². Those that

²¹ Sixty resident agents are licensed to establish international business companies, trusts, or foundations for foreign and non-resident clients.

²² For domestic legal persons and legal arrangements, the FIU is conducting outreach to increase awareness and the current compliance rate of 23 percent of the 7,781 active entities, given that this is a relatively new concept for the subjects and response rates have been low.

fail to comply will be referred to the Financial Services Authority (FSA) and other competent authorities for the necessary enforcement actions and penalties, as per the provisions of the Beneficial Ownership (BO) Act.

- **Accuracy.** In January 2022 the FSA submitted a risk-based action plan on its supervisory activities for the resident agents. It intends to publish a summary of its findings for the resident agent sector by end-December 2022, including on compliance with identification and verification of beneficial ownership by resident agents as well as statistics on enforcement actions and penalties imposed for AML/CFT violations. The FSA and FIU will publish by July, 2022 an assessment report on the accuracy of the beneficial ownership register and propose amendments to the legal framework to address identified shortcomings. From end-July, the FIU will submit to the National AML/CFT Committee a periodic strategic analysis report on the beneficial ownership database for domestic and foreign legal persons and legal arrangements. The reporting will include statistics on level of compliance by resident agents and international cooperation/exchange of information as well as any red flags of abuse.

44. The authorities committed to publish the audit of COVID-related expenditure prior to the completion of the second EFF review. They have met their commitments under the RFI, except for the audit of COVID-related expenditure. This audit, prepared by the office of the Auditor General and initially planned to be published in September 2021, was delayed due to staffing shortages related to COVID-19. Its publication is now scheduled for June 2022 (prior action for second review).

G. Structural Issues: Diversification, Climate Challenges, and Inclusive Growth

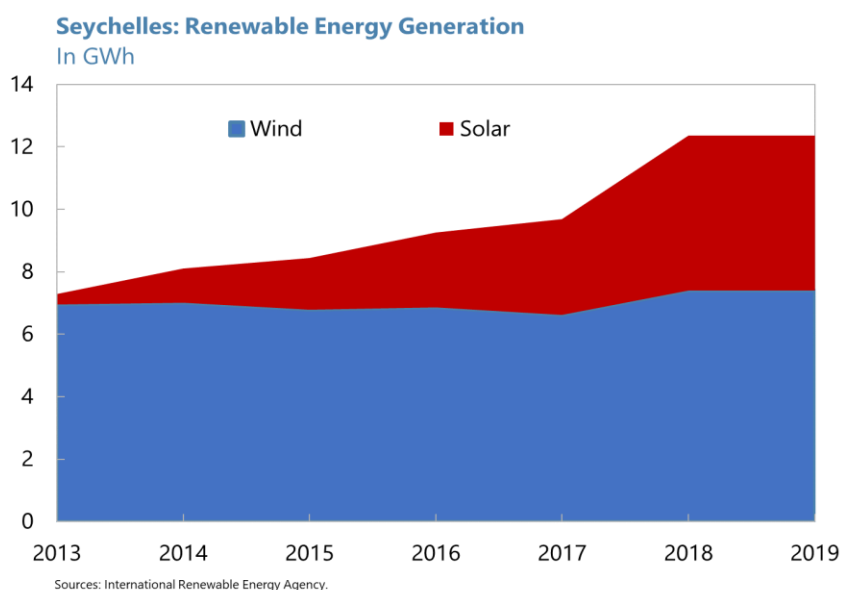
45. The authorities plan to deepen and diversify tourism and upgrade the value-chain of the fisheries sector under the Blue Economy initiatives. They intend to further expand their strategy to diversify tourism markets and industrial structure (MEFP para 12 and 13). The 2019 World Bank's SWIOFish 3 consultant's report pointed out the importance of infrastructure improvements, skill development, and species diversification as key areas towards upgrading the fisheries industry.

46. The authorities recognize the key importance of an environmentally sustainable development strategy. They have identified climate mitigation and adaptation strategies that will require adequate financing. The 2017 Climate Policy Assessment Report estimated that the financing needs for climate-change related capital projects amounted to 40 percent of 2016 GDP. Since 2020, emergency spending related to the COVID crisis has taken priority over climate-related spending, but that is expected to shift in coming years.

Box 1. Climate Change Initiatives

Seychelles has put climate change at the center of its sustainable development strategy.

- **(Adaptation):** The Seychelles National Agriculture Investment Plan (SNAIP, 2015-2020) provided a development strategy and investment plan for agriculture and fisheries (MEFP paras 17 and 20). The Seychelles Marine Spatial Plan (SMSP) Initiative began in 2014 to address climate change adaptation, marine biodiversity protection, and support for the Blue Economy. The Government is also developing the Seychelles Coastal Management Plan (CMP, 2019–2024) with World Bank support.
- **(Mitigation):** Seychelles plans to meet its emission reduction targets by switching to renewable energy, improving energy efficiency, and bringing in electric cars (MEFP para 14 and 15). The long-term commitment is to achieve a decarbonized economy by 2050 and to boost electricity generation from renewable energies, including marine energy technologies, bio-energies, and the use of environment friendly intermittent energy storage technologies. With its updated Nationally Determined Contribution (NDC) submission, Government is re-iterating and improving upon its commitments towards increasing the reduction of greenhouse gas emissions. Economy wide absolute GHG emissions is aimed to be reduced by 293.8 ktCO₂e in 2030 (26.4 percent) compared to the business as usual (BAU) scenario. Ambitious targets set for the energy sector are 30 percent of gasoline private vehicles to be electric by 2030, and Energy Efficiency improvement level of 15 percent by 2030.



47. Digitalization needs to be accelerated. In addition to contributing to tax collection and economic diversification, further digitalization of the economy would help the country mitigate the effects of lockdowns related to pandemics (MEFP para 19). Plans to digitize taxes are already

underway, with a new taxation management system to be developed and completed by 2023. The full implementation of the Health Information System is also expected by end 2022.

H. Data and Other Surveillance Issues

48. Data are broadly adequate for surveillance and program monitoring with some

shortcomings. IMF and AFRITAC South (AFS) TA has supported the National Bureau of Statistics (NBS) to rebase annual GDP estimates at current and constant prices as well as to improve quarterly GDP estimates, while addressing inconsistencies between the expenditure-side GDP series and the Balance of Payments for tourism receipts. The rebased estimates, released in December 2021, led to a 3.3 percent upward adjustment of annual GDP in current prices. Backcasting the GDP series is currently being done with AFS support. AFS is also supporting the NBS to improve the PPI, following the release of an updated CPI series in 2021. IMF TA was provided to the CBS to improve external sector statistics, in particular on estimation of tourism earnings and identification of cross-border transactions and positions by special purpose entities in Seychelles (MEFP para 51). The IMF and AFS will continue to provide TA to the NBS and the CBS as needed.

| Seychelles: Financing Gap and Sources of Financing (Millions of US dollars, unless otherwise specified) | | |
|--|---------------|---------------|
| | 2022 | 2023 |
| Current account balance | -413.2 | -381.8 |
| <i>(In percent of GDP)</i> | <i>-22.4%</i> | <i>-19.3%</i> |
| Balance of goods and services | -328.8 | -283.4 |
| Balance on primary income | -75.3 | -82.4 |
| Balance on secondary income | -9.1 | -16.0 |
| Capital account, net | 14.7 | 39.4 |
| Financial account, net ¹ | -333.3 | -326.1 |
| Direct investment, net | -193.8 | -204.3 |
| Portfolio investment, net | 15.3 | 9.0 |
| Other investment, net | -154.8 | -130.9 |
| SDR allocation | | |
| Overall balance | -65.2 | -16.2 |
| Change in gross official reserves (increase: +) | -4.7 | 31.7 |
| Financing gap (1) | -60.5 | -47.9 |
| <i>(In percent of GDP)</i> | <i>-3.3%</i> | <i>-2.4%</i> |
| Expected budget support (2) | 47.5 | 41.5 |
| World Bank | 27.5 | 21.5 |
| African Development Bank | 20.0 | 20.0 |
| Bilateral Budget Support | 0.0 | 0.0 |
| Residual financing gap (1+2) | -13.0 | -6.4 |
| Change in liabilities to IMF, net | 13.0 | 6.4 |
| EFF Purchases | 18.2 | 18.4 |
| <i>(In percent of GDP)</i> | <i>1.0%</i> | <i>0.9%</i> |
| Repurchases | 5.2 | 12.0 |

Source: Authorities and IMF staff estimates.
¹ Per STA recommendations, net lending under financial account is recorded as positive following BPM6 guidance.

49. The CBS remains committed to implementing the 2021 safeguards assessment recommendations. Internal audit capacity and coverage have been strengthened, and work is underway to improve the risk management function. Notwithstanding this, legal amendments to the central bank law to strengthen governance and oversight, enhance institutional and personal autonomy, and safeguard financial autonomy will need to be completed.

PROGRAM MODALITIES

50. Program implementation remains strong. Staff assessed performance against end-December 2021 QPCs and end-March 2022 ITs, and progress on SBs. As of end-December 2021, all quantitative performance criteria (QPCs) and indicative targets (ITs) were met, except the IT on priority social expenditures. All end-March ITs were met and appropriate progress made toward structural benchmarks. All continuous PCs have been met.

51. The program remains fully financed. There are firm financing commitments for the next 12 months and good prospects for the remainder of the program period. Relative to the previous review, in 2022 additional domestic financing will offset a USD 10 million reduction in bilateral

budget support. International reserves are projected to reach around 4.5 months of prospective imports by end-2022. Financing of the program is supported by reserves buffers built up in 2021, and financial support from the IMF and other IFIs. Reserves are expected to be equivalent to 4 months of imports over the medium term.

52. Seychelles' capacity to repay the Fund is adequate, but subject to risks. The economic recovery in 2021 and early 2022 has generated significant repayment capacity.²³ The authorities' commitment to the program and their solid repayment history following previous Fund programs provide assurance. The Fund credit-to-GDP ratio will peak at 7.6 percent in 2023. This is higher than in most recent EFF cases (but lower than European exceptional access cases), reflecting Seychelles' relatively small GDP size. The Fund credit to GIR ratio is projected to peak at 22 percent in 2023. Key risks to repayment capacity arise from uncertainty about the adverse impact of the war in Ukraine on the global economy, especially the tourism industry and commodity prices.

STAFF APPRAISAL

53. Growth in 2021 was much stronger than anticipated, and the outlook is favorable, but challenges remain. The economy strongly recovered in 2021 with real GDP growing to an estimated 8 percent, driven by a swift rebound of the tourism sector. Despite the deterioration of the international environment associated with the war in Ukraine, tourism earnings in March 2022 surpassed the 2019 level and GDP growth is expected to reach 7 percent in 2022.

54. The Seychellois economy continues to face risks (see Annex I). The main risks arise from the uncertain implications of COVID-19 and the war in Ukraine for tourism. The economy has proved resilient, but the authorities will need to be prepared to reallocate budgetary resources or use the recent SDR allocation to cover priority needs while protecting the public finances in the event of a downturn. Seychelles is vulnerable to climate related risks. Maintaining the buildup of buffers against shocks remains critical in the current global environment and requires continued prudent macroeconomic policies and adequate international reserves. The authorities could also prioritize investments related to climate change.

55. Tourism has remained resilient following disruptions caused by COVID-19 and the war in Ukraine. The Seychellois economy strongly recovered in 2021, but spillover effects from the war in Ukraine are expected to weigh on external and fiscal balances in 2022 due to the surge in commodity prices. Despite the deterioration of the international environment associated with the war in Ukraine, tourism earnings in March 2022 surpassed the 2019 level and GDP growth is expected to reach 7 percent in 2022.

56. Headline inflation is declining but the surge in commodity prices will affect low-income households. Due to the lagged impact of the 2021 appreciation, inflation pressure are

²³ Large inflows of tourists from Israel, UAE, and Russia in 2020 and 2021 reflect new market penetration, even if the Russia's invasion of Ukraine temporarily hampers tourist arrivals from these new markets.

expected to remain broadly contained. However, together with the cumulative price increases over 2021-2022, rising food and fuel prices are expected to disproportionately affect the vulnerable population.

57. The substantially stronger fiscal performance than envisaged in 2021 has increased fiscal space to support the vulnerable and helped to reduce Seychelles' debt vulnerabilities. Staff welcomes the authorities' plans for providing targeted, temporary, means-tested support to the vulnerable population to contain the effects of commodity price surges while ensuring that such measures do not generate market distortions and are consistent with medium-term fiscal sustainability. The strong fiscal consolidation, combined with the recovery, the successful implementation of the Liability Management Operation, and sharp appreciation of the currency in 2021 contributed to a reduction in the public debt-to-GDP ratio from 93 percent in 2020 to around 76 percent of GDP in 2021.

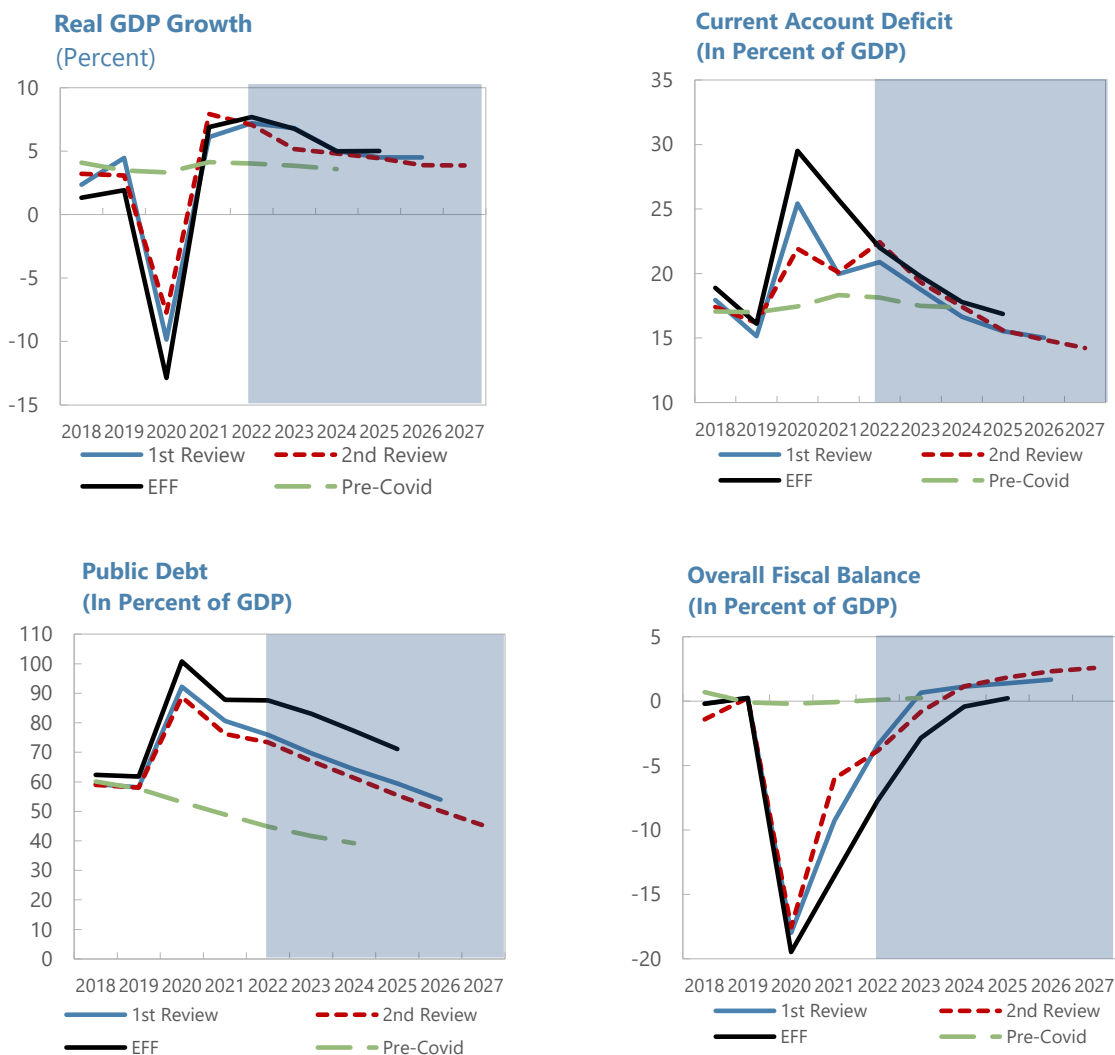
58. Staff welcomes the reduction in the government's contingent liabilities related to Air Seychelles following the restructuring of the airline's debt and underlines the need to ensure the government should incur no further liability from Air Seychelles. Staff also welcomes the recently approved public enterprise monitoring bill.

59. The banking system weathered the crisis well, and COVID-19 related support and forbearance measures have been unwound. As the forbearance measures have now been now unwound, staff underlines that obtaining reliable information on NPLs, potential losses, and capital shortfalls is crucial to assess balance sheet risks. The CBS should undertake a bank-level analysis of the impact of these measures on banks' asset quality, which will strengthen the unwinding strategy.

60. Staff welcomes the authorities' continued efforts to improve governance and stresses the need to strengthen implementation and enforcement going forward. The authorities have taken important steps to strengthen the legal and institutional framework to fight corruption. The beneficial ownership database is a welcome tool to enhance transparency of international business companies. The number of submissions to the database has been strong, and the authorities are pursuing efforts to ensure accuracy and availability of the collected information. Ensuring accuracy of and appropriate access to the ownership information, including the assessment report expected in June 2022, will be critical moving forward. Consolidating improvements in the PFM system's integrity and transparency are also important to the authorities' efforts.

61. Staff supports the authorities' request for completion of the second review and modification of end-June PCs and ITs, and end-September ITs under the EFF arrangement, given the excellent performance under the arrangement and the authorities' commitment to meeting program objectives. The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue the program's objectives. Staff considers risks to program implementation as manageable. The capacity to repay the Fund is adequate but subject to risks. It is expected that the next Article IV consultation will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 5. Seychelles: Indicators of Economic Activity

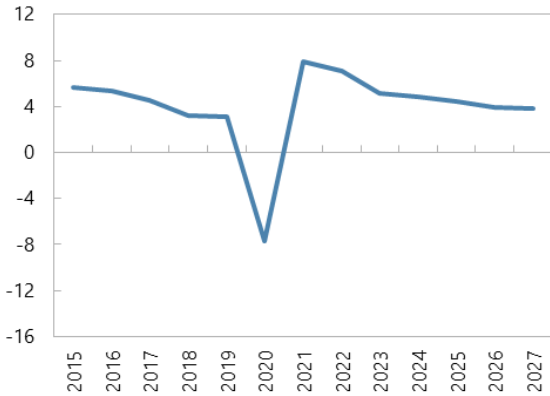


Sources: Seychelles authorities, and IMF Staff calculations.

Figure 6. Seychelles: Macroeconomic Indicators – 2015-27

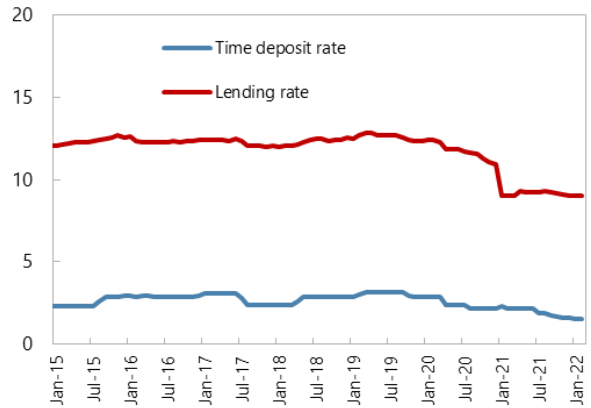
The economy experienced a V-shape recovery but faces yet another shock...

Real GDP Growth, 2015-27
(In Percent)



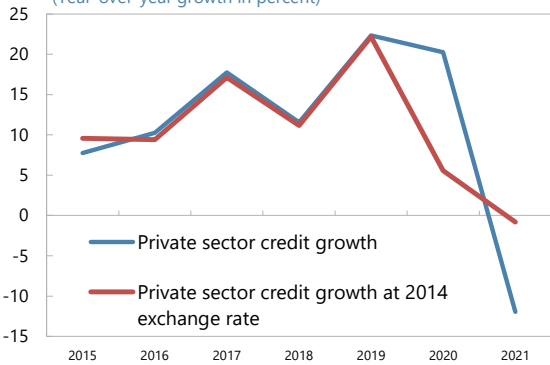
Interest rates remain globally stable...

Interest rates, Jan'15–March'22
(In Percent)



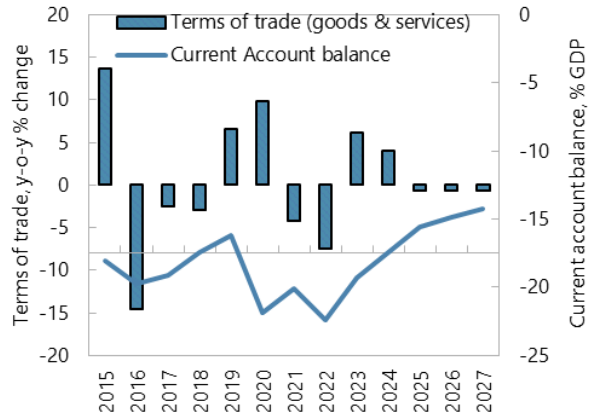
Private sector credit reflects the impact of currency movements...

Credit to the Private Sector, 2015-2021
(Year-over-year growth in percent)



External deficit is affected by the war in Ukraine...

External Balance and Terms of Trade, 2015–27

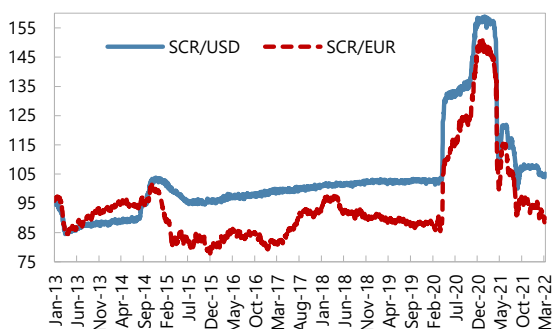


Sources: Seychelles authorities, and IMF Staff calculations.

Figure 7. Seychelles: Macroeconomic Developments and Projections

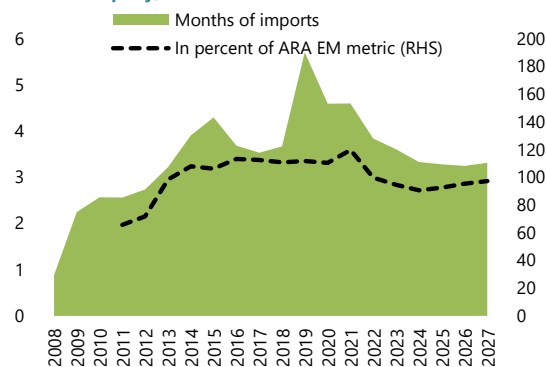
Recent appreciation partly offset the 2020 depreciation....

Daily exchange rates index, Jan'13-March'22
(December 31, 2011 = 100)



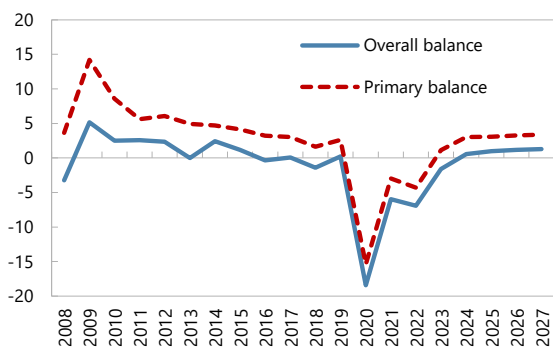
Reserves are reduced by lower tourism receipts and higher fuel and food prices....

Reserves Adequacy, 2008-27¹



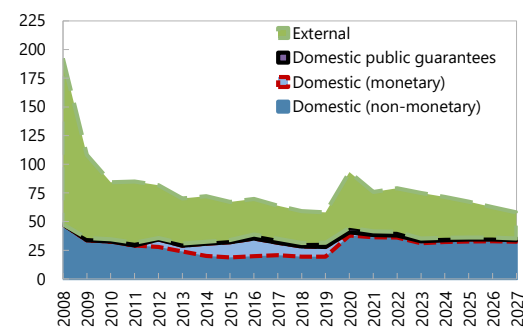
Fiscal policy mitigates the impact of surge in commodity prices

Fiscal balances, 2008-27
(Percent of GDP)



...while preserving debt sustainability....

Stock of public debt, 2008-27
(Percent of GDP)



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

Sources: Seychelles authorities, and IMF Staff calculations.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2020-27

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

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| | Act. | | | | Proj. | | | |
| (Annual percent change, unless otherwise indicated) | | | | | | | | |
| National income and prices | | | | | | | | |
| Nominal GDP (millions of Seychelles rupees) | 22,211 | 24,611 | 27,482 | 29,786 | 32,171 | 34,592 | 36,958 | 39,321 |
| Real GDP (millions of Seychelles rupees) | 20,196 | 21,794 | 23,334 | 24,536 | 25,714 | 26,853 | 27,895 | 28,971 |
| Real GDP | -7.7 | 7.9 | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 |
| CPI (annual average) | 1.2 | 9.8 | 4.1 | 3.3 | 1.5 | 2.5 | 3.0 | 3.0 |
| CPI (end-of-period) | 3.8 | 7.9 | 5.7 | 1.0 | 2.0 | 3.0 | 3.0 | 3.0 |
| GDP deflator average | 1.8 | 2.7 | 4.3 | 3.1 | 3.1 | 3.0 | 2.8 | 2.4 |
| Money and credit | | | | | | | | |
| Broad money | 29.1 | ... | ... | ... | ... | ... | ... | ... |
| Reserve money (end-of-period) | 40.4 | ... | ... | ... | ... | ... | ... | ... |
| Velocity (GDP/broad money) | 1.2 | ... | ... | ... | ... | ... | ... | ... |
| Money multiplier (broad money/reserve money) | 3.9 | ... | ... | ... | ... | ... | ... | ... |
| Credit to the private sector | 20.2 | -11.9 | 8.8 | 10.0 | 11.7 | 12.2 | 13.7 | 13.9 |
| (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Savings-Investment balance | | | | | | | | |
| External savings | 21.9 | 20.1 | 22.4 | 19.3 | 17.4 | 15.6 | 14.9 | 14.2 |
| Gross national savings | 0.2 | 5.5 | 2.9 | 7.9 | 9.2 | 10.5 | 11.3 | 12.0 |
| <i>Of which</i> : government savings | -13.0 | -3.0 | 1.0 | 5.3 | 7.7 | 9.1 | 10.4 | 10.8 |
| private savings | 13.2 | 8.5 | 1.9 | 2.5 | 1.5 | 1.5 | 0.9 | 1.1 |
| Gross investment | 22.1 | 25.6 | 25.3 | 27.2 | 26.7 | 26.2 | 26.2 | 26.2 |
| <i>Of which</i> : public investment ¹ | 4.6 | 5.3 | 4.9 | 6.7 | 6.2 | 5.6 | 5.6 | 5.6 |
| private investment | 17.5 | 20.3 | 20.4 | 20.5 | 20.5 | 20.6 | 20.6 | 20.6 |
| Private consumption | 48.4 | 54.8 | 60.8 | 58.5 | 58.8 | 58.7 | 58.9 | 58.7 |
| (Percent of GDP) | | | | | | | | |
| Government budget ⁴ | | | | | | | | |
| Total revenue, excluding grants | 32.2 | 31.2 | 32.6 | 33.7 | 34.5 | 34.3 | 34.3 | 34.2 |
| Expenditure and net lending | 51.5 | 40.0 | 37.3 | 37.0 | 35.4 | 34.1 | 33.5 | 33.1 |
| Current expenditure | 45.2 | 34.5 | 32.9 | 29.7 | 27.8 | 26.8 | 26.3 | 26.2 |
| Capital expenditure ¹ | 4.6 | 5.4 | 4.9 | 6.7 | 6.2 | 5.6 | 5.5 | 5.5 |
| Overall balance, including grants | -18.4 | -5.6 | -3.8 | -0.8 | 1.1 | 1.8 | 2.3 | 2.6 |
| Primary balance | -14.7 | -3.0 | -1.4 | 1.7 | 3.0 | 3.3 | 3.4 | 3.4 |
| Total government and government-guaranteed debt ² | 89.5 | 76.8 | 75.2 | 69.7 | 63.7 | 57.7 | 52.2 | 47.1 |
| External sector | | | | | | | | |
| Current account balance including official transfers (in percent of GDP) | -21.9 | -20.1 | -22.4 | -19.3 | -17.4 | -15.6 | -14.9 | -14.2 |
| Total external debt outstanding (millions of U.S. dollars) ³ | 5,049 | 5,331 | 5,589 | 5,819 | 5,941 | 6,061 | 6,187 | 6,329 |
| (percent of GDP) | 400.1 | 365.8 | 303.4 | 294.4 | 272.3 | 258.1 | 246.4 | 239.0 |
| Terms of trade (=deterioration) | 9.9 | -4.2 | -7.5 | 6.1 | 4.0 | 2.8 | 0.0 | 0.0 |
| Real effective exchange rate (average, percent change) | ... | ... | ... | ... | ... | ... | ... | ... |
| Gross official reserves (end of year, millions of U.S. dollars) | 559 | 702 | 697 | 729 | 707 | 713 | 726 | 764 |
| Months of imports, c.i.f. | 4.6 | 4.7 | 4.5 | 4.4 | 4.1 | 3.9 | 3.8 | 3.9 |
| In percent of Assessing Reserve Adequacy (ARA) metric | 110.4 | 120.0 | 114.0 | 112.6 | 105.9 | 104.0 | 103.4 | 105.7 |
| Exchange rate | | | | | | | | |
| Seychelles rupees per US\$1 (end-of-period) | 21.0 | 14.7 | ... | ... | ... | ... | ... | ... |
| Seychelles rupees per US\$1 (period average) | 17.6 | N.A. | ... | ... | ... | ... | ... | ... |

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.

⁴ The fiscal program targets at the approval of the EFF are now presented in percent of the new GDP.

Table 2. Seychelles: Balance of Payments, 2020-27

| | 2020 | 2021 | | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | 2027 |
|--|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Act. | Proj. | | Proj. | | Proj. | | Proj. | | Proj. | | Proj. | | Proj. |
| | 1st review | 1st review | 2nd review | 1st review | 2nd review | 1st review | 2nd review | 1st review | 2nd review | 1st review | 2nd review | 1st review | 2nd review | 1st review |
| | (In millions of US dollars, unless otherwise indicated) | | | | | | | | | | | | | |
| Current account balance (+ surplus; - deficit) | -277 | -273 | -293 | -388 | -413 | -386 | -382 | -375 | -380 | -381 | -366 | -404 | -373 | -377 |
| (percent of GDP) | -21.9 | -20.0 | -20.1 | -20.9 | -22.4 | -18.8 | -19.3 | -16.6 | -17.4 | -15.5 | -15.6 | -15.0 | -14.9 | -14.2 |
| Balance of goods and services (+ surplus; - deficit) | -198 | -213 | -215 | -309 | -329 | -287 | -283 | -274 | -276 | -275 | -256 | -285 | -253 | -249 |
| Exports of goods | 473 | 447 | 516 | 479 | 559 | 503 | 565 | 520 | 573 | 558 | 594 | 591 | 623 | 656 |
| Of which: oil re-exports | 149 | 116 | 162 | 125 | 202 | 129 | 196 | 130 | 191 | 136 | 189 | 140 | 188 | 191 |
| Of which: tuna exports | 252 | 286 | 276 | 300 | 289 | 315 | 298 | 328 | 307 | 344 | 316 | 358 | 326 | 335 |
| Imports of goods | 832 | 908 | 1,022 | 1,109 | 1,287 | 1,218 | 1,320 | 1,336 | 1,373 | 1,461 | 1,446 | 1,616 | 1,525 | 1,601 |
| Of which: oil imports | 144 | 188 | 197 | 203 | 297 | 230 | 280 | 238 | 272 | 252 | 269 | 258 | 269 | 273 |
| Exports of services | 551 | 789 | 722 | 975 | 892 | 1,203 | 997 | 1,394 | 1,127 | 1,552 | 1,235 | 1,705 | 1,322 | 1,400 |
| Of which: tourism earnings | 221 | 275 | 310 | 390 | 402 | 532 | 468 | 618 | 528 | 705 | 598 | 797 | 677 | 759 |
| Imports of services | 391 | 541 | 431 | 654 | 493 | 775 | 525 | 852 | 602 | 924 | 638 | 965 | 673 | 703 |
| Balance on primary income (+ surplus; - deficit) | -65 | -63 | -80 | -88 | -75 | -94 | -82 | -99 | -87 | -108 | -95 | -120 | -103 | -112 |
| Of which: interest due | 33 | 30 | 30 | 31 | 30 | 29 | 28 | 27 | 27 | 25 | 24 | 32 | 30 | 33 |
| transfers of profits and dividends | 11 | 4 | 4 | 20 | 8 | 20 | 8 | 20 | 8 | 20 | 8 | 20 | 8 | 8 |
| Balance on secondary income (+ surplus; - deficit) | -14 | 3 | 2 | 8 | -9 | -5 | -16 | -2 | -18 | 2 | -15 | 1 | -17 | -17 |
| Of which: general government, net | 18 | 15 | 19 | 19 | 16 | 13 | 16 | 12 | 13 | 13 | 13 | 12 | 12 | 13 |
| Capital account | 21 | 31 | 27 | 44 | 15 | 36 | 39 | 54 | 46 | 59 | 42 | 59 | 42 | 42 |
| Financial account ¹ | -208 | -295 | -346 | -329 | -381 | -391 | -368 | -340 | -331 | -364 | -340 | -387 | -358 | -388 |
| Direct investment, net | -134 | -172 | -148 | -208 | -194 | -259 | -204 | -297 | -240 | -335 | -272 | -356 | -293 | -312 |
| Abroad | -7 | -7 | -7 | -7 | -7 | -7 | -7 | -7 | -7 | -7 | -7 | -7 | -7 | -7 |
| In Seychelles | 127 | 165 | 141 | 201 | 187 | 251 | 197 | 290 | 233 | 328 | 265 | 350 | 286 | 305 |
| Of which: offshore sector | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Portfolio investment, net | 97 | -38 | -13 | -12 | 15 | -12 | 9 | -12 | 9 | -12 | 9 | -12 | 9 | 9 |
| Other investment, net | -170 | -161 | -184 | -133 | -202 | -144 | -172 | -55 | -100 | -41 | -77 | -43 | -74 | -85 |
| Government and government-guaranteed | 1 | -29 | -37 | -34 | -41 | -60 | -46 | 24 | 8 | 37 | 35 | 35 | 47 | 31 |
| Disbursements | 35 | 71 | 73 | 86 | 76 | 111 | 85 | 32 | 37 | 19 | 13 | 19 | 11 | 11 |
| Project loans | 4 | 7 | 9 | 28 | 29 | 35 | 43 | 25 | 30 | 19 | 13 | 19 | 11 | 11 |
| Program loans | 31 | 64 | 64 | 58 | 48 | 77 | 42 | 7 | 7 | 0 | 0 | 0 | 0 | 0 |
| World Bank | 21 | 44 | 44 | 28 | 28 | 22 | 22 | 7 | 7 | 0 | 0 | 0 | 0 | 0 |
| African Development Bank | 10 | 20 | 20 | 20 | 20 | 20 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bilateral Budget Support | 0 | 0 | 0 | 10 | 0 | 35 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortization | -36 | -42 | -36 | -52 | -35 | -52 | -38 | -55 | -45 | -56 | -48 | -55 | -58 | -41 |
| Others | -171 | -132 | -147 | -100 | -161 | -84 | -126 | -79 | -108 | -78 | -112 | -78 | -121 | -116 |
| Net errors and omissions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | -47 | 53 | 80 | -15 | -18 | 40 | 25 | 19 | -3 | 41 | 16 | 41 | 27 | 54 |
| Financing | 47 | -53 | -80 | 15 | 18 | -40 | -25 | -19 | 3 | -41 | -16 | -41 | -27 | -54 |
| Change in net international reserves (increase: +) | -47 | 53 | 80 | -15 | -18 | 40 | 25 | 19 | -3 | 41 | 16 | 41 | 27 | 54 |
| Change in gross official reserves (increase: +) | -23 | 116 | 143 | -1 | -5 | 47 | 32 | 0 | -22 | 31 | 6 | 27 | 14 | 37 |
| Change in liabilities to IMF, net | 25 | 63 | 63 | 13 | 13 | 7 | 6 | -19 | -19 | -10 | -10 | -14 | -14 | -16 |
| Purchases/drawings | 32 | 69 | 68 | 19 | 18 | 19 | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repurchases/repayments | 7 | 6 | 6 | 5 | 5 | 12 | 12 | 19 | 19 | 10 | 10 | 14 | 14 | 16 |
| Other net foreign assets (increase: +) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exceptional financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Memorandum items:</i> | | | | | | | | | | | | | | |
| Exports G&S growth, percent | -36.3 | 12.1 | 20.9 | 17.6 | 17.2 | 17.4 | 7.7 | 12.2 | 8.8 | 10.2 | 7.6 | 8.8 | 6.4 | 5.7 |
| Tourism growth, percent | -62.5 | 24.3 | 39.8 | 41.7 | 30.0 | 36.4 | 16.2 | 16.2 | 13.0 | 14.1 | 13.2 | 13.0 | 13.2 | 12.1 |
| Exports of goods volume growth, percent | 17.6 | -16.6 | -15.6 | 5.3 | -14.1 | 10.9 | 10.6 | 4.6 | 7.1 | 8.4 | 7.4 | 4.3 | 3.5 | 4.1 |
| Imports G&S growth, percent | -31.8 | 8.4 | 18.8 | 21.7 | 22.5 | 13.1 | 3.7 | 9.8 | 7.0 | 9.0 | 5.6 | 8.2 | 5.4 | 4.8 |
| Imports of goods volume growth, percent | -18.3 | -12.7 | -0.7 | 21.0 | 7.9 | 11.5 | 5.8 | 9.5 | 5.7 | 9.1 | 6.2 | 10.4 | 5.8 | 5.0 |
| Exports G&S, percent of GDP | 81 | 90 | 85 | 78 | 79 | 83 | 79 | 85 | 78 | 86 | 78 | 85 | 77 | 78 |
| Imports G&S, percent of GDP | 97 | 106 | 100 | 95 | 97 | 97 | 93 | 97 | 91 | 97 | 89 | 96 | 88 | 87 |
| FDI, percent of GDP | 10.6 | 12.6 | 10.2 | 11.2 | 10.5 | 12.6 | 10.3 | 13.2 | 11.0 | 13.6 | 11.6 | 13.2 | 11.7 | 11.8 |
| Gross official reserves (stock, e.o.p.) ² | 559 | 675 | 702 | 673 | 697 | 720 | 729 | 720 | 707 | 751 | 713 | 778 | 726 | 764 |
| (Months of imports of goods & services) | 4.6 | 4.6 | 4.7 | 4.1 | 4.5 | 3.9 | 4.4 | 3.6 | 4.1 | 3.5 | 3.9 | 3.6 | 3.8 | 3.9 |
| Percentage of IMF reserve adequacy metric | 110 | 113 | 120 | 108 | 114 | 108 | 113 | 104 | 106 | 105 | 104 | 104 | 103 | 106 |
| Government and government-guaranteed external debt | 489 | 595 | 575 | 660 | 653 | 728 | 723 | 684 | 697 | 635 | 652 | 583 | 592 | 545 |
| (Percent of GDP) | 46.2 | 43.5 | 39.5 | 35.5 | 35.4 | 35.4 | 36.6 | 30.4 | 31.9 | 25.9 | 27.8 | 21.7 | 23.6 | 20.6 |
| GDP (Millions of U.S. dollars) | 1,262 | 1,368 | 1,457 | 1,860 | 1,842 | 2,058 | 1,977 | 2,250 | 2,182 | 2,453 | 2,348 | 2,689 | 2,511 | 2,649 |

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

¹ Per STA recommendations, net lending under financial account is recorded as positive following BPM6 guidance.² The level of GIRs computed from the BOP includes the budget support

Table 3a. Seychelles: Consolidated Government Operations, 2020-27¹

| | 2020 | 2021 | | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | 2027 |
|--|--------|------------|--------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | Act. | Proj. | | Proj. | | Proj. | | Proj. | | Proj. | | Proj. | | Proj. |
| | | 1st review | Act | 1st review | 2nd review | 1st review | 2nd review | 1st review | 2nd review | 1st review | 2nd review | 1st review | 2nd review | 2nd review |
| (Millions of Seychelles rupees) | | | | | | | | | | | | | | |
| Total revenue and grants | 7,543 | 8,120 | 8,367 | 9,663 | 9,200 | 10,578 | 10,771 | 11,835 | 11,759 | 12,992 | 12,439 | 14,202 | 13,240 | 14,041 |
| Total revenue | 7,156 | 7,514 | 7,667 | 8,923 | 8,960 | 9,953 | 10,034 | 11,085 | 11,114 | 12,251 | 11,860 | 13,474 | 12,661 | 13,451 |
| Tax | 6,369 | 6,692 | 6,721 | 7,863 | 7,764 | 8,908 | 8,960 | 9,999 | 10,016 | 11,329 | 10,848 | 12,493 | 11,626 | 12,394 |
| Personal income tax | 1,023 | 996 | 1,030 | 1,162 | 1,134 | 1,292 | 1,233 | 1,455 | 1,400 | 1,606 | 1,513 | 1,777 | 1,548 | 1,628 |
| Trade tax | 260 | 233 | 226 | 289 | 285 | 352 | 340 | 512 | 348 | 588 | 390 | 676 | 438 | 479 |
| Excise tax | 1,268 | 1,226 | 1,207 | 1,554 | 1,434 | 1,672 | 1,727 | 1,838 | 1,855 | 2,094 | 2,066 | 2,359 | 2,200 | 2,367 |
| Goods and services tax (GST) / VAT | 2,117 | 2,320 | 2,326 | 2,951 | 2,979 | 3,242 | 3,283 | 3,340 | 3,674 | 3,698 | 3,850 | 3,992 | 4,210 | 4,454 |
| Business tax | 1,204 | 1,433 | 1,457 | 1,437 | 1,475 | 1,845 | 1,897 | 2,146 | 2,201 | 2,419 | 2,416 | 2,651 | 2,567 | 2,764 |
| Corporate Social Responsibility Tax (CSR) | 102 | 58 | 61 | 0 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Marketing Tourism Tax (MTT) | 62 | 62 | 60 | 68 | 67 | 74 | 75 | 187 | 90 | 241 | 102 | 293 | 114 | 124 |
| Other | 334 | 324 | 310 | 353 | 332 | 380 | 354 | 520 | 400 | 682 | 460 | 745 | 497 | 527 |
| Nontax | 787 | 822 | 945 | 1,060 | 1,196 | 1,046 | 1,074 | 1,086 | 1,098 | 922 | 1,012 | 981 | 1,035 | 1,057 |
| Fees and charges | 263 | 365 | 366 | 325 | 298 | 396 | 336 | 408 | 360 | 420 | 366 | 402 | 369 | 372 |
| Dividends from parastatals | 414 | 321 | 441 | 590 | 758 | 590 | 597 | 618 | 597 | 442 | 597 | 519 | 618 | 638 |
| Other | 110 | 136 | 138 | 61 | 54 | 60 | 53 | 60 | 51 | 60 | 49 | 60 | 48 | 47 |
| External grants | 387 | 607 | 700 | 740 | 240 | 625 | 737 | 750 | 645 | 741 | 579 | 728 | 579 | 590 |
| Expenditure and net lending | 11,440 | 10,443 | 9,843 | 10,607 | 10,257 | 10,380 | 11,021 | 11,459 | 11,394 | 12,498 | 11,807 | 13,564 | 12,386 | 13,033 |
| Current expenditure | 10,037 | 8,887 | 8,496 | 8,783 | 9,049 | 8,708 | 8,843 | 9,447 | 8,937 | 10,189 | 9,264 | 11,040 | 9,725 | 10,295 |
| Primary current expenditure | 9,397 | 8,222 | 7,757 | 8,071 | 8,375 | 8,012 | 8,078 | 8,827 | 8,325 | 9,577 | 8,757 | 10,451 | 9,318 | 9,965 |
| Wages and salaries ² | 2,845 | 2,930 | 2,760 | 3,097 | 3,076 | 3,100 | 3,213 | 3,359 | 3,456 | 3,628 | 3,806 | 3,918 | 4,066 | 4,233 |
| Goods and services ² | 2,915 | 3,067 | 2,827 | 3,030 | 3,153 | 2,969 | 3,029 | 3,214 | 3,065 | 3,446 | 3,149 | 3,709 | 3,464 | 3,810 |
| Transfers ² | 3,607 | 2,174 | 2,123 | 1,897 | 2,098 | 1,903 | 1,789 | 2,040 | 1,757 | 2,182 | 1,755 | 2,338 | 1,747 | 1,881 |
| Social program of central government | 1,512 | 486 | 468 | 303 | 303 | 298 | 298 | 357 | 296 | 441 | 296 | 508 | 296 | 430 |
| Transfers to public sector from central government | 435 | 248 | 240 | 149 | 267 | 140 | 65 | 55 | 63 | 59 | 42 | 63 | 42 | 42 |
| Benefits and programs of Social Security Fund | 1,660 | 1,440 | 1,415 | 1,445 | 1,528 | 1,465 | 1,427 | 1,628 | 1,398 | 1,682 | 1,417 | 1,766 | 1,409 | 1,409 |
| Other | 31 | 51 | 46 | 47 | 47 | 41 | 47 | 214 | 47 | 321 | 47 | 486 | 41 | 41 |
| Interest due | 640 | 665 | 739 | 711 | 674 | 696 | 765 | 620 | 612 | 612 | 507 | 590 | 407 | 330 |
| Foreign interest | 292 | 228 | 259 | 199 | 194 | 184 | 183 | 157 | 158 | 142 | 132 | 126 | 104 | 83 |
| Domestic interest | 348 | 438 | 480 | 512 | 480 | 512 | 582 | 462 | 454 | 470 | 375 | 463 | 303 | 247 |
| Capital expenditure | 1,032 | 1,238 | 1,248 | 1,696 | 1,068 | 1,613 | 1,672 | 1,754 | 1,880 | 1,869 | 1,921 | 1,973 | 2,042 | 2,180 |
| Domestically financed | 599 | 597 | 394 | 730 | 732 | 602 | 794 | 721 | 907 | 849 | 1,144 | 971 | 1,304 | 1,428 |
| Foreign financed | 432 | 641 | 853 | 966 | 335 | 1,011 | 878 | 1,033 | 973 | 1,020 | 777 | 1,002 | 739 | 751 |
| Net lending | 222 | 266 | 41 | 78 | 91 | 9 | 456 | 108 | 426 | 300 | 481 | 400 | 471 | 400 |
| Contingency | 149 | 53 | 58 | 50 | 50 | 50 | 50 | 150 | 150 | 140 | 140 | 151 | 148 | 158 |
| Primary balance | -3,257 | -1,658 | -736 | -232 | -383 | 893 | 515 | 995 | 978 | 1,106 | 1,139 | 1,227 | 1,260 | 1,338 |
| Overall balance, commitment basis ³ | -3,897 | -2,323 | -1,475 | -943 | -1,057 | 198 | -250 | 376 | 366 | 494 | 632 | 638 | 854 | 1,008 |
| Change in float | -189 | 0 | 86 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance, cash basis (after grants) | -4,086 | -2,323 | -1,390 | -943 | -1,057 | 198 | -250 | 376 | 366 | 494 | 632 | 638 | 854 | 1,008 |
| Financing | 4,086 | 2,323 | 1,390 | 943 | 1,057 | -198 | 250 | -376 | -366 | -494 | -632 | -638 | -854 | -1,008 |
| Foreign financing | 652 | 1,535 | 1,480 | 705 | 807 | 987 | 795 | -635 | -393 | -687 | -660 | -702 | -887 | -694 |
| Disbursements | 1,176 | 2,132 | 2,118 | 1,566 | 1,406 | 1,938 | 1,552 | 465 | 543 | 279 | 198 | 274 | 160 | 161 |
| Project loans | 46 | 116 | 153 | 424 | 426 | 518 | 650 | 362 | 440 | 279 | 198 | 274 | 160 | 161 |
| Program/budget support | 1,130 | 2,016 | 1,965 | 1,142 | 980 | 1,420 | 903 | 103 | 103 | 0 | 0 | 0 | 0 | 0 |
| Of which RFI | 535 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 2 |
| Scheduled amortization | -523 | -597 | -639 | -862 | -599 | -952 | -757 | -1,100 | -936 | -966 | -857 | -976 | -1,047 | -855 |
| Of which Paris Club buy-back | | | | | | | | | | | | | | |
| Domestic financing, net | 3,191 | 788 | -28 | 155 | 164 | -1,270 | -633 | 172 | -62 | 194 | -62 | 65 | -57 | -406 |
| Bank financing | 2,703 | 709 | -193 | 139 | 147 | -1,338 | -570 | 154 | -56 | 174 | -56 | 58 | -52 | -365 |
| CBS | 1,071 | 0 | -781 | 450 | 485 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial banks | 1,632 | 709 | 588 | -311 | -338 | -1,338 | -570 | 154 | -56 | 174 | -56 | 58 | -52 | -365 |
| Nonbank financing | 488 | 79 | 165 | 15 | 16 | 68 | -63 | 17 | -6 | 19 | -6 | 6 | -6 | -41 |
| Privatization and long-term lease of fixed assets | 0 | 0 | 0 | 84 | 86 | 86 | 88 | 88 | 90 | 0 | 90 | 0 | 91 | 92 |
| Statistical discrepancy | 242 | 0 | -1,152 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Memorandum item:</i> | | | | | | | | | | | | | | |
| External debt service due | 816 | 825 | 898 | 1,061 | 793 | 1,136 | 940 | 1,258 | 1,095 | 1,108 | 989 | 1,103 | 1,150 | 938 |

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

¹ The fiscal program targets at the approval of the EFF are now presented in percent of the new GDP. Data include the central government and the social security system.² Wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.³ Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

Table 4. Seychelles: Depository Corporations Survey and Central Bank Accounts, 2017-21

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------|--------|--------|--------|--------|
| | Act. | Act. | Act. | Act. | Act. |
| Depository corporations survey | | | | | |
| Net foreign assets | 10,754 | 11,948 | 12,647 | 18,788 | 19,389 |
| Central bank | 6,982 | 7,248 | 7,807 | 11,619 | 10,094 |
| Deposit money banks | 3,771 | 4,700 | 4,841 | 7,169 | 9,295 |
| Net domestic assets | 5,134 | 5,166 | 6,847 | 6,372 | 7,240 |
| Domestic credit | 8,476 | 8,620 | 10,562 | 14,257 | 13,178 |
| Net claims on the government | 2,209 | 1,699 | 1,882 | 3,844 | 3,978 |
| <i>Of which: Government deposits at the Central Bank</i> | -3,355 | -2,829 | -2,513 | -1,638 | -2,417 |
| <i>Of which: Change in monetary debt¹</i> | 670.0 | 394.1 | 219.2 | 184.0 | 70.0 |
| Credit to the economy | 6,267 | 6,921 | 8,680 | 10,413 | 9,200 |
| <i>Of which: credit to the private sector</i> | 6,032 | 6,727 | 8,229 | 9,890 | 8,713 |
| Other items, net | -3,342 | -3,453 | -3,715 | -7,885 | -5,938 |
| Broad money | 15,888 | 17,115 | 19,494 | 25,160 | 26,629 |
| Currency in circulation | 1,116 | 1,169 | 1,228 | 1,460 | 1,500 |
| Foreign currency deposits | 6,115 | 7,060 | 7,987 | 11,796 | 12,568 |
| Local currency deposits | 8,657 | 8,886 | 10,278 | 11,904 | 12,561 |
| Central bank | | | | | |
| Net foreign assets | 6,982 | 7,248 | 7,807 | 11,619 | 10,094 |
| Foreign assets | 7,560 | 7,731 | 8,191 | 12,078 | 10,313 |
| Foreign liabilities | 578 | 483 | 384 | 458 | 219 |
| Net domestic assets | -3,423 | -3,528 | -3,242 | 91 | 1,164 |
| Domestic credit | -2,629 | -2,651 | -2,318 | 4,247 | 2,963 |
| Government (net) | -1,731 | -1,644 | -1,328 | -453 | -1,225 |
| Commercial banks | -705 | -845 | -873 | 4,865 | 4,374 |
| Other (parastatals) | -192 | -162 | -117 | -166 | -185 |
| Other items, net | -794 | -877 | -925 | -4,156 | -1,799 |
| Reserve money | 3,559 | 3,720 | 4,564 | 6,408 | 7,120 |
| Currency in circulation | 1,116 | 1,169 | 1,228 | 1,460 | 1,500 |
| Commercial bank reserves (includes cash in vault) | 2,443 | 2,551 | 3,336 | 4,947 | 5,621 |
| <i>Of which: vault cash</i> | 212 | ... | ... | ... | ... |
| <i>Of which: excess reserves (excl. bank vault cash)</i> | 182 | ... | ... | ... | ... |
| <i>Of which: required reserves in foreign currency</i> | 841 | 924 | 924 | 924 | 924 |
| required reserves in domestic currency | 1,208 | 1,346 | 1,595 | 1,844 | 2,096 |
| <i>Memorandum items:</i> | | | | | |
| Gross official reserves (millions of U.S. dollars) | 546 | 548 | 580 | 559 | 702 |
| Foreign currency deposits (millions of U.S. dollars) | 442 | 503 | 567 | 638 | 713 |
| Broad money growth (12-month percent change) | 16.4 | 7.7 | 13.9 | 29.1 | 5.8 |
| Credit to the private sector (12-month percent change) | 17.8 | 11.5 | 22.3 | 20.2 | -11.9 |
| Reserve money (end-of-period; 12-month percent change) | 18.9 | 4.5 | 22.7 | 40.4 | 11.1 |
| Reserve money (daily average over quarter; 12-month perce | 19.0 | ... | ... | ... | ... |
| Money multiplier (broad money/reserve money) | 4.5 | 4.6 | 4.3 | 3.9 | 3.7 |
| Velocity (GDP/broad money; end-of-period) | 1.4 | 1.3 | 1.2 | 1.2 | 1.5 |

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

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

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2018–21

| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2021 |
|---|--------------------------|------|------|------|--------|------|------|
| | | | | Q1 | Q2 | Q3 | Q4 |
| | (Percent, end-of-period) | | | | | | |
| Capital adequacy | | | | | | | |
| Regulatory capital to risk weighted assets | 20.5 | 19.5 | 17.1 | 18.2 | 19.9 | 21.5 | 22.4 |
| Regulatory tier 1 capital to risk weighted assets | 16.8 | 16.2 | 14.1 | 14.5 | 16.8 | 17.5 | 17.3 |
| Capital to assets (net worth) | 10.1 | 9.9 | 8.4 | 8.5 | 9.0 | 9.4 | 9.3 |
| Net tangible capitalization ¹ | 10.1 | 10.0 | 8.5 | 8.6 | 9.1 | 9.5 | 9.4 |
| Asset quality | | | | | | | |
| Foreign exchange loans to total loans | 24.2 | 26.0 | 36.4 | 35.9 | 29.8 | 28.6 | 28.2 |
| Non-performing loans to gross loans | 3.5 | 2.7 | 3.3 | 3.6 | 5.1 | 4.9 | 5.5 |
| Provision as percentage of non-performing | 19.2 | 25.1 | 38.3 | 29.3 | 27.2 | 33.7 | 32.8 |
| Earnings and profitability | | | | | | | |
| Return on assets (annualized) | 3.7 | 2.5 | 1.0 | 1.8 | 1.0 | 3.5 | 2.6 |
| Return on equity (annualized) | 35.7 | 24.0 | 11.5 | 15.7 | 11.4 | 37.3 | 27.5 |
| Interest margin to gross income | 54.5 | 62.6 | 58.3 | 67.5 | -354.4 | 57.1 | 52.9 |
| Noninterest expense to gross income | 55.9 | 57.7 | 55.3 | 65.6 | -311.3 | 50.5 | 55.2 |
| Net interest margin (annualized) ² | 4.2 | 9.4 | 7.4 | 4.1 | 3.0 | 3.4 | 3.0 |
| Net noninterest margin (annualized) ³ | -0.8 | -3.1 | -1.7 | -2.1 | -2.3 | -0.4 | -0.5 |
| Expense to income | 61.4 | 63.7 | 60.7 | 69.7 | 279.9 | 55.4 | 58.8 |
| Interest expense to gross income | 14.4 | 16.6 | 13.6 | 13.6 | -86.6 | 11.1 | 8.7 |
| Liquidity | | | | | | | |
| Core liquid assets to total assets ⁴ | 45.2 | 44.1 | 44.1 | 41.2 | 37.7 | 40.4 | 43.5 |
| Broad liquid assets to total assets ⁵ | 58.2 | 55.3 | 57.3 | 55.4 | 54.1 | 57.0 | 59.2 |
| Liquid assets (broad) to short term liabilities | 63.7 | 60.6 | 62.3 | 61.6 | 60.4 | 63.9 | 66.1 |
| Liquid assets (broad) to total liabilities | 64.7 | 61.6 | 62.5 | 60.6 | 59.4 | 62.9 | 65.3 |
| Liquid assets to deposit liabilities | 68.5 | 65.3 | 67.8 | 65.7 | 64.0 | 67.3 | 69.3 |
| Foreign exchange exposure | | | | | | | |
| Total long position in foreign exchange to capital | ... | ... | ... | 11.8 | 4.7 | 4.6 | 4.0 |
| Total short position in foreign exchange to capital | ... | ... | ... | -5.4 | -7.3 | -6.6 | -4.6 |

Source: Central Bank of Seychelles.

¹ Defined as: equity capital/(assets-interest in suspense-provisions).

² Defined as: (Interest income - interest expense)/average assets.

³ Defined as: (Non-interest income - non-interest expense)/average assets.

⁴ Core liquid assets include cash, balances with CBS, and deposits with other banks.

⁵ Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Schedule of Purchases Under the EFF Arrangement

| Date Available | Amount | % of Quota | Conditions Necessary for Disbursement |
|------------------|-----------------|------------|--|
| July 29, 2021 | SDR 24 million | 104.8 | Executive Board approval of the EFF arrangement. |
| December 1, 2021 | SDR 24 million | 104.8 | Observance of end-July 2021 performance criteria, and completion of the first review under the arrangement. |
| June 1, 2022 | SDR 6.5 million | 28.4 | Observance of end-December 2021 performance criteria, and completion of the second review under the arrangement. |
| December 1, 2022 | SDR 6.5 million | 28.4 | Observance of end-June 2022 performance criteria, and completion of the third review under the arrangement. |
| June 1, 2023 | SDR 6.5 million | 28.4 | Observance of end-December 2022 performance criteria, and completion of the fourth review under the arrangement. |
| December 1, 2023 | SDR 6.5 million | 28.4 | Observance of end-June 2023 performance criteria, and completion of the fifth review under the arrangement. |
| Total | SDR 74 million | 323 | |

Source: IMF staff estimates.

Table 7. Seychelles: Indicators of Capacity to Repay the Fund, 2017-2032

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|--|-------------------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|
| | (Millions of SDR) | | | | | | | | | | | | | | | |
| Existing Fund credit | | | | | | | | | | | | | | | | |
| Stock ¹ | 29.3 | 24.8 | 19.7 | 37.6 | 33.6 | 29.9 | 21.4 | 8.2 | 1.2 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Obligation | 4.0 | 5.1 | 5.6 | 5.5 | 4.5 | 4.0 | 8.8 | 13.4 | 7.0 | 0.8 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal (repayments/repurchases) | 3.6 | 4.5 | 5.1 | 5.0 | 4.1 | 3.7 | 8.5 | 13.2 | 7.0 | 0.8 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disbursements | 4.9 | | | 22.9 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Prospective Fund credit | | | | | | | | | | | | | | | | |
| Disbursement | 0.0 | 0.0 | 0.0 | 0.0 | 48.0 | 13.0 | 13.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock ¹ | 0.0 | 0.0 | 0.0 | 0.0 | 48.0 | 61.0 | 74.0 | 74.0 | 74.0 | 65.5 | 54.8 | 42.4 | 30.1 | 17.8 | 5.4 | 1.6 |
| Obligations ² | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 1.4 | 1.8 | 1.8 | 1.5 | 10.2 | 12.0 | 13.1 | 12.7 | 12.6 | 12.5 | 3.8 |
| Principal (repayments/repurchases) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 8.5 | 10.7 | 12.3 | 12.3 | 12.3 | 12.3 | 3.8 |
| Charges and interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 1.4 | 1.8 | 1.8 | 1.5 | 1.6 | 1.2 | 0.8 | 0.4 | 0.3 | 0.2 | 0.1 |
| Stock of existing and prospective Fund credit ¹ | 29.3 | 24.8 | 19.7 | 37.6 | 81.6 | 90.9 | 95.4 | 82.2 | 75.2 | 65.9 | 54.8 | 42.4 | 30.1 | 17.8 | 5.4 | 1.6 |
| In percent of quota | 128.0 | 108.2 | 86.0 | 164.3 | 356.2 | 396.8 | 416.6 | 358.9 | 328.5 | 287.6 | 239.1 | 185.2 | 131.4 | 77.6 | 23.7 | 7.2 |
| In percent of GDP | 2.6 | 2.2 | 1.7 | 4.3 | 8.1 | 7.1 | 7.0 | 5.4 | 4.6 | 3.8 | 2.8 | 2.0 | 1.3 | 0.7 | 0.2 | 0.1 |
| In percent of Government Revenues | | | | 12.5 | 23.8 | 21.3 | 19.3 | 14.9 | 12.9 | 10.6 | 7.9 | 5.7 | 3.7 | 2.0 | 0.6 | 0.2 |
| In percent of exports of goods and services | 2.7 | 2.1 | 1.8 | 5.3 | 9.5 | 9.1 | 8.8 | 7.0 | 6.0 | 4.5 | 3.4 | 2.5 | 1.6 | 0.9 | 0.2 | 0.1 |
| In percent of gross reserves | 7.6 | 6.5 | 4.9 | 9.6 | 16.8 | 18.9 | 18.9 | 16.8 | 15.3 | 14.5 | 11.2 | 8.0 | 5.3 | 2.9 | 0.8 | 0.2 |
| Obligations to the Fund from existing and prospective Fund arrangements | | | | | | | | | | | | | | | | |
| Disbursements | 4.9 | 0.0 | 0.0 | 22.9 | 48.0 | 13.0 | 13.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Obligations | 4.0 | 5.1 | 5.6 | 5.5 | 4.8 | 5.4 | 10.5 | 15.2 | 8.5 | 11.0 | 12.4 | 13.1 | 12.7 | 12.6 | 12.5 | 3.8 |
| Principal (repayments/repurchases) | 3.6 | 4.5 | 5.1 | 5.0 | 4.1 | 3.7 | 8.5 | 13.2 | 7.0 | 9.4 | 11.1 | 12.3 | 12.3 | 12.3 | 12.3 | 3.8 |
| Charges and interest | 0.5 | 0.5 | 0.5 | 0.5 | 0.8 | 1.7 | 2.1 | 1.9 | 1.6 | 1.6 | 1.2 | 0.8 | 0.4 | 0.3 | 0.2 | 0.1 |
| In percent of quota ³ | 17.6 | 22.1 | 24.5 | 23.9 | 21.2 | 23.5 | 45.9 | 66.2 | 37.1 | 48.0 | 54.0 | 57.2 | 55.6 | 55.1 | 54.5 | 16.8 |
| In percent of GDP | 0.4 | 0.4 | 0.5 | 0.6 | 0.5 | 0.4 | 0.8 | 1.0 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.1 |
| In percent of Government Revenues | | | | 1.8 | 1.4 | 1.3 | 2.1 | 2.7 | 1.5 | 1.8 | 1.8 | 1.7 | 1.6 | 1.4 | 1.3 | 0.4 |
| In percent of exports of goods and services | 0.4 | 0.4 | 0.5 | 0.8 | 0.6 | 0.5 | 1.0 | 1.3 | 0.7 | 0.7 | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.2 |
| In percent of gross reserves | 1.1 | 1.3 | 1.4 | 1.4 | 1.0 | 1.1 | 2.1 | 3.1 | 1.7 | 2.4 | 2.5 | 2.5 | 2.2 | 2.0 | 1.9 | 0.5 |

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

¹ End-of-period.

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

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

Table 8. Seychelles: Decomposition of Public Debt and Debt Service by Creditor, 2021-23¹

| | Debt Stock (end of period) | | | Debt Service | | | | | |
|---|----------------------------|----------------------|---------------|-------------------|-------|-------|---------------|------|------|
| | 2021 | | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| | (In US\$ million) | (Percent total debt) | (Percent GDP) | (In US\$ million) | | | (Percent GDP) | | |
| Total | 1026.3 | 100 | 81.3 | 314.9 | 221.4 | 243.7 | 25.6 | 16.2 | 13.1 |
| External | 552.5 | 53.8 | 43.8 | 16.0 | 14.3 | 12.6 | 1.3 | 1.0 | 0.7 |
| Multilateral creditors ^{2,3} | 255.5 | 24.9 | 20.2 | 3.2 | 2.9 | 3.0 | 0.3 | 0.2 | 0.2 |
| IMF | 54.1 | 5.3 | 4.3 | | | | | | |
| World Bank | 69.7 | 6.8 | 5.5 | | | | | | |
| AfDB | 64.3 | 6.3 | 5.1 | | | | | | |
| Other Multilaterals | 67.3 | 6.6 | 5.3 | | | | | | |
| o/w: EIB | 37.1 | 3.6 | 2.9 | | | | | | |
| o/w: BADEA | 19.5 | 1.9 | 1.5 | | | | | | |
| Bilateral Creditors ² | 107.1 | 10.4 | 8.5 | 3.0 | 3.1 | 2.6 | 0.2 | 0.2 | 0.1 |
| Paris Club | 56.5 | 5.5 | 4.5 | 0.8 | 0.7 | 0.7 | 0.1 | 0.0 | 0.0 |
| o/w: France | 30.8 | 3.0 | 2.4 | | | | | | |
| o/w: UK | 6.5 | 0.6 | 0.5 | | | | | | |
| Non-Paris Club | 50.6 | 4.9 | 4.0 | 2.2 | 2.4 | 1.9 | 0.2 | 0.2 | 0.1 |
| o/w: China | 18.3 | 1.8 | 1.5 | | | | | | |
| o/w: Saudi Arabia | 13.8 | 1.3 | 1.1 | | | | | | |
| Bonds | 0.0 | 0.0 | 0.0 | 9.4 | 7.6 | 6.7 | 0.8 | 0.6 | 0.4 |
| Commercial creditors | 189.9 | 18.5 | 15.0 | 0.3 | 0.7 | 0.2 | 0.0 | 0.1 | 0.0 |
| o/w: Nedbank | 0.0 | 0.0 | 0.0 | | | | | | |
| o/w: Habib Bank | 0.0 | 0.0 | 0.0 | | | | | | |
| o/w: MCB | 189.9 | 18.5 | 15.0 | | | | | | |
| Domestic | 473.8 | 46.2 | 37.5 | 298.9 | 207.1 | 231.1 | 24.3 | 15.1 | 12.4 |
| Held by residents, total | 473.8 | 46.2 | 37.5 | 298.9 | 207.1 | 231.1 | 24.3 | 15.1 | 12.4 |
| Held by non-residents, total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| T-Bills | 171.7 | 16.7 | 13.6 | 284.4 | 167.8 | 160.4 | 23.1 | 12.3 | 8.6 |
| Bonds | 229.3 | 22.3 | 18.2 | 9.0 | 32.9 | 64.2 | 0.7 | 2.4 | 3.5 |
| Loans | 72.8 | 7.1 | 5.8 | 5.5 | 6.4 | 6.4 | 0.4 | 0.5 | 0.3 |
| Memo items: | | | | | | | | | |
| Collateralized debt ⁴ | 0.0 | | | | | | | | |
| o/w: Related | | | | | | | | | |
| o/w: Unrelated | | | | | | | | | |
| Contingent liabilities | | | | | | | | | |
| o/w: External public guarantees | 0.0 | | | | | | | | |
| o/w: Domestic Public guarantees | 37.6 | | | | | | | | |
| o/w: Other explicit contingent liabilities ⁵ | | | | | | | | | |
| Nominal GDP | 1262.0 | | | | | | | | |

Sources: IMF staff estimates and authorities data.

1/As reported by Seychelles authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Some public debt is not shown in the table due to [confidentiality clauses/capacity constraints].(Include for all creditor groups where applicable)

3/Multilateral creditors² are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Annex I. Risk Assessment Matrix

The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 and 3 years, respectively.

| Source of Risks | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|---|---------------------|-----------------------------|--|--|
| Conjunctural Risks | | | | |
| <p>Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs</p> | High | Short to Medium term | <p style="text-align: center;">High</p> <p>A protracted delay in tourism arrivals from the main European countries could hamper the planned tourism and economic recovery during in 2022.</p> | <ul style="list-style-type: none"> • Develop a contingency plan that would lower the impact of a delayed economic recovery: • Consider further fiscal consolidation and reliance on concessional financing in case such risk materializes. |
| <p>Protracted delay in tourism recovery in Seychelles from traditional markets.</p> | High | Short to medium term | <p style="text-align: center;">High</p> <p>A protracted delay in tourism arrivals from the main European countries could hamper the planned tourism and economic recovery during in 2022.</p> | <ul style="list-style-type: none"> • Develop a contingency plan that would lower the impact of a delayed economic recovery: • Consider further fiscal consolidation and reliance on concessional financing in case such risk materializes. |

| Source of Risks | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|---|---------------------|---------------------------|---|---|
| Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space). | High | Short Term | Medium Exchange rate-inflation pass-through is slow in Seychelles. However, sharper-than-anticipated increases in international energy prices raise the costs of energy imports and other imported goods. Higher food prices and/or supply disruptions would hurt vulnerable consumers (particularly low-income households), | <ul style="list-style-type: none"> CBS to maintain vigilant monitoring and be ready to tighten monetary stance to anchor inflation expectations. Enhance the effectiveness of the government's planned targeted support for the most vulnerable population to deal with rising prices of a delayed economic recovery |
| Shortfall of external financing for Seychelles | Medium | Short Term to Medium Term | High A shortfall of external financing could imply high GFNs for several years. | Develop a contingency plan that would lower the impact of a shortfall in external financing: Authorities could consider further fiscal consolidation and debt restructuring. |
| Higher NPL levels in the banking sector in Seychelles | Medium | Short Term to Medium Term | Medium Higher NPLs levels in the banking sector which is currently not recognized due to the regulatory forbearance could escalate further in case the economic recovery falls short of expectations. | <ul style="list-style-type: none"> Encourage and facilitate prudent restructuring of loans and enhance management and monitoring of NPLs. Authorities should provide guidance on prudential treatment of moratoria and NPL management strategies, assess their implementation, and monitor the relevant reclassification of loans. Authorities should further develop detailed reporting templates for restructured and rescheduled loans and for monitoring the impact of COVID-19 measures on the asset quality of banks. |
| Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs. | Medium | Short to Medium Term | Medium Low effectiveness in vaccines could further disrupt domestic activity and tourism recovery | Rely predominantly on concessional financing; optimize debt portfolio; adjust public investment level to reduce borrowing needs, if necessary |

| Source of Risks | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|--|---------------------|-----------------------------|--|--|
| Structural Risks | | | | |
| <p>Natural disasters related to climate change. Higher frequency of natural disasters causes severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.</p> | Medium | Short to Medium Term | Medium The materialization of risks related to natural disasters could trigger further public expenditures and alter the planned reduction of public debt. | Prioritize the implementation of projects related to climate change. |

Annex II. Air Seychelles¹

1. Fiscal risks associated with Air Seychelles have now been substantially reduced, as COVID-related distress allowed for the negotiation of a substantial haircut on Air Seychelles' debt. In October 2021, Air Seychelles entered administration; the administrators have since agreed with the bondholders to a 66.7 percent haircut on the \$78 million debt, plus late interest, owed to the EA Partners bondholders. This amounted to a \$27.8 million payment, plus interest, made in May 2022. To finance this payment, Air Seychelles secured a \$16.5 million loan over 6 years from a commercial bank, and the remainder will be paid out of Air Seychelles' available cash. This haircut, negotiated at a time when the debt was severely distressed due to COVID, have made the finances of Air Seychelles more sustainable.

2. Separately, the government of Seychelles reached agreement to pay only \$13 million of the initial \$69 million obligation to Etihad Airways that the government had taken on its own books when it repurchased shares in Air Seychelles. The original plan was to pay this obligation over three years from 2022-24, but the government began making payments in installments in January 2022 and has since taken a loan from the Trade and Development Bank (TDB) to pay the entire \$13 million remaining balance to Etihad in 2022. Negotiations will be undertaken for Air Seychelles to repay some portion of this amount to the government, as the obligation remains on Air Seychelles' books. However, the government does not include any repayments from Air Seychelles in the fiscal accounts.

3. Although the World Bank had previously identified the liquidation of Air Seychelles as the lowest-cost option with the least fiscal risk, haircuts have changed the outlook. Following the haircuts, Air Seychelles is on a more sustainable financial path. To ensure that Air Seychelles does not find itself in the same situation with significant operational losses and unsustainable debts that pose fiscal risks in the future, it is undergoing an operational restructuring that will cut costs, streamline routes, and ringfence as a separate legal entity the profitable air handling operations that the government views as strategic (new structural benchmark for end-December 2022).

4. With the ground handling operations protected, and Air Seychelles on a more sustainable financial and operational footing, the government has committed to provide no further financial support Air Seychelles in the future (MEFP para 43).

¹ In 2012, Etihad Airways entered a partnership with Air Seychelles, and bought a 40 percent share in the airline. The remaining 60 percent continued to belong to the government of Seychelles. In 2016, Air Seychelles, Air Berlin, Air Serbia, Alitalia and Jet Airways, all partners of Etihad Airways, signed up for a \$500 million platform financing transaction with EA Partners II, with 6.75 percent notes due in 2021. Under the original deal, the funds provided by these bondholders were to be split between Etihad and its partner airlines. Each company assumed the responsibility to pay off its debt before the bond reached its due date in 2021. Air Seychelles owed \$78 million from this arrangement. Air Berlin, Jet Airways, and Alitalia have since gone bankrupt.

Annex III. Debt Sustainability Analysis

Seychelles' public debt situation significantly improved in 2021, mainly due to the sharp rebound from the severe economic recession in 2020. The public debt level decreased by around 13 percentage points of GDP to 76.2 percent of GDP in 2021. Public debt is expected to decrease at a slower pace, by around 2.8 percent of GDP in 2022 owing to the shock caused by the war in Ukraine. Assuming the authorities will continue fiscal consolidation with a view to achieving a primary surplus of 3.4 percent of GDP in 2027 and the economy will suffer no further major negative shocks, public debt is expected to fall below 70 percent of GDP in 2023 and to decline steadily over the medium term. As a small island economy, Seychelles remains vulnerable to macroeconomic shocks, particularly exchange rate shocks. Continued progress in reducing the public debt stock, relying on more concessional financing, and extending the maturities of domestic public debt are therefore warranted. Staff assesses debt to be sustainable, albeit with risks.

- 1. The materialization of a strong economic rebound in 2021 combined with larger than expected fiscal consolidation significantly improved public indebtedness at end-2021.** Public debt declined from 88.7 percent of GDP in 2020 to 76.2 percent in 2021, thanks to the stronger-than-projected economic recovery and fiscal consolidation efforts vastly overperforming program targets. Gross financing needs (GFNs) declined by 14 percentage points of GDP with the help of the successful completion of the Liability Management Operation in July 2021.
- 2. Debt is projected to decrease at a slower pace in 2022 due to the spillovers of the war in Ukraine but without jeopardizing debt sustainability.** The projected gross public debt stock at end-2022 is slightly lower than previously expected (73.3 percent of GDP against 75.9 percent in the first review). The larger fiscal deficit mainly reflecting an increase in expenditure to protect the vulnerable from rising international fuel prices which is driven by the war in Ukraine, is more than offset by the overperformance in 2021. The 2021 primary deficit was 3.6 percent of GDP smaller than foreseen during the first review and the public debt-to-GDP ratio was 4.5 percentage points lower. The debt trajectory remains more favorable than at the time of the EFF negotiation. GFNs are projected to decline to 19.8 percent of GDP in 2022 from 32 percent of GDP in 2021, mainly thanks to successful implementation of the LMO in July 2021, reducing refinancing risk.
- 3. Macroeconomic and fiscal assumptions.** The assumptions underpinning the DSA are those of the program scenario of this Staff Report (SR), which reflects the continued strong economic recovery. Real GDP growth is expected to reach 7.1 percent in 2022 from 7.9 percent in 2021. The continuation of the strong recovery in tourist arrivals, expected at the first review under the EFF, still holds. The reduction in tourists from Russia and Ukraine, whose combined share of tourists accounted for 20 percent in 2021, is more than offset by the bounce in tourists' arrivals from the traditional western European market. Real GDP growth is projected to reach 5.2 percent in 2023 as major trading partners recover and to stabilize at around 4 percent over the medium term. End of period inflation in 2022 is projected to sharply increase to 5.7 percent with a significant increase in international fuel and food prices caused by the war fully passed on to consumer prices (against 3.9 percent under the 1st review). CPI inflation should come down to 3 percent over the

medium term. The primary fiscal balance is expected to improve during 2023-24 on account of a continued economic recovery and solid fiscal consolidation, and to stabilize thereafter.

4. Seychelles' public debt (including government guarantees) is currently above the high-risk benchmark. But it is expected to steadily fall below the benchmark by end-2023 as the authorities implement the fiscal consolidation and continue sound debt management. Assuming the primary balance path will reach a surplus of 3.4 percent of GDP by 2027, the public debt ratio is projected to decline steadily to 45 percent of GDP by 2027. Meanwhile, the GFNs-to-GDP ratio, having increased to 45.6 percent in 2020 and declined to 32 percent of GDP in 2021, would also decline steadily to reach 9 percent by 2027, thanks to the strategy to lengthen maturities and lower debt costs.

5. Public debt remains vulnerable to macroeconomic shocks. Under the real exchange rate shock (real depreciation by around 49 percent in 2023), the debt-to-GDP ratio would peak at around 75.6 percent in 2023 and fall thereafter to around 51.7 percent in 2027. Shocks to real GDP growth (lower than the baseline by around 4 percent during 2023-24) would push the debt-to-GDP ratio to around 74.1 percent in 2024 but fall thereafter to around 57.2 percent in 2027. Under the primary balance shock scenario, the debt-to-GDP ratio would decline at a slower pace from its peak in 2022 and reach 51.2 percent in 2027. A combined macro-fiscal shock would send the debt-to-GDP ratio to 97.7 percent of GDP in 2024. The combined macro-fiscal shock is an aggregation of the shocks to real growth, the interest rate, the primary balance, and the exchange rate. The asymmetric fan chart also highlights that a persistently looser fiscal position would keep debt at an elevated level and could prevent the authorities' planned debt reduction from being attained in the foreseeable future. Also, gross financing needs increase under various shocks, especially under the combined macro-fiscal shock throughout the projection period. While the steadfast implementation of fiscal consolidation will help to reduce GFNs, further measures to extend the average maturity of domestic issuance, wherever possible, and reliance on external concessional financing would also reduce rollover risks.

6. Risks to debt sustainability from Air Seychelles have been reduced as Air Seychelles has gone into administration. The GOS worked with the World Bank and identified the least costly scenario, which was approved by the cabinet in September 2021. In early October 2021, the government appointed two administrators for Air Seychelles as per the requirement of the Insolvency Act. Contingent liability risks to the government have been reduced, as remaining debts of Air Seychelles will be managed through the process of administration and are expected to be paid from Air Seychelles' assets. However, this DSA still provides a scenario where SOEs' debts of up to 6 percent of GDP¹ will be assumed by the government in 2022. Under this scenario, the public debt-to-GDP ratio climbs up to 79.6 percent of GDP in 2022. This highlights the need to mitigate any risks arising from SOEs.

¹ In 2012, the government assumed liabilities and obligations of Air Seychelles amounting to around 5 percent of GDP.

7. The authorities are urged to steadfastly implement fiscal consolidation to reduce public debt vulnerability. As illustrated by the heat map, significant vulnerabilities arise from the large GFNs resulting from the high level of public debt and the short maturity of domestic debt. In addition to the fiscal consolidation, the authorities would need to continue sound debt management focusing on extending the maturities of the domestic debt, where possible, to mitigate rollover risks. Staff advised the government to examine the possible scope for further privatization of some SOEs to reduce the fiscal risks and improve economic efficiency over the medium term.

8. Financial support from IFIs helped improve the debt dynamics in 2021 and are expected to continue during the EFF program. In 2021, the World Bank and AfDB provided a budget support loan of \$44 million and \$20 million, respectively. It is assumed that total multilateral budget support loans besides IMF loans would amount to \$96 million during 2022-24, including the World Bank (\$56 million in 2022-24), AfDB (\$40 million in 2022-23).

9. The results of the updated external DSA reveal that the total external debt-to-GDP ratio is projected to increase in 2022, following the decline in 2021, and would gradually decline over the medium term while remaining elevated. A widening of the current account deficit in 2022, due to the shock to the global economy from the war in Ukraine, would deteriorate the external debt indicators, while an increase in FDI (even with no FDI from Russia expected) and substantial drawdown of FX reserves are expected to partly mitigate the adverse impact on external debt. A gradual narrowing of the current account deficit over the medium term on the back of solid recovery in tourism activities and fiscal consolidation would put the external debt-to-GDP ratio on a declining path. However, this ratio is expected to stabilize at an elevated level as the current account deficit would remain large. Risks continue to be mitigated by the maturity profile of the external debt as it is comprised mostly of public and tourism sector borrowing at favorable interest rates and long maturities.

10. 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 the external debt-to-GDP ratio to around 515 percent in 2023, however this ratio would decrease steadily to around 415 percent by the end of the projection period, compared to about 272 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 $\frac{1}{4}$ standard deviation shock to growth and the current account (excluding interest payments) would lead to a gradual increase in the external debt-to-GDP ratio to around 304 and 283 by the end of the projection period respectively.

Figure 1. Seychelles: Public DSA Risk Assessment

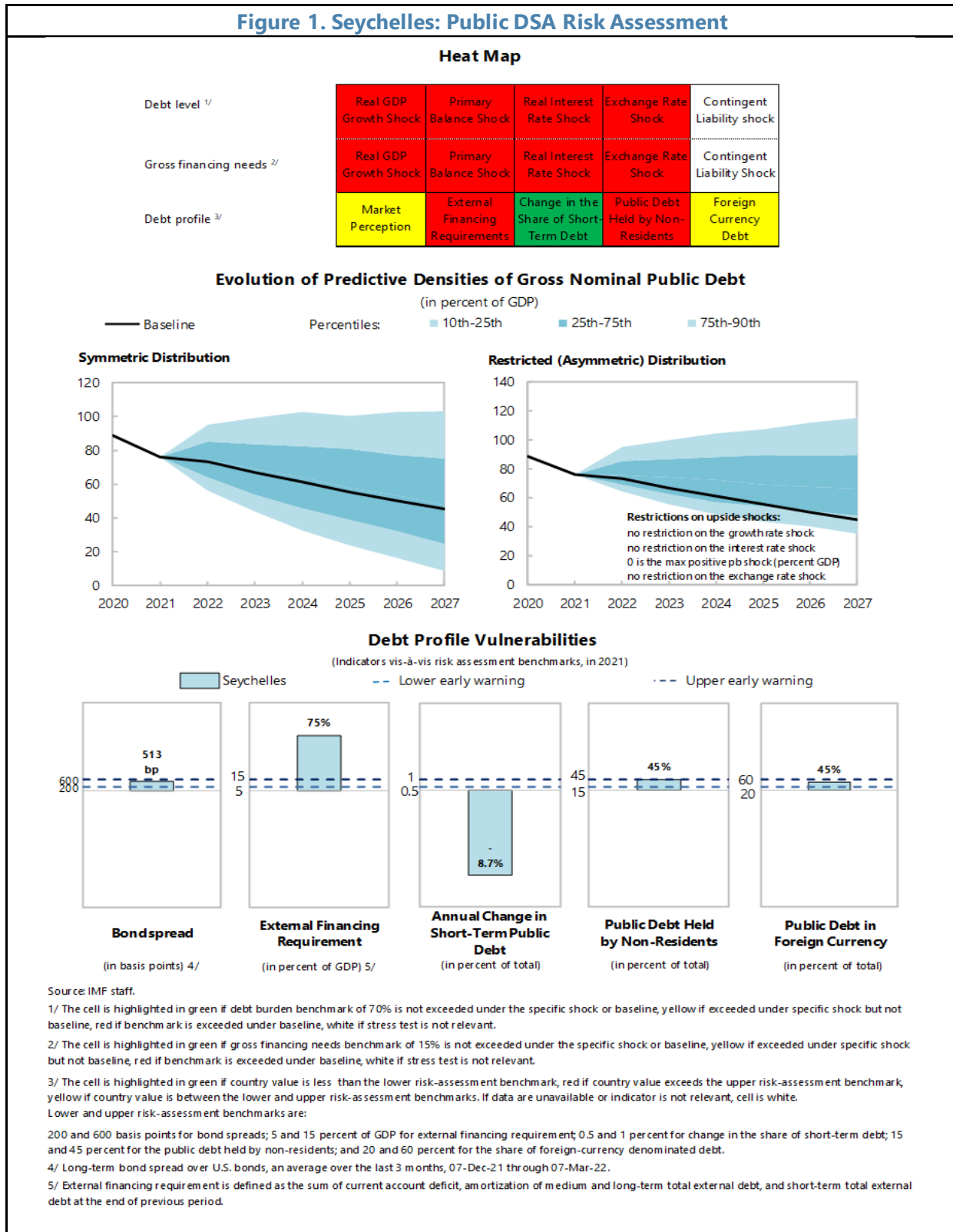


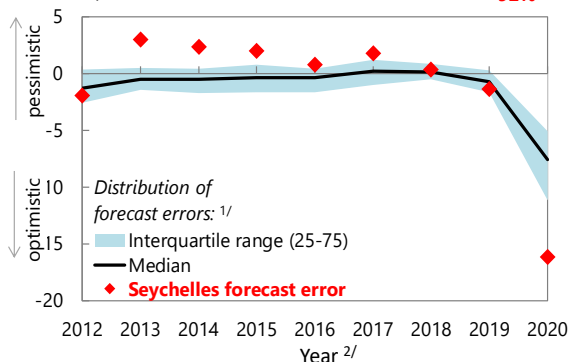
Figure 2. Seychelles: Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus all countries

Real GDP Growth

(in percent, actual-projection)

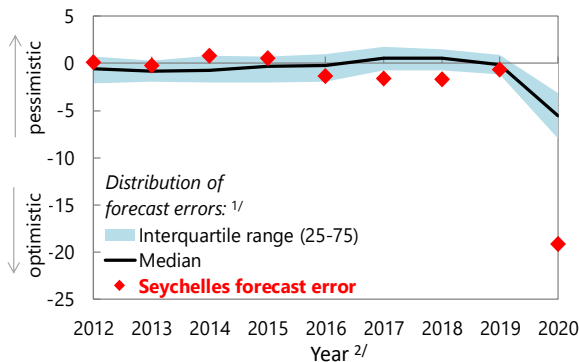
Seychelles median forecast error, 2012-2020: **0.72**
 Has a percentile rank of: **92%**



Primary Balance

(in percent of GDP, actual-projection)

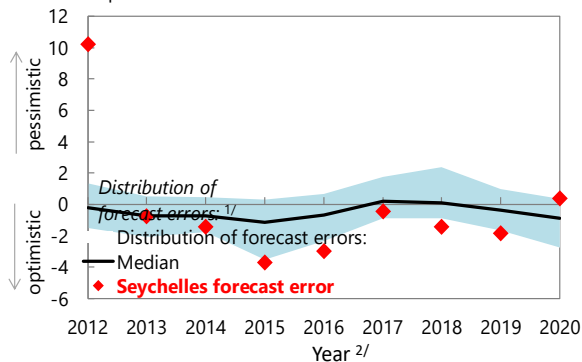
Seychelles median forecast error, 2012-2020: **-0.63**
 Has a percentile rank of: **40%**



Inflation (Deflator)

(in percent, actual-projection)

Seychelles median forecast error, 2012-2020: **-1.46**
 Has a percentile rank of: **16%**

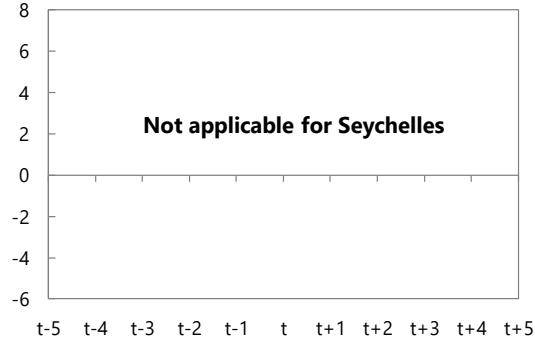


Boom-Bust Analysis^{3/}

Real GDP growth

(in percent)

— Seyche...



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.

Figure 2. Seychelles: Public DSA – Realism of Baseline Assumptions (concluded)

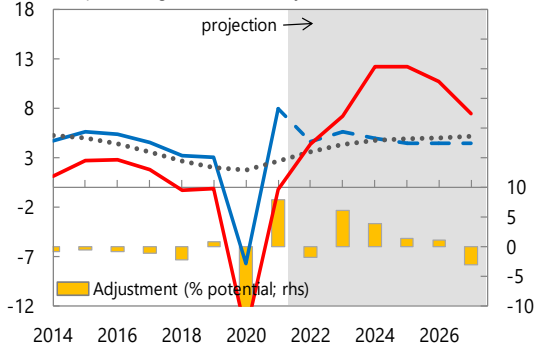
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 1, persistence of 0.6

Real GDP Growth

(in percent)

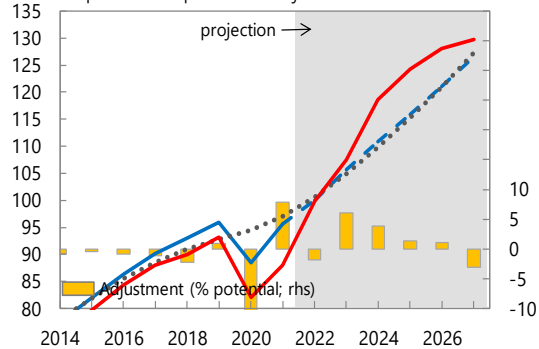
- Baseline real growth
- Baseline real potential growth
- Implicit real growth without adjustment



Real Output Level

(Baseline real output in 2022=100)

- Baseline real output
- Baseline real potential output
- Implicit real output without adjustment

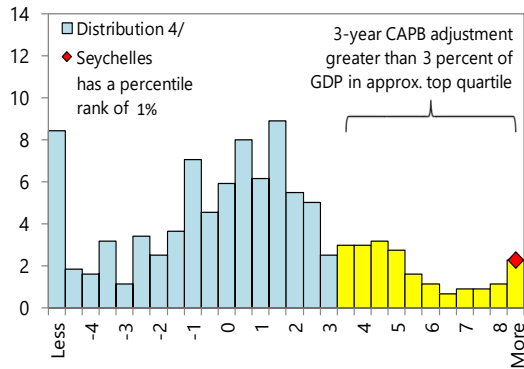


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted

Primary Balance (CAPB)

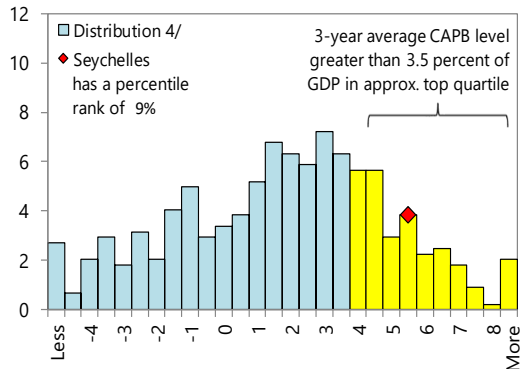
(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted

Primary Balance (CAPB)

(Percent of GDP)

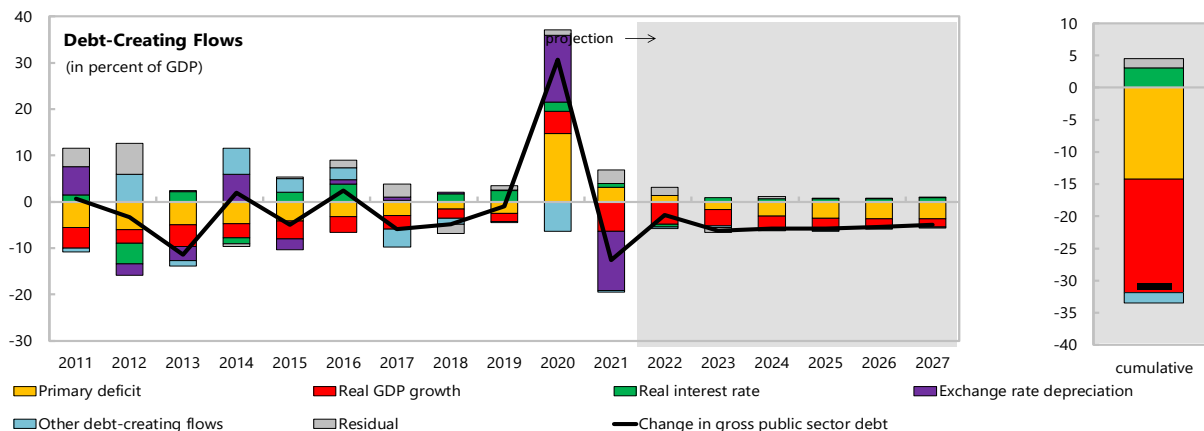


Source : IMF staff.

Figure 3. Seychelles: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario
(In percent of GDP unless otherwise indicated)

| | Actual | | | Projections | | | | | As of March 07, 2022 | | | |
|--|-------------------------|------|------|-------------|------|------|------|------|----------------------|-------------------|---------|-------|
| | 2011-2019 ^{2/} | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | | | |
| Nominal gross public debt | 69.6 | 88.7 | 76.2 | 73.3 | 67.0 | 61.3 | 55.5 | 50.1 | 45.2 | Sovereign Spreads | | |
| Of which: guarantees | 2.6 | 3.9 | 3.3 | 3.2 | 2.6 | 2.0 | 1.7 | 1.6 | 1.4 | EMBIG (bp) 3/ 328 | | |
| Public gross financing needs | 25.7 | 45.6 | 32.0 | 19.8 | 14.6 | 11.0 | 10.2 | 9.6 | 9.0 | 5Y CDS (bp) N/A | | |
| Net public debt | 60.8 | 86.2 | 74.1 | 71.5 | 65.4 | 59.7 | 54.1 | 48.8 | 43.9 | Ratings | | |
| Real GDP growth (in percent) | 4.7 | -7.7 | 7.9 | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 | Moody's | Foreign | Local |
| Inflation (GDP deflator, in percent) | 3.3 | 1.8 | 2.7 | 4.3 | 3.1 | 3.1 | 3.0 | 2.8 | 2.4 | S&Ps | - | - |
| Nominal GDP growth (in percent) | 8.2 | -6.0 | 10.8 | 11.7 | 8.4 | 8.0 | 7.5 | 6.8 | 6.4 | Fitch | B+ | - |
| Effective interest rate (in percent) ^{4/} | 4.9 | 5.0 | 3.9 | 3.7 | 4.6 | 4.3 | 4.2 | 4.1 | 4.4 | | | |

| | Actual | | | Projections | | | | | cumulative | debt-stabilizing primary balance ^{9/} | |
|---|-----------|------|-------|-------------|------|------|------|------|------------|--|------|
| | 2011-2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | | | 2027 |
| Change in gross public sector debt | -2.9 | 30.7 | -12.6 | -2.8 | -6.3 | -5.8 | -5.8 | -5.4 | -4.9 | -30.9 | |
| Identified debt-creating flows | -4.5 | 29.6 | -15.5 | -4.4 | -4.6 | -5.6 | -5.7 | -5.3 | -4.8 | -30.4 | |
| Primary deficit | -4.0 | 14.7 | 3.1 | 1.4 | -1.7 | -3.0 | -3.6 | -3.7 | -3.6 | -14.2 | -1.2 |
| Primary (noninterest) revenue and grants | 36.7 | 33.9 | 33.9 | 33.5 | 36.2 | 36.6 | 36.2 | 36.1 | 35.9 | 214.4 | |
| Primary (noninterest) expenditure | 32.8 | 48.6 | 37.0 | 34.9 | 34.4 | 33.5 | 32.7 | 32.4 | 32.3 | 200.2 | |
| Automatic debt dynamics ^{5/} | -1.6 | 21.2 | -18.4 | -5.4 | -2.6 | -2.3 | -1.9 | -1.4 | -1.0 | -14.6 | |
| Interest rate/growth differential ^{6/} | -2.3 | 6.8 | -5.5 | -5.4 | -2.6 | -2.3 | -1.9 | -1.4 | -1.0 | -14.6 | |
| Of which: real interest rate | 0.9 | 2.0 | 0.8 | -0.6 | 0.9 | 0.7 | 0.7 | 0.6 | 0.9 | 3.1 | |
| Of which: real GDP growth | -3.2 | 4.8 | -6.3 | -4.8 | -3.5 | -3.0 | -2.5 | -2.0 | -1.8 | -17.6 | |
| Exchange rate depreciation ^{7/} | 0.7 | 14.4 | -12.8 | ... | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 1.1 | -6.4 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.2 | -0.2 | -1.6 | |
| Privatization proceeds (negative) | -0.3 | 0.0 | 0.0 | -0.3 | -0.3 | -0.3 | -0.3 | -0.2 | -0.2 | -1.6 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Domestic debt issuance for monetary purposes | 1.4 | -6.4 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes ^{8/} | 1.6 | 1.1 | 3.0 | 1.7 | -1.1 | 0.5 | 0.2 | 0.1 | 0.1 | 1.4 | |



Source: IMF staff.

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

2/ Based on available data.

3/ Long-term bond spread over 5-year U.S. bonds.

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

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

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

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

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

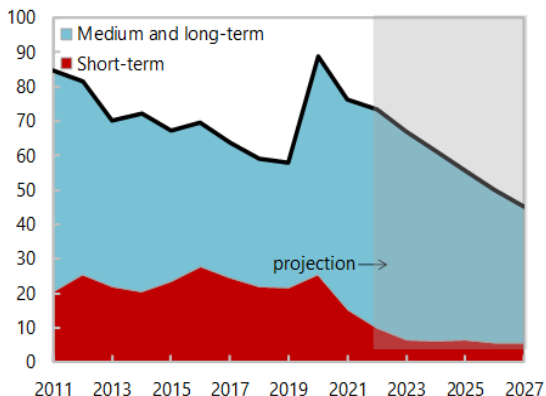
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Seychelles: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

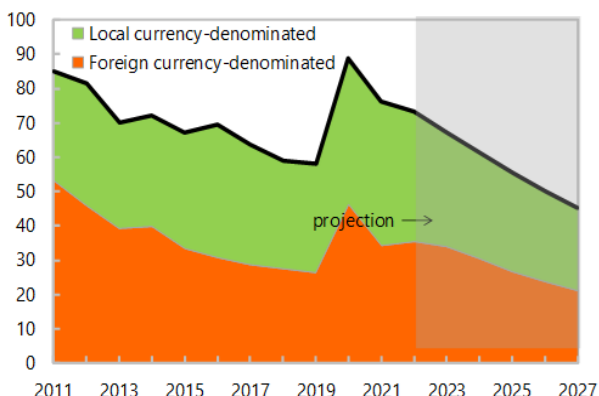
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

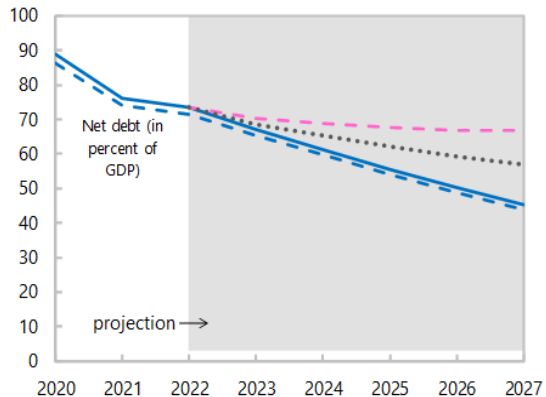


Alternative Scenarios

— Baseline Historical - - - - - Constant Primary Balance

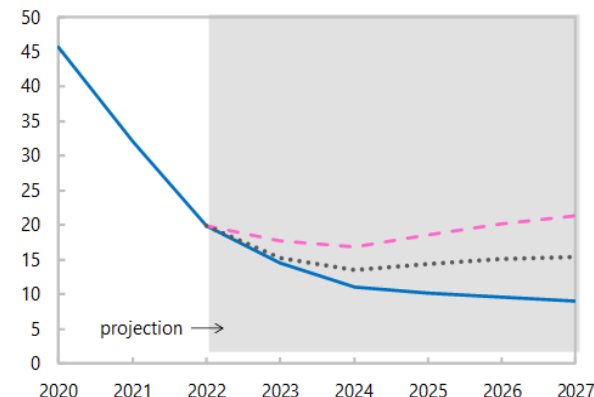
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

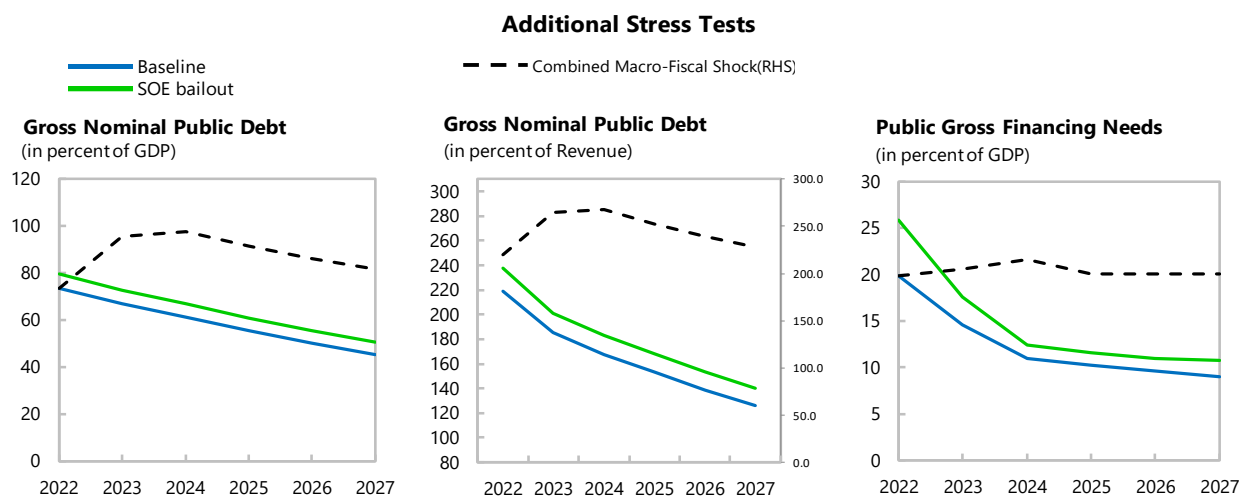
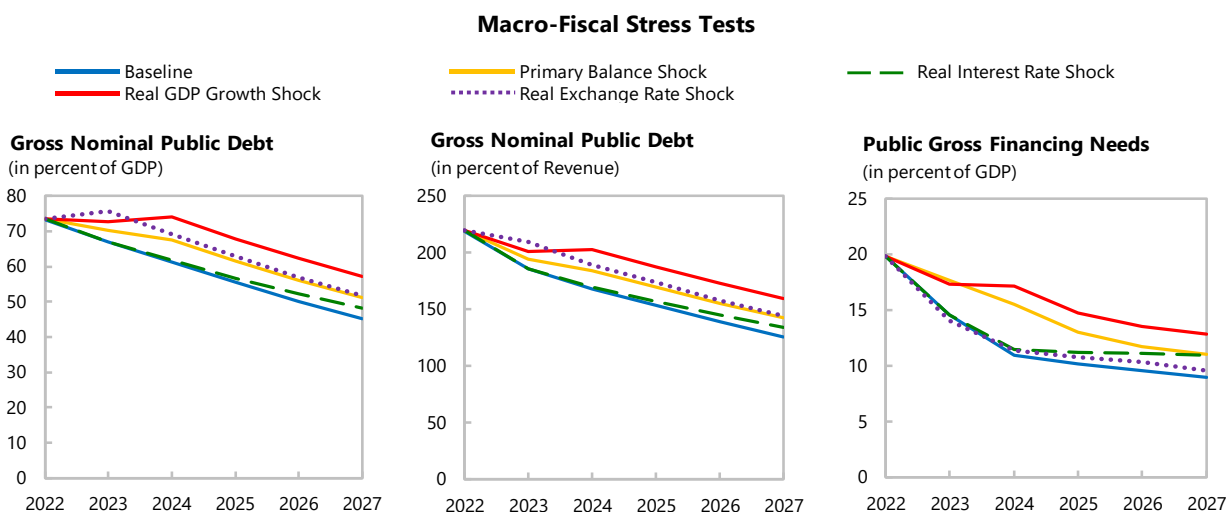
| Baseline Scenario | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--------------------------|------|------|------|------|------|------|
| Real GDP growth | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 |
| Inflation | 4.3 | 3.1 | 3.1 | 3.0 | 2.8 | 2.4 |
| Primary Balance | -1.4 | 1.7 | 3.0 | 3.6 | 3.7 | 3.6 |
| Effective interest rate | 3.7 | 4.6 | 4.3 | 4.2 | 4.1 | 4.4 |

| Constant Primary Balance Scenario | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--|------|------|------|------|------|------|
| Real GDP growth | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 |
| Inflation | 4.3 | 3.1 | 3.1 | 3.0 | 2.8 | 2.4 |
| Primary Balance | -1.4 | -1.4 | -1.4 | -1.4 | -1.4 | -1.4 |
| Effective interest rate | 3.7 | 4.6 | 4.2 | 4.2 | 4.1 | 4.4 |

| Historical Scenario | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|----------------------------|------|------|------|------|------|------|
| Real GDP growth | 7.1 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 |
| Inflation | 4.3 | 3.1 | 3.1 | 3.0 | 2.8 | 2.4 |
| Primary Balance | -1.4 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Effective interest rate | 3.7 | 4.6 | 4.4 | 4.4 | 4.4 | 4.7 |

Source: IMF staff calculation and authorities' data.

Figure 5. Seychelles: Public DSA – Stress Tests



Underlying Assumptions
(in percent)

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---------------------------------|------|------|------|------|------|------|
| Primary Balance Shock | | | | | | |
| Real GDP growth | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 |
| Inflation | 4.3 | 3.1 | 3.1 | 3.0 | 2.8 | 2.4 |
| Primary balance | -1.4 | -1.3 | 0.0 | 3.6 | 3.7 | 3.6 |
| Effective interest rate | 3.7 | 4.6 | 4.4 | 4.4 | 4.3 | 4.6 |
| Real Interest Rate Shock | | | | | | |
| Real GDP growth | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 |
| Inflation | 4.3 | 3.1 | 3.1 | 3.0 | 2.8 | 2.4 |
| Primary balance | -1.4 | 1.7 | 3.0 | 3.6 | 3.7 | 3.6 |
| Effective interest rate | 3.7 | 4.6 | 5.1 | 5.5 | 5.8 | 6.4 |
| Combined Shock | | | | | | |
| Real GDP growth | 7.1 | 0.9 | 0.5 | 4.4 | 3.9 | 3.9 |
| Inflation | 4.3 | 2.0 | 2.0 | 3.0 | 2.8 | 2.4 |
| Primary balance | -1.4 | -1.3 | -0.6 | 3.6 | 3.7 | 3.6 |
| Effective interest rate | 3.7 | 5.2 | 4.5 | 5.0 | 5.4 | 6.1 |

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---------------------------------|------|------|------|------|------|------|
| Real GDP Growth Shock | | | | | | |
| Real GDP growth | 7.1 | 0.9 | 0.5 | 4.4 | 3.9 | 3.9 |
| Inflation | 4.3 | 2.0 | 2.0 | 3.0 | 2.8 | 2.4 |
| Primary balance | -1.4 | -0.1 | -0.6 | 3.6 | 3.7 | 3.6 |
| Effective interest rate | 3.7 | 4.6 | 4.3 | 4.4 | 4.3 | 4.5 |
| Real Exchange Rate Shock | | | | | | |
| Real GDP growth | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 |
| Inflation | 4.3 | 19.4 | 3.1 | 3.0 | 2.8 | 2.4 |
| Primary balance | -1.4 | 1.7 | 3.0 | 3.6 | 3.7 | 3.6 |
| Effective interest rate | 3.7 | 5.2 | 3.7 | 3.7 | 3.6 | 3.8 |

Source: IMF staff.

Table 1. Seychelles: External Debt Sustainability Framework, 2016-2027
(In percentage of GDP, unless otherwise indicated)

| | Actual | | | | | | Projections | | | | | | Debt-stabilizing non-interest current account 6/ -23.6 |
|---|--------|-------|-------|-------|-------|--------|--------------|--------------|--------------|--------------|--------------|--------------|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | |
| 1 Baseline: External debt | 288.5 | 284.6 | 287.4 | 290.3 | 400.1 | 365.8 | 362.0 | 331.1 | 312.7 | 296.4 | 283.0 | 271.9 | |
| 2 Change in external debt | -6.3 | -3.9 | 2.8 | 2.9 | 109.8 | -34.3 | -3.8 | -30.9 | -18.4 | -16.3 | -13.5 | -11.1 | |
| 3 Identified external debt-creating flows (4+8+9) | 21.6 | -11.5 | -4.1 | 1.9 | 190.0 | -134.4 | -4.6 | -0.2 | -1.4 | -2.1 | -0.7 | -1.5 | |
| 4 Current account deficit, excluding interest payments | 18.4 | 18.7 | 17.0 | 15.6 | 20.4 | 19.0 | 25.8 | 20.9 | 19.3 | 17.4 | 16.6 | 15.9 | |
| 5 Deficit in balance of goods and services | -191.3 | 10.7 | 11.0 | 10.9 | 15.7 | 14.7 | 21.3 | 16.1 | 14.5 | 12.5 | 11.6 | 10.7 | |
| 6 Exports | 90.8 | 97.5 | 103.1 | 95.6 | 81.1 | 84.9 | 93.9 | 88.9 | 89.5 | 89.4 | 89.0 | 88.3 | |
| 7 Imports | -100.6 | 108.2 | 114.0 | 106.5 | 96.9 | 99.7 | 115.2 | 105.0 | 104.0 | 102.0 | 100.5 | 99.0 | |
| 8 Net non-debt creating capital inflows (negative) | 8.7 | -13.7 | -9.3 | -7.1 | -2.3 | -6.8 | -7.0 | -5.5 | -6.7 | -7.2 | -7.1 | -7.4 | |
| 9 Automatic debt dynamics 1/ | -5.5 | -16.4 | -11.8 | -6.6 | 171.9 | -146.5 | -23.4 | -15.5 | -14.0 | -12.3 | -10.3 | -9.9 | |
| 10 Contribution from nominal interest rate | 1.4 | 0.4 | 0.4 | 0.6 | 1.8 | 0.8 | 1.0 | 0.9 | 0.7 | 0.5 | 0.4 | 0.3 | |
| 11 Contribution from real GDP growth | -15.4 | -12.3 | -8.7 | -8.7 | 35.6 | -20.0 | -24.4 | -16.4 | -14.7 | -12.9 | -10.8 | -10.3 | |
| 12 Contribution from price and exchange rate changes 2/ | 8.5 | -4.6 | -3.5 | 1.5 | 134.5 | -127.4 | .. | .. | .. | .. | .. | .. | |
| 13 Residual, incl. change in gross foreign assets (2-3) 3/ | -27.9 | 7.6 | 6.9 | 0.9 | -80.1 | 100.1 | 0.8 | -30.7 | -17.0 | -14.1 | -12.7 | -9.7 | |
| External debt-to-exports ratio (in percent) | 317.7 | 292.0 | 278.8 | 303.6 | 493.1 | 430.7 | 385.3 | 372.5 | 349.5 | 331.4 | 318.1 | 307.9 | |
| Gross external financing need (in billions of US dollars) 4/ | 453.6 | 389.7 | 352.2 | 385.8 | 338.0 | 334.3 | 438.4 | 427.7 | 433.4 | 423.8 | 439.3 | 427.4 | |
| in percent of GDP | 30.4 | 24.8 | 21.6 | 22.9 | 26.8 | 22.9 | 28.4 | 24.3 | 22.8 | 20.7 | 20.1 | 18.4 | |
| Scenario with key variables at their historical averages 5/ | | | | | | | 363.0 | 347.4 | 327.6 | 310.8 | 296.1 | 283.6 | -26.7 |
| Key Macroeconomic Assumptions Underlying Baseline | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.4 | 4.5 | 3.2 | 3.1 | -7.7 | 7.9 | 7.1 | 5.2 | 4.8 | 4.4 | 3.9 | 3.9 | |
| GDP deflator in US dollars (change in percent) | -2.8 | 1.6 | 1.2 | -0.5 | -31.7 | 46.7 | -1.0 | 8.2 | 3.1 | 3.1 | 2.9 | 2.5 | |
| Nominal external interest rate (in percent) | 0.5 | 0.1 | 0.1 | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | |
| Growth of exports (US dollar terms, in percent) | 4.3 | 13.4 | 9.5 | -4.2 | -36.3 | 20.9 | 17.2 | 7.7 | 8.8 | 7.6 | 6.4 | 5.7 | |
| Growth of imports (US dollar terms, in percent) | 5.5 | 13.6 | 9.1 | -3.5 | -31.8 | 18.8 | 22.5 | 3.7 | 7.0 | 5.6 | 5.4 | 4.8 | |
| Current account balance, excluding interest payments | -18.4 | -18.7 | -17.0 | -15.6 | -20.4 | -19.0 | -25.8 | -20.9 | -19.3 | -17.4 | -16.6 | -15.9 | |
| Net non-debt creating capital inflows | -8.7 | 13.7 | 9.3 | 7.1 | 2.3 | 6.8 | 7.0 | 5.5 | 6.7 | 7.2 | 7.1 | 7.4 | |

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.

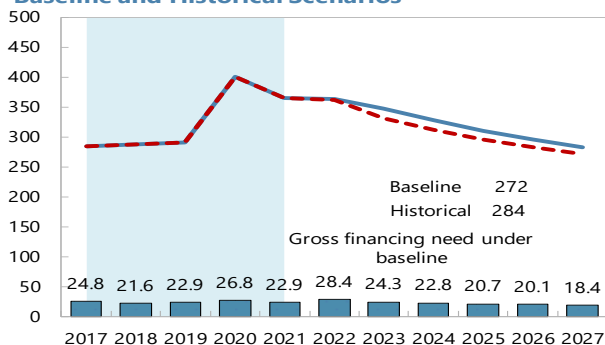
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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.

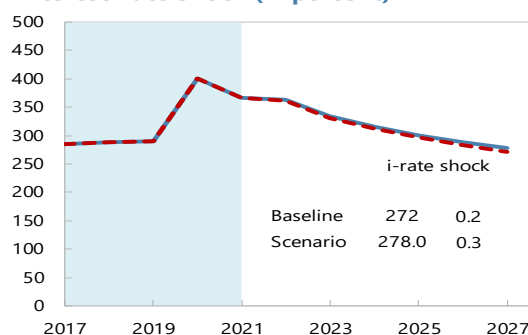
Sources: IMF, Country desk data, and staff estimates

Figure 6. Seychelles: External Debt Sustainability: Bound Tests ^{1/2/5/}
(External Debt in Percent of GDP)

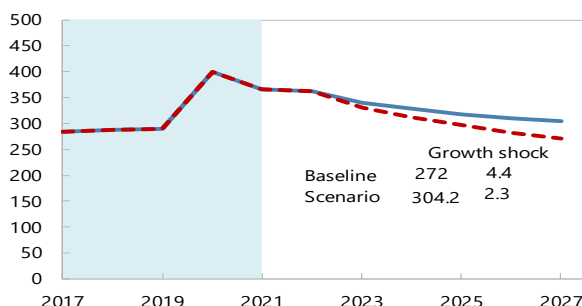
Baseline and Historical Scenarios



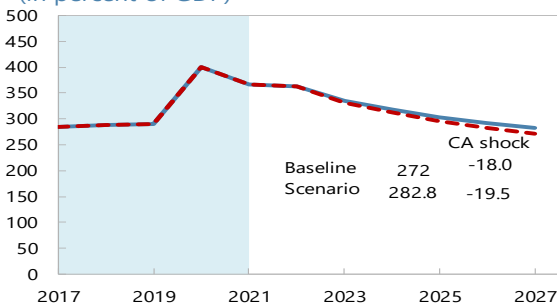
Interest Rate Shock (in percent)



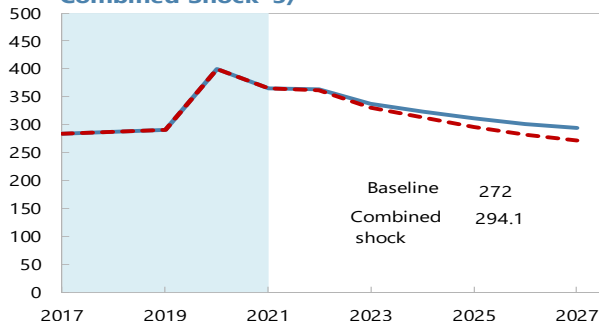
Growth Shock (in percent per year)



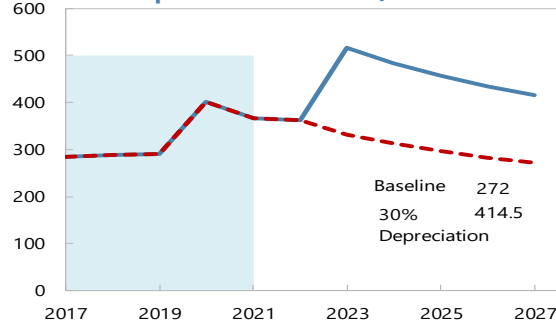
Non-Interest Current Account Shock (in percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



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 2023.
 5/ The legend refers to 2027 projection under each scenario.

Annex IV. External Sector Assessment

Seychelles' current account deficit narrowed in 2021 as tourist arrivals bounced back but its external position remained substantially weaker than the level implied by fundamentals and desirable policy settings. Maintaining flexible exchange rate regime, implementing structural reforms to improve overall competitiveness and diversification, and pursuing the planned fiscal consolidation would be crucial toward external rebalancing. The reserve adequacy assessment indicates that international reserves at end-2021 were within the advisable range of international reserves.

A. External Balance Sheet

5. Background. Seychelles' International Investment Position (IIP) indicates that its net international investment position increased by 18 percentage points of GDP to -129 percent of GDP at end-2021 from -147 percent of GDP at end-2020. This was mainly due to strong economic growth, the narrowing of the current account deficit and a sharp appreciation of the local currency driven by the sharp recovery in tourism. At end-2021, direct investment was about 36 percent of gross assets and 65 percent of gross liabilities while portfolio investment was about 18 percent of gross assets and about 3 percent of gross liabilities¹.

6. Assessment. The external balance sheet is a source of risk for Seychelles such as adding pressure on current account deficit through higher income payment to non-residents. Gross non-FDI liabilities were 164 percent of GDP and total external debt stood at 365 percent of GDP at end-2021. Risks are mitigated, however, due to the favorable debt composition and maturity profile. External debt is comprised mostly of public and tourism sector borrowing at favorable interest rates and long maturities. The authorities closely monitor global financial conditions given Seychelles' openness. The External Sustainability (ES) approach suggested a substantially weaker position of the external sector in 2021, which anchors staff's bottom-line assessment.

B. Current Account

7. Background. Seychelles' external current account deficit narrowed from 21.9 percent of GDP in 2020 to 20.1 percent of GDP in 2021. This was driven primarily by the strong recovery in tourism earnings with tourist arrivals in 2021 up by 59 percent since the reopening of the border in March 2021. New markets emerged as key sources of tourism earnings, including Russia, the UAE and Israel. From savings-investment perspective, strong overperformance in fiscal consolidation mainly contributed to the narrowing of the current account deficit. The current account deficit is expected to widen in 2022 due to adverse impacts from the Russia-Ukraine conflict mainly through lower tourism earnings and higher fuel and food import prices with the impact from higher fuel prices

¹ End-2021 gross assets stand at USD 4.9 billion with debt assets of around USD 2.4 billion. End-2021 gross liabilities stand at USD 6.8 billion with debt liabilities of USD 5.5 billion.

partly offset by re-exports. The current account deficit is projected to narrow over the medium-term, mainly thanks to a recovery in the global tourism industry and fiscal consolidation.

8. Caveat: As an economy with a strong dependence on the tourism sector, Seychelles is a special case for external sector assessment.² EBA-Lite model regression results do not control for factors unique to countries like Seychelles. Seychelles depends on a concentrated source of income in tourism, and FDI in the tourism sector have significant import content (around 80%). This significant driver of persistent deficits is not considered in the EBA-lite regressions.

9. Assessments based on EBA-Lite Models: The EBA-lite methodology provides mixed results, reflecting some characteristics of small island economies with persistent CA deficits, and hence the outcomes of the exercise should be interpreted with caution. The current account (CA) model implies an over-valuation of the exchange rate while the real effective exchange rate index (IREER) model shows an under-valuation of the exchange rate. These discrepancies appear to be largely explained by country-specific circumstances discussed above.

10. According to the CA model, the CA gap is estimated at -7.7 percent of GDP, indicating a deviation of Seychelles' current account balance from the norm, which is an estimated deficit of -3.3 percent of GDP. Using the estimated current account elasticities, this implies an REER misalignment (overvaluation) of about 11 percent (see table). Out of the total CA gap, the relative policy gap is assessed to contribute -0.9 percent of GDP, mainly due to fiscal expansion. The residual, reflecting factors not captured by EBA-Lite, is responsible for -6.8 percent of GDP, after application of the COVID-19 adjuster on tourism (-9.1 percent of GDP).

| Seychelles: EBA-lite Model Results, 2021 | | | |
|--|---------------------|--------------|--------------|
| | CA model 1/ | REER model | ES model |
| | (in percent of GDP) | | |
| CA-Actual | -20.1 | | |
| Cyclical contributions (from model) (-) | 0.2 | | |
| COVID-19 adjuster (-) 2/ | -9.1 | | |
| Additional temporary/statistical factors (-) | 0.0 | | |
| Natural disasters and conflicts (-) | -0.2 | | |
| Adjusted CA | -11.0 | | |
| CA Norm (from model) 3/ | -3.3 | | |
| Adjustments to the norm (-) | 0.0 | | |
| Adjusted CA Norm | -3.3 | | |
| CA Gap | -7.7 | 26.4 | -10.2 |
| o/w Relative policy gap | -0.9 | | |
| Elasticity | -0.68 | | |
| REER Gap (in percent) | 11.4 | -39.1 | 14.4 |
| 1/ Based on the EBA-lite 3.0 methodology | | | |
| 2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (9.1 percent of GDP). | | | |
| 3/ Cyclically adjusted, including multilateral consistency adjustments. | | | |

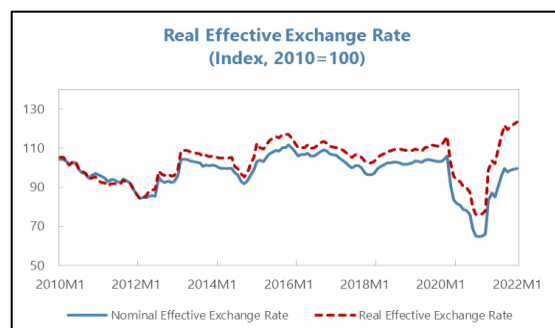
11. The IREER model on the other hand suggests that the REER is highly undervalued, estimating the REER gap at -39.1 percent. This estimate is based on the EBA Lite Index REER approach, which compares the fitted REER with the estimated norm of the REER. This is driven by the difference between the fitted and actual REER values. The policy gap only contributes 7 percent to the REER gap.

| Seychelles: EBA-lite Exchange Rate Assessment (REER Model) | |
|--|-------|
| Ln(REER) Actual | 4.44 |
| Ln(REER) Fitted | 4.89 |
| Ln(REER) Norm | 4.83 |
| Residual | -0.45 |
| REER Gap | -0.39 |
| Policy Gap | 0.07 |
| Natural Disasters and Conflicts | -0.01 |

² Ter-Martirosyan, A et al. External Assessments in Special Circumstances, IMF, 2014

C. Real Exchange Rate

12. Background. The real effective exchange rate (REER) sharply appreciated by 61 percent year-on-year (y-o-y) in December 2021, in line with a 53 percent y-o-y nominal effective exchange rate (NEER) appreciation. This followed substantial depreciations of the REER by 31 percent and the NEER by 37 percent over 2020. The appreciation in 2021 mirrored the strong rebound in tourist arrivals.



13. Assessment. Staff analysis based on the ES model suggests that the REER is substantially weaker than the level implied by fundamentals and desired policies. Continued exchange rate flexibility would be essential to guard against exogenous external shocks while remaining mindful of possible adverse impact on balance sheets.

D. Capital and Financial Flows

14. Background. Seychelles has an open capital account. In 2021, net capital and financial inflows exceeded the current account deficit leading to substantial build-up of gross international reserves (GIR). Net capital and financial inflows increased in 2021 mainly on account of an increase in official flows, including budget support loans from IFIs and the SDR allocation, reversal of portfolio flows into net inflows, and a small increase in FDI.

15. Assessment. The capital and financial account is expected to strengthen over the medium term as reinvigoration of structural reforms along with achievement of macro-economic stability, supported by the EFF-supported program aimed at improving competitiveness and the investment climate, would stimulate and sustain FDI flows and financial support from other official creditors.

E. Reserve Adequacy

16. Background. The exchange rate regime of Seychelles is classified as floating and foreign exchange interventions are aimed at addressing disorderly market conditions and maintaining an adequate level of international reserves. Gross international reserves (GIR) at end-2021 remained at 4.7 months of prospective imports of goods and services, in an amount of US\$ 702 million, which is US\$ 143 million above the level at end-2020. The authorities accumulated a large amount of FX reserves in 2021, amid strong recovery in tourism activities and with financial supports from IFIs including the SDR allocation of about USD 32 million, which can provide a buffer to absorb shocks such as the worsening external environment due to the war in Ukraine. GIR are projected to maintain import coverage in the range of 3-4 months over the medium term.

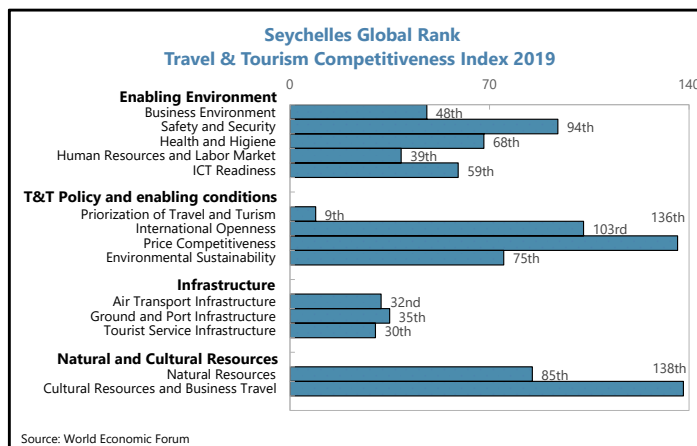
17. Assessment. Seychelles' international reserve holdings are assessed against the standard reserve adequacy benchmark. Per the standard metric, staff estimates that international reserves at

end-2021 were within the advisable range of international reserves. The level of international reserves at the end of 2021 stood at about 120 percent of the ARA metric.

F. Structural Competitiveness

18. Structural reforms aimed at improving tourism competitiveness and output diversification will be critical to durably improve Seychelles' external position.

According to the 2019 travel and tourism competitiveness index, Seychelles significantly lags in the areas of cultural resources and business travel, price competitiveness and international openness, while it performs well in tourism and infrastructure (see text chart). Beyond the Index, Seychelles'



tourism has shown an incredible resilience during pandemic episode with a steady growth of arrivals. Continued efforts to improving the attractiveness of other exporting industries like canned tuna production and fostering potential economic engines such as the aquaculture industry would increase resilience to external shocks and boost economic growth. In this regard, the official launching of the Seychelles Aquaculture Sector in 2021, with the promulgation of the first Aquaculture Regulations and its accompanying standards, is welcome (MEFP para 16).

Annex V. Main Recommendations of the 2019 Article IV Consultation

| Recommendations | Status |
|---|-------------|
| Fiscal Policy and Financial Management | |
| 1. Include permanent measures in the 2020 budget to shore up their medium-term debt reduction goal. | Completed |
| 2. Take a phased approach in executing the infrastructure (2018 State of the Nation Address) and climate change related projects. | In Progress |
| 3. Step up efforts to reduce fiscal risks potentially arising from Air Seychelles. | In Progress |
| Monetary and Financial Sector Policy | |
| 1. Maintain its monetary policy stance and stay vigilant to any sign of inflationary pressures. | Completed |
| 2. Preserve international reserve coverage at around the current level. | Completed |
| 3. Continue efforts to address the risks of a potential loss of correspondent banking relationships (CBRs). | Completed |
| Structural Reforms | |
| 1. Accelerate efforts to deepen and diversify tourism and upgrade the fishery industry under the “Blue Economy” initiatives. | In Progress |
| 2. Reduce cross-subsidization in electricity prices. | In Progress |
| 3. Accelerate investments in vocational education. | In Progress |
| Source: IMF Staff | |

Appendix I. Letter of Intent

Victoria

June 14, 2022

Ms. Kristalina Georgieva,
Managing Director,
International Monetary Fund
700 19th St, NW
Washington, DC 20431
USA

Dear Madam Managing Director:

Seychelles recovery in 2021 was strong; growth performance in 2021 was much better than estimated at the time of the first review of the program in November 2021. Overall, GDP growth in 2021 is now estimated at 7.9 percent compared with 6.1 percent at the first review. Tourism arrivals were significantly higher than forecast, and growth in fishing and manufacturing was also more favorable. Tourist arrivals reached 181,000 persons, compared with 114,000 in 2020 when they were concentrated in the first quarter. We remain positive that the strong recovery is expected to continue in 2022. The real GDP is expected to increase by 7.1 percent driven by further improvement in tourism, and by a pick-up in construction activity. Although the reduction in travelers from Russia and Ukraine was offset by a pick-up from travelers from Western Europe, we remain mindful of the effects of the Ukraine war.

The upsurge in international fuel and commodity prices is expected to result in a rise in demand for foreign exchange, which may outweigh supply. Given the effects of rising prices Government will continue to explore ways to ensure that the most vulnerable are provided with the necessary assistance. As of end-December 2021, all QPCs and ITs were met, except from the IT on priority social spending. All end-March 2022 ITs were met.

In the policy area, we remain committed to the implementation of the action plan we have presented when requesting the 32-month arrangement under the EFF. Our objectives remain the resiliency of the economy to external shocks, debt sustainability, rationalizing the tax regime, improve expenditure management, and enhance financial sector stability and compliance with international financial standards.

Risks to debt sustainability from Air Seychelles have been reduced with the restructuring of its debt. The administrators restructured Air Seychelles and settled its debts with no fiscal cost to the Government and without disrupting ground handling operation. An agreement has also been reached with the bondholders and Air Seychelles has been placed on a more sustainable financial pathway allowing for the subsequent operational restructuring.

The policies we will be implementing over the coming months are presented in the attached Memorandum of Economic and Financial Policies, which updates the Memorandum of December 2021. We are requesting the completion of the second review and the modification of the end-June PCs and ITs and the end-September ITs.

We believe that the economic and financial policies set forth in the MEFP are sufficient to ensure that the objectives of the program will be met. We stand ready to take any further measures that may prove necessary to meet our objectives. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We will supply the Fund with timely and accurate data that are needed for program monitoring.

We authorize the publication of this letter of intent, the attached MEFP, the technical memorandum of understanding, and the forthcoming staff report.

Sincerely yours,

/s/

Naadir Hassan
Minister of Finance, National Planning and Trade

/s/

Caroline Abel Governor
Central Bank of Seychelles

Attachment I. Memorandum of Economic and Financial Policies

I. Background and Macroeconomic Outlook

1. Seychelles recovery in 2021 was strong; growth performance in 2021 was much better than estimated at the time of the first review of the program in November 2021. Tourism arrivals in were significantly higher than forecast, and growth in fishing and manufacturing was also more favorable. Information and communication showed a strong increase. The construction sector remains weak, with only few major projects underway, and some government construction projects delayed. Overall, GDP growth in 2021 is now estimated at 7.9 percent compared with 6.1 percent at the first review. Tourist arrivals reached 182,000 persons, compared with 114,000 in 2020 when they were concentrated in the first quarter. In the second half of the year arrivals from the traditional markets complemented by the new markets (Russia, Israel) picked up, and total arrivals reached 67 percent of the 2019 level, up from 50 percent in the second quarter.

2. The strong recovery is expected to continue in 2022. The real GDP is expected to increase by 7.1 percent driven by further improvement in tourism, and by a pick-up in construction activity, as a few large hotel resorts projects are scheduled to start, together with some renovation of existing hotels; private housing construction could also gradually recover. In the first four months of 2022, tourist arrivals were strong, at a level of about 79 percent of that in 2019, as the reduction in travelers from Russia and Ukraine was offset by a pick-up from travelers from Western Europe. For the full year, arrivals are now expected to reach 258,000, or 70 percent the level of 2019. Value added in fishing and agriculture is expected to increase by 3 percent, and information and communication will show a strong increase, driven by the offering of new services.

3. Following the significant appreciation of the rupee in 2021, the exchange rate has been stable in the first quarter of 2022. The rupee marginally appreciated in 2022. However, the upsurge in international fuel and commodity prices is expected to result in a rise in demand for foreign exchange, which may outweigh supply.

4. Inflationary pressures abated during the first quarter of 2022 but the surge in commodity prices is expected to spillover unto Seychelles domestic prices. In March 2022, the 12-month average inflation rate stood at 8.3 percent whilst, year-on-year, it was 2.2 percent. Given the country's heavy reliance on imports, international developments are expected to have implications on the domestic economy. As such, in view of the rising commodity prices globally, the forecasted year-on-year and 12-month average rate of inflation is 5.7 percent and 4.1 percent, respectively, for December 2022.

5. The budgetary performance in 2021 was significantly better than projected at the time of the first review. The primary balance deficit target outperformed by a significant margin (3.0 percent deficit as a ratio to GDP instead of 6.6 percent targeted for the first review which itself was lower than the original target of 9.7 percent agreed at the time of program negotiation). This is mainly because of lower current expenditure, higher tax revenue (0.6 percent of GDP) and non-tax

revenue and grants. On the revenue side considerable excess was achieved in business tax revenue by 0.2 percent of GDP, and non-tax revenue also exceeded the target by 0.5 percent of GDP compared to the 1st review target. Capital expenditure was higher, by 0.2 percent of GDP. In all, the overall balance was contained to 6.0 percent of GDP, as against a 9.3 percent deficit expected in the first review.

6. On the budget expenditure side, the measures to contain the wage bill in 2021 were executed as planned, with no wage increases, no increase in long term allowances and no new scheme of services. Savings have been carried out as planned in the outlays for goods and services, including the renegotiations of rents, and the cut in traveling costs. Outlays for the social programs of the Agency of Social Protection are in line with the budget, and so are transfers to public enterprises; transfers to Air Seychelles remains within the budget limits, they include mainly support for wage payments. Capital expenditure is expected to remain below program projections.

7. The successful implementation of the liability management operation in July 2021, combined with the strong fiscal consolidation significantly improved debt sustainability and cost of domestic financing. Debt to GDP ratio fell from 88 percent in 2020 to 75.3 percent end of 2021. This operation reduced considerably refinancing risks with the gross financing needs declining from 47.9 percent to 31.9 percent. The average maturity of the participating debt portfolio extended by 4.8 years compared to the previous maturity of less than 1 year. The stock of Treasury bills that stood at SR 5.6 billion at end 2020 (26 percent of GDP) declined at end – year to SR 3.8 billion (15.2 percent of GDP). The fiscal performance contributed to partially offset the shortfall in bilateral budget support loans, which under the program were forecasted at US\$ 68 million or 5 percent of GDP. Following the LMO, cost of domestic borrowing declined significantly which enabled a bond issuance in December 2021, with tenor of 4 and 6 years.

8. Monetary policy remained accommodative in the first quarter of 2022, with the aim to help the economy surmount the challenges caused by the pandemic. The Monetary Policy Rate (MPR) has been reduced to 2.0 percent since July 2021, whilst the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) to 0.5 percent and 3.5 percent, respectively. The Minimum Reserve Requirement (MRR) on applicable rupee-denominated deposits stood at 10 percent, and 13 percent for foreign currency deposits of residents. As the economy is still recovering, monetary policy is expected to remain accommodative for the rest of the year.

9. The current account balance showed signs of improvement relative to 2020, with an estimated deficit of 21.8 percent of GDP in 2021 compared to 23 percent the previous year. The value of imported goods rose mainly on account of the pick-up in economic activity as well as the higher commodity prices in the international markets. Export of goods continued to be driven by the demand for canned tuna, whilst in terms of services, tourism earnings increased by 40 percent relative to 2020, to amount to US\$310 million in 2021. For 2022, the current account deficit is forecasted at 21.0 percent of GDP.

10. CBS has started unwinding the COVID 19 support measures. The Minimum Reserve Requirement on applicable rupee-denominated deposits will revert back to 13 percent as of mid-

July 2022. The Private Sector (MSMEs) Relief Scheme and Private Sector (Large Enterprise) Relief Scheme has been withdrawn effective April 01, 2022. As at end March 2022 a total of R138,104,923.31 representing 27.62 percent of the R500 million had been utilized by the MSMEs and a sum of R297,911,879.00 representing 39.72 percent of the R750 million had been used by the Large Enterprises. In addition, the relaxation of provisioning requirements for eligible credit that had been assigned a lesser category, to be reclassified as pass or special mention, when it was restructured, if the credit was restructured by July 2020, inclusive of the non-application of certain sub-regulations in the determination of the classification of credits, has been removed. Moreover, CBS has reduced the limit set for short-term temporary advances to government from R500 million in 2021 to R250 million in 2022. The rate of interest applicable on such advances which was initially 0.0percent was set equal to the prevailing average tender rate for the 91-day Treasury bill, plus a margin of 0.5 percent, on the date the funds are credited.

II. Program Objectives and Policies

A. Real Sector Reforms (Diversification, Digitalization, Climate Change Adaptation)

11. The government objective is to enhance the prospects for sustainable and inclusive medium-term growth, relying on actions to diversify tourism services, and to make better use of the potential of the fisheries sector. The latter can benefit from the diversification of the value chains and the activity of new operators, along the line envisaged in the World Bank supported SWIOFISH 3 project.

12. The Tourism Master Plan is a key step for tackling structural bottlenecks on an island-by-island basis. In the tourism sector, the effort to geographically diversify the market continues and succeeded in allowing continued tourist arrivals during the pandemic even as traditional markets stayed away. Greater emphasis are being placed on markets in the eastern and central Europe, Israel, Saudi Arabia and USA. The master plan aims to widen the offer of services with the balanced objectives of economic empowerment, environmental preservation, and socio-cultural integration. Important progress has been achieved in recent months in reaching new markets and better promoting local content. Continued efforts will be needed to develop skilled local labor, increase the supply of local agricultural products to the sector, and support small businesses, based on the recent Tourism Value Chain Analysis. Certain new products such as ‘cultural tourism’ is being developed, so that our visitors may experience our heritage, our culture, and our cuisine amongst others. This will also help to bring about more development in our communities, which will enrich the experience of our visitors. As an island state, we have to make better use of our ocean, and create more water sport activities and other leisure activities.

13. In the fisheries sector significant progress has been achieved to diversify the value chain, with the completion in mid-2021 of the cold storage facilities in the new industrial zone in Iles du Port. New fish processing units with medium size factories will expand export and local

employment. The Government will invest in additional infrastructure needed to support the development of the sector as part of the 2022 and 2023 budget.

14. The Government remains committed to accelerate the drive for energy transition.

Renewables will be at the center of economic recovery strategies to advance economic, social and climate priorities for a Sustainable Post-COVID Recovery. The long-term commitment is to achieve a decarbonized economy by 2050 and to boost electricity generation from renewable energies, including marine energy technologies, bio-energies, such as biomass and waste-to-energy, and the use of environment friendly intermittent energy storage technologies.

15. With its updated Nationally Determined Contribution (NDC) submission, Government is re-iterating and improving upon its commitments towards increasing the reduction of greenhouse gas emissions. Economy wide absolute GHG emissions will be reduced by 293.8 ktCO₂e in 2030 (26.4 percent) compared to business as usual (BAU) scenario. Ambitious targets set for the energy sector are 30 percent of gasoline private vehicles to be electric by 2030, and Energy Efficiency improvement level of 15 percent by 2030. Key implementation targets focus on modernize the entire electricity sector, increased electricity generation from renewable sources, improved energy efficiency across sectors, the shift from fossil fuel-engineered transport to electrified transport and individual active mobility, enhanced resource rehabilitation and land mitigation measures. To plan, manage and track progress, Seychelles has to build a national climate governance system centered on inclusive consultations, institutional coherence and scientific excellence. The review of the energy policy has been delayed and the Government is now in discussion with the World Bank to provide the necessary assistance to undertake the review. The objective is to have an updated Energy Policy Document, with realistic targets for Intermittent and non-intermittent renewable energy sources by last quarter 2022. In addition, the Government is also receiving assistance from the African Development Bank to develop an integrated resource plan (IRP) for the power sector. The authorities are currently undertaking the process of recruiting the firm to carry out the exercise and given the intensity of this exercise the IRP is expected to be concluded during the third quarter of 2023.

16. The government has promulgated the first Aquaculture Regulations and its accompanying standards. The regulations were developed based on global best practices to ensure that the sector develops in a well-coordinated and regulated manner with the highest compliance levels. The Aquaculture Standards would serve to guide the private sector operators and always ensure that the best practices are being observed. The regulations also make for provision for the establishment of the Aquaculture Regulatory Committee. The committee is responsible for the effective and efficient development of the sector and consist of the key ministries, departments, agencies, Ceps (Citizens Engagement Platform Seychelles) and SCCI (Seychelles Chamber of Commerce and Industry) to better represent the mandate of the committee. Their mandate is to provide an inter-departmental focus to coordinate policy, align legislative and institutional structures, drive and track aquaculture development progress and make recommendations throughout the development of the sector.

17. In the agricultural sector the Government's objective is to transform the local food and nutrition production landscape to a more self-sufficient system. This will be achieved by increasing the volume of local production in relation to total consumption of livestock, and local fruits & vegetables. In doing so particular attention will also be paid to strengthening the ability of our local food producers to adapt to climate change. The authorities are also working towards building the national capacity and capability to improve the country's strategic food reserve for a minimum period of six months. A project to build a cold storage facility is already underway and due for completion in 18 months. Additionally, financing for a dry storage facility is being sought.

18. The Ministry of Investment, Entrepreneurship and Industry (MIEI) is continuing its work by prioritizing for this year two main items which is to improve the ease of doing business environment and creating a national entrepreneurship framework. Online registration remains a key priority. Seychelles Licensing Authority has recently announced its online e-service program to facilitate online business license application, road fund and driving license. On the policy front MIEI are working on implementing a provisional licensing framework to facilitate entrepreneurs venturing into novel businesses with no existing regulatory framework, and is also working with UNCTAD to develop a National Entrepreneurship strategy to help provide a clear action plan to help develop an entrepreneurial culture in the country.

19. The effects of COVID-19 pandemic have further reinforced the need to embrace the digital economy agenda going forward. The Digital Economy Diagnostic Report coupled with the Seychelles Fintech Strategy have identified key pillars that need to be established so that Seychelles can progress on moving forward the digital economy agenda. The Government has given due attention to the digital transformation of the economy and the creation of an enabling environment for the uptake and usage of Digital Financial Services. These pillars include a robust regulatory framework, efficient and reliable digital infrastructures as well as enhanced digital skills and literacy. The digital action plan for the medium term will therefore focus on the following:

- Improve relevant digital infrastructure. A new Communications Bill which aims to address anti-competitive practices and provide a better legal framework for the telecom sector is expected to come into force during the second half of 2022. This will also be accompanied by the regulations on the number portability. The second submarine cable PEACE landed in March and is expected to be operationalized by July 2022. This will be followed by the operationalization of 3rd submarine cable the mid-year 2023.
- Enhance the level of digital skills to ensure inclusion and equal access to opportunities and promote use of digital platforms in public service delivery. During the first half of 2022 key platforms will come online, mainly the digital ID system, the online Business, Company & association registration and the online License Application. The full implementation of the Health Information System is also expected by end 2022.
- Increase financial inclusion through digitalization of payment systems.
- Develop digital entrepreneurial ecosystems in order to diversify and strengthen the economy

- Data protection. A new legislation which aims to address the protection of individuals with regards to the processing of personal data is expected to be enacted by end 2022. With the current digital environment and the wide use of technology in Seychelles and around the globe, there is an increase in the personal data being collected by different organizations. In such an environment where large volume of personal data are being collected, it is important that there is a process for safeguarding those data from any eventuality such as corruption.

20. Priority climate change adaptation investments have been identified in critical infrastructure, tourism and coastal management, food security, biodiversity, water security, and the blue economy. Furthermore, there are planned projects under the umbrella of disaster risk reduction management, such as establishing early warning systems and improving coastal resilience that are worth considering. The Government plans to mainstream climate adaptation in Seychelles' recovery post-pandemic plan. Also, a prioritization exercise of climate change related projects is being undertaken which will help the government prioritizes its spending. Seychelles is recognized—and receives the support of other countries and international organizations—for its program of adaptation to climate change and the management of the challenges associated with it. Severe erosion, waves crashing on coastal roads, and inundations during the annual rainy seasons have shown that our environment, our economic resources, and even our social life, remain vulnerable, and there is an urgent need to seriously address these challenges.

B. Fiscal Policies, and Fiscal Structural Reforms

The Budget for 2022 and Beyond

21. The keystone of our reform program remains attainment of sustainable fiscal surpluses over the medium term with the aim to maintain public debt sustainability. The ambitious fiscal consolidation of the Government together with the sharp recovery in the exchange rate in April 2021 and robust GDP growth, contributed to the strong reduction in the ratio of public debt to GDP in 2021. Given Seychelles vulnerabilities to external shocks the Government remains committed to achieving its pre-COVID objective of reducing debt to around 50 percent of GDP by 2026.

22. The government's plan to implement targeted and temporary measures in 2022 to offset the impact of food and fuel prices, will contribute to widen the primary balance from 0.8 percent to 1.4 percent. The primary deficit target in 2022 has been revised modestly from the forecast at the time of the first review, from 0.8 percent of GDP to 1.4 percent of GDP. Such change is mainly driven by an increase in current expenditure (by 1.4 percent) and a decrease in total revenues essentially caused by the shortfall in external grants (by 1.8 percent of GDP). The rise in current expenditure includes the increase in transfers by 0.8 percent and also goods and services by 0.6 percent. The rise in transfers aims to cover costs related to the temporary measures, while goods and services were increased to accommodate the costs related to the extra security personnel under police and the anti-corruption commission. Capital shrank by 2.2 percent of GDP due mainly to the shortfall in expected external grants. Tax revenues have remained stable (28.3 percent versus 28.2 percent), while non-tax revenues are expected to grow by 0.55 percent. Total revenues and

grants are expected to decline by 1.2 compared to the first review target due to the significant shortfall in grants.

23. On the revenue side, the budget forecast for value added tax and business tax receipts are slightly higher than the 1st review targets, reflecting stronger tourism activity. Both the value added tax and business tax are expected to increase by 0.2 percent of GDP compared with the first review target. Excise taxes are expected to grow by 0.3 percent, reflecting stronger tourism activity. The new tax schedule for the business tax will enter into effect in 2022 as envisaged in the budget. External grants for capital expenditure are expected to fall below the amount indicated in the budget in view of delays from the donors.

24. On the expenditure side, outlays wage and salaries will be maintained around 11 percent of GDP over the medium term. The forecasted savings will be SR 423 million equivalent to 1.5 percent of GDP. Government has to allocate an additional SR 63.2 million under wages and salaries or 0.2 percent of GDP based on the increase of employers' pension fund contribution from 3 percent to 5 percent in April 2022. This is part of the reform for sustainability of the pension fund. The effort to rationalize expenditure on goods and services will continue, and their level will remain flat in nominal terms. Government will start investing in construction of offices through a public private partnership so that the expenditure under rental vote can be used to pay for a building on an annual basis with the intention of transferring the building to Government over the long term. The first one will be for Seychelles Revenue Commission and the construction will start in June 2022. The Authorities will provide an additional SR 82 million equivalent to 0.3 percent of GDP to assist the most vulnerable part of the population to minimize the impact of the increase in world commodity prices. This will be provided for six months given the socio-economic challenges. The Government will provide additional support to the Anti-Corruption Commission. Capital expenditure will decrease because of the delay in some of the major grant financing projects. However, the domestic financing capital projects will increase slightly in view of the 2021 projects being implemented in 2022 and additional investment to support the fisheries infrastructure.

25. Financing of the budget deficit. As envisaged in the first review Financing of the budget deficit will rely on external budgetary support from the World Bank, and the African Development Bank, respectively US\$27 and US\$20 million. This external financing will exceed the overall deficit, allowing for a reduction of the stock of domestic government securities, and a lengthening of average maturity of the debt.

Revenue Measures

26. The Authorities are committed to improving revenue performance. Reforms in tax administration in 2022 will focus on digitalization initiatives, stronger compliance monitoring, and upgrade in the ASYCUDA system at customs as detailed below.

Custom Reforms

Enhance **the ASYCUDA system at customs, with the aim to moving to online service and reduce paper transactions**. There will be new developments in terms of creation of data warehouses, creation of a platform for Single Window and the system will be upgraded to accommodate new modules, such as Excise, Government Warehouse, Bonded Warehouse and Courier Services. Furthermore, ASYCUDA will be integrated with an online payment gateway. The project is expected to be completed by June 2023; however, the different modules will be deployed for use as and when they are ready. The digitalization of courier services is being tested with stakeholders, and new procedures have been adopted. The installation of the cargo targeting system has been completed. The system is being piloted and it will enable the identification of risks associated with specific cargo from their points of origin, thus speeding up offloading.

Compliance

27. Increase the number of services offered online such as business registration, e-payment and the submission of returns and other forms required for registered businesses, including International Business Companies (IBCs). The project is expected to be completed by June 2023, however the different modules will be deployed for use as and when they are ready. We have already implemented e-payment using credit/debit card and discussion is ongoing with all parties concerned for the eventual implementation of payment using SEFT platform.

28. Change the processing of tax returns by SRC, with the aim to improving tax collection and ensuring that businesses meet their obligations. The Amnesty Program resulted in the registration of 52 new businesses, submission of 4,637 outstanding returns and collection of SR 297.7 million. Voluntary compliance will be encouraged by conducting more educational outreach programs, making it easy for taxpayers to file and pay on-time, and measures will be taken to enforce filing and payment compliance and follow upon late-filers and payers. SRC has started its business process reengineering exercise; the process for registration has been completed and the ones for processing of returns and revenue have already started. A Compliance Improvement Plan is also being finalized and will soon be piloted. This is expected to increase the overall tax compliance rate. SRC will strengthen capacity for managing international taxation risk. SRC has received technical assistance from TIWB for Transfer Pricing. The TIWB initiative has the objective of enabling the transfer of tax audit knowledge and skills to tax administrations in developing countries through a real time, “learning by doing” approach. This will help SRC to effectively engage in international efforts to address the emerging gaps in international norms. In addition, the World Bank will also be assisting on the necessary regulations which will be finalized and gazette by the third quarter of 2022.

29. Utilize information received from financial institutions that report to Seychelles, under the ‘Global Forum’s Automatic Exchange of Information’, enhance sourcing and utilization of third-party information to identify risk of non-compliance; including use of information received from financial institutions that report to Seychelles, under the ‘Global Forum’s Automatic Exchange of Information’, since 2017. SRC has acquired a system for Automatic Exchange of Information. This will allow SRC to be more efficient in exchanging information and in meeting

OECD standards. The development stage for CRS and CBCr has been completed, and the next step is to test the system. Testing will first start with CRS files, followed by the ones for CBCr. FATCA will also be added as a new functionality during 2022 and an audit tool is being developed to automate the audit process of the information reported by the financial institutions.

Digitalization

30. Redevelopment of the SRC's Tax Management System. It will increase the functionalities of the current Client Management System (CMS), to close significant gaps, which hinder a modern tax management system. Gaps include the fact that the system is not in web-form and has not been upgraded with the latest IT language. Several procedures in the system are not fully integrated and are implemented as manual steps, the system is not fully integrated with E-Services, and does not include key functions like case management, debt management, business intelligence, and data warehousing. Financing is provided by the EU under an agreement signed in April 2019. The Cabinet of Ministers has approved for a new taxation management system to be developed from the core source codes of the current Client Management System with the aim to complete the project in 2023. The Registration module is progressing well, and it is expected to be available for testing mid-year and will be deployed early September 2022. The consultants have started working on the To-Be processes for returns processing and payment processing. All the core modules are expected to go live by May 2023 and the non-core modules by December 2024. The key deliverables are to develop a modern Tax Management System that will result in increased revenue collection, increased use of digital service to lower compliance costs for taxpayers and subsequently improve voluntary compliance, increase the taxpayer registrations, and offer additional opportunities for taxpayer education.

31. The Authorities adopted the reform of business tax effective January 1, 2022. The reform unified the tax rate for different productive sectors at 25 percent (currently tourism, fishery and agriculture benefit of a lower 15 percent profit tax rate), reduced the accelerated depreciation provisions for tourism, agriculture and fishery, and revised the taxation of security dealers. Taking into account the objective to develop the agricultural sector over the medium term, this sector will have a grace period of 3 years and during the period an assessment will be done on the best modalities for a tax structure for this sector. The above reform measures is expected to yield an additional revenue of 0.7 percent of GDP in 2023. In addition, we will get Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff (structural benchmark for end-September 2022). A revised Excise Tax bill with the aim of modernizing the tax regime based on the current business environment and adopt best practices which will rectify deficiencies and shortcomings of the current legislations, has been submitted to the National Assembly.

Expenditure Management and Efficiency of Public Spending

32. The GOS is taking steps to adopt a Medium-Term Fiscal or Budget Framework to bolster the sustainability of public finances. To strengthen the integration of planning and financing process Government is working with the UNDP to prepare an integrated financing

framework which will guide resource mobilization going forward. The following step would consist of defining the contours of the implementation of a multi-year budget. In August 2021, an AFRITAC South mission provided support in strengthening Seychelles macrofiscal forecast capacities including: i) assessing fiscal sustainability through a public sector balance sheet (PSBS) approach; and (ii) preparing debt scenarios to monitor the implementation of the government's medium-term fiscal strategy and the IMF EFF program targets. Additional support will be provided by AFRITAC South in the context of the 2024 budget to link the Medium-Term Debt Strategy and National Development Strategy. The Ministry of Finance is currently working with the Ministries, Departments and Agencies in improving the Public Sector Investment Plan (PSIP) over the medium term to be consistent with the budget framework. A new agency, Seychelles Infrastructure Agency was set up in January 2022, with the aim of improving the planning and execution of capital projects across Government. The authorities are also working on the result-based management to ensure there is synergy between Government strategies with budget planning. Government has also appointed a Public Service Salary Review Committee to conduct an analysis of the current salary structure in line with international best practices. In addition, the committee will conduct a wage bill analysis and will develop an appropriate sustainable salary structure considering performance management in public sector. The new salary structure will be proposed to Government as part of the 2023 budget. The aim is to ensure the wages and salaries are maintained at 11 percent of GDP over the medium term.

33. With the support of the World Bank budget support reforms is ongoing in the social protection system in the form of a “Program for Results” (PforR). The aim is to reform the social protection system to ensure its sustainability, as well as promoting the insertion in the labor force of current working-age beneficiaries. The Program covers the five largest cash transfer programs managed by the Agency for Social Protection (ASP): Retirement Pension (RP), Homecare Program (HCP), Invalidity Benefit (IB), Disability Benefit (DB), and Social Welfare Assistance (SWA).

34. The Program development objectives are to improve the efficiency and effectiveness of social protection programs in the Seychelles, while remaining above the floor on social expenditure established under the program. The focus in 2022 will be to:

- Improve fiscal sustainability of Retirement Pension through the enactment of the law increasing the retirement age for the Retirement Pension to 65 years old beginning in January 1, 2023. The Cabinet in March 2022 approved the proposal to increase the retirement pension age to 65. The process to amend the necessary legislation is ongoing and will be presented to the National Assembly in the second half of 2022.
- Improve efficiency and transparency of social protection programs through the following measures.
- ASP will adopt a revised socioeconomic needs assessment based on non-income dimensions of poverty. Given the socio-economic challenges created by the increase in world commodity prices, revised weights were adopted in May for assessing social welfare assistance.

- To limit the impact of food and fuel price increases on the most vulnerable part of the population the Government will partly offset the increase through a direct cash transfer which will be means tested.
- A comprehensive Review of ASP internal controls and payroll systems to check adequacy and adherence to the established country systems and controls has been conducted by PWC.
- Access to home care will be widened. Trained caregivers within HCA, ASP, and MOH are providing home care to at least 60 percent of new high-need HCP beneficiaries

Increase Efficiency of Public Spending

35. The GOS is committed to improve the efficiency of government spending. In line with an IMF TA recommendations a comprehensive review of the legal framework for public procurement in Seychelles, started in 2021 and is expected to be completed by June 2022. The Government is undertaking an assessment of the existing cleaning and security contracts for an efficient and sustainable way of outsourcing those contracts. With the assistance of UNDP, the Government is undertaking a Readiness Assessment and design of an e-Government Procurement Strategy for the Government of Seychelles. This will be incorporated as part of the IFMIS project. The proposed amendments of the procurement act will be tabled to the cabinet by end of June 2022. A Public Investment Management Assessment (Combined PIMA and PIMA climate change) will take place in the second half of 2022 to help identify opportunities to increase the efficiency of public investment, including the scope for the procurement system to support PPPs. To ensure the transparency of COVID emergency-related spending the GOS has carried out an audit that was published in May 2022, which includes information on awarded companies.

36. In order to improve PFM, it was decided that a new IFMIS platform should be installed by January 2024. This should strengthen capacities to manage public finance business processes and also link up with the emerging national payments platform prepared by the central bank. This is being done with the assistance of AFS which is assisting with the preparation of the tender documents. A budget for the new IFMIS is included in the 2022 budget. The cash flow unit has been integrated in the Treasury function and awareness is ongoing to ensure the Ministries, Departments and Agencies understand the cash flow process along with the current adjustment technique. The plan is ongoing for the Ministry of Finance to issue a Circular to reduce the deviation between the forecast and the outcome in the monthly cash flow plan consistent with the 2022 budget (*structural benchmark for June 2022*).

Results-Based Management

37. The government is committed to pursue a result- based management approach to public spending. The aim is to strengthen the results-focus across government to enhance public sector **efficiency**, effectiveness, transparency, and accountability with the ultimate objectives to enhance growth, economic diversification, and social inclusion across sectors. As we journey towards economic recovery, RBM thus plays a critical role in ensuring that our limited resources are sufficient

to not only sustaining the financial needs of the country, but also in achieving the much-needed transformational change for our country. The integrated RBM calendar was issued in February 2022, following which preparatory for the whole of government roll out started so as to inform the 2023 budget process.

38. The full rollout of RBM will thus improve operational and allocative efficiency in the public sector and create greater fiscal space for the provision of essential public services. This will mean:

- More services to bridge existing deficiencies in health, education, natural resources management, water and sanitation, energy, infrastructure and other basic services, together with more effective fiscal and social impact assessment; thus, giving rise to:
- Better services to improve the quality of life across large segments of the population.

39. Additionally, the full RBM rollout will be based on a portfolio planning approach whereby the portfolio takes the lead and guides its departments and public bodies in the process, through integrated portfolio-wide strategic planning, budgeting and monitoring and evaluation, and performance management systems. This will ensure that clear accountability exists to individual Ministers and senior management and to institution budgets. Furthermore, each portfolio will be able to produce a comprehensive strategic plan and annual performance plans that are of good quality. In doing so, this will ensure that all government entities are indeed planning for results and leading towards a participative, performance-driven work culture focused on continuous improvement, better service delivery and the achievement of national outcomes.

C. Minimizing Risks of SOEs

40. The government has taken steps to strengthen management of state-owned enterprises, and will implement various actions further in 2022, following government's adoption of the 'Good Governance Code' and policies that are linked to public enterprises, The Public Enterprise Monitoring Commission (PEMC) has become the only authority to oversee public enterprises. In collaboration with the ministries concerned, and their boards, the PEMC has established targets for these enterprises to ensure that they generate revenue for the government and for the people of Seychelles, that they are fully accountable to Government and that the decisions they take are aligned with national plans. We have submitted by end - November 2021, the amendments on the Public Enterprise Monitoring Committee (PEMC) Act to the Cabinet to strengthen the enforcement power of PEMC (structural benchmark for end-November 2021). The bill will be tabled before the National Assembly by end of June 2022. PEMC through an independent audit firm will conduct governance audit and operational assessment of five key public enterprises. During the first phase which will be completed in December 2022. The first phase of the audit and assessment will focus on; Public Utilities Corporation (PUC) and Seychelles Petroleum Company (SEYPEC).

The second phase to be completed in June 2023, the audit and assessment will concentrate on another three public enterprises;

- Air Seychelles
- Island Development Company Limited
- Seychelles Trading Company Ltd (STC)

41. Fiscal risks from Air Seychelles have been reduced with the restructuring of its debt.

The Government and Etihad agreed in April 2021 to a 79 percent haircut on the US\$ 70.2 million obligations to be paid over 3 years. Following further analysis, the Government opted to pay the US\$13 million liabilities in 2022. In early October 2021, the government appointed two administrators as per the requirement of the Insolvency Act. The administrators restructured Air Seychelles and settled its debts with no fiscal cost to the Government and without disrupting ground handling operation. In May 2022, an agreement was reached with the bondholders for a 66.7 percent haircut on the US\$ 83 million obligations. This resulted in Air Seychelles being placed on a more sustainable financial pathway and allowed for the subsequent operational restructuring. The Government commits to provide no further funds to Air Seychelles. Given the strategic nature of the airport for the economy the operational restructuring will ring fence ground handling operation to become a separate legal entity by end 2022 (*Structural benchmark end December 2022*).

D. Public Debt Management Strategy

42. The Government continues to rely on the regular issuance of long-term bonds through the auction mechanism.

Since the beginning of 2022, government has issued two Treasury bonds in March and guaranteed the issuance of two bonds on behalf of the Development Bank of Seychelles (DBS), one in March and the other in April. The Government has started publishing the quarterly issuance calendar for bonds on the Ministry of Finance website (*structural benchmark for end March 2022*). The issuance of bonds will be supported through repo operations and the initiation of trading reforms in government securities. Discussions are ongoing with the relevant stakeholders to have the necessary trading frameworks in place for this facility. The plan for a government securities trading framework is expected to be approved by government in consultation with CBS by the end of 2022 (*structural benchmark for December 2022*). IMF will provide the necessary technical assistance for this purpose.

43. To better support planning of debt management operations, the Government has formulated a quarterly borrowing plan which was approved by the National Debt Committee

(*structural benchmark for end March 2022*). In view of the uncertainties with the ongoing war in Ukraine on public finance the publication of the Medium-Term Debt Management Strategy (MTDS) and borrowing plan has been postponed until the mid-year review (*structural benchmark for March 2022*).

E. Monetary and Exchange Rate Policy

44. Monetary policy is expected to remain accommodative for the rest of the year. While tourism activity has significantly increased, the current war in Ukraine poses new risks. Despite stability in the domestic currency, rising fuel and international commodity prices and high global shipping costs have kept domestic inflationary pressures elevated. The Central Bank remains vigilant to monitor inflationary developments and take appropriate measures. CBS considers continued support to the economy as essential to set the necessary conditions for a full economic recovery as it monitors development in domestic prices. The CBS plans to monitor inflation expectations through a survey with the assistance of National Bureau of Statistics in the second half of 2022.

45. As expected, following the realignment of the interest rate corridor in Q3 2021, there has been a general decline in interest rates in the domestic market, but the transmission of interest rates remains weak. As part of the Bank's effort to strengthen the implementation of monetary policy, technical assistance which started late 2021. The recommendations will guide the way forward in that endeavor. As at March 2022, the savings rate fell by 63 basis points whilst the lending rate dropped by 26 basis points when compared to June 2021. In terms of interest rates in the banking sector, these are anticipated to reflect the accommodative monetary policy stance. The cost of Government borrowing has remained relatively stable over the past few months with average interest rates on the 91-day and 182-day T-bills standing at 0.40 percent and 0.56 percent from November 2021 to February 2022. As at March 2022, the average return on T-bills stood at 0.48 percent on the 91-day bills, 0.56 percent on the 182-day bills and 1.15 percent on the 365-day bills.

46. The CBS remains committed to a floating exchange rate and will only intervene to facilitate orderly conduct of the market. As the tourism sector is recovering at a faster-than-anticipated pace and the general outlook appears optimistic, it is expected that market-clearing conditions will prevail.

47. Gross International Reserves (GIR) declined from US\$702 million at the end of 2021 to US\$691 million as of March 31, 2022. The reduction was mainly as a result of slower inflows compared to usage of reserves during the first quarter of the year. One foreign exchange auction (FEA) was conducted in February 2022 from which US\$2.45 million was purchased. The intervention was conducted to smoothen the open foreign currency exposure in the banking system following a significant influx of foreign currency.

48. The three-year Advisory and Investment Management Agreement (AIMA) with the Reserves Advisory Management Partnership (RAMP) of the World Bank came to term at the end of January 2022. However, CBS took the decision with the guidance of RAMP, to extend the agreement by another 6 months to undertake the necessary work for the likely signing of a new three-year agreement. The current engagement under the partnership includes both technical advisory and an investment management mandate for US\$100 million.

F. Efforts to Improve External Statistics

49. Work on the alternative tourism earnings estimation framework is progressing well. The new methodology is expected to be implemented starting with the balance of payments for Q1 2022, which will be published in June 2022. Necessary backward adjustment will be incorporated.

G. Modernizing the Financial System and Ensuring Financial Stability

50. The financial soundness of the banking industry remains healthy over the past year. As at end of March 2022 the industry remained well capitalized and above the prudential requirement of 12 percent. On a year-on-year comparison, aggregated regulatory capital to risk weighted assets grew by 4.9 percentage points to settle at 23.61 percent. Comparisons in respect of asset quality, earnings and profitability indicate that the aforementioned indicators are on the decline. Non-performing loans increased by SCR232 million to settle at SCR702 million on a year-to-year basis. Returns on assets and return on equity decreased by 0.6 and 9.8 percentage points on a year-to-year basis to settle at 2.2 percent and 23.7 percent respectively. Core liquid assets on the other hand increased underlining banks prudence in its risk appetite currently and over the past year given the ongoing uncertainty posed by the ongoing COVID-19 pandemic and Ukraine war. As for the industry's foreign currency risk exposure, a decrease of 8.8 percentage points was observed for long position and a decrease of 0.7 percentage points was observed in respect of short position to capital. Both ratios are well within the foreign currency exposure limits.

51. CBS remains committed to ensuring a stable and well-capitalized banking system that can support the recovery by effectively monitoring and supervising the health of the financial system. To ensure effectiveness of the supervisory process, CBS stands ready to take relevant and timely enforcement actions where necessary. If any bank becomes undercapitalized, CBS will use the set of relevant early intervention measures, including further suspension of dividend payments. Within CBS' usual regulatory framework, viable but undercapitalized banks would be required to submit capital plans while nonviable financial institutions would be resolved using the appropriate resolution tools.

52. CBS has made its supervisory framework more risk-sensitive, objective, forward-looking and continuous. For that purpose, CBS had initiated a project in 2018 for the adoption of a risk-based supervision (RBS) framework, which integrates Basel II Pillar 2 requirements. During 2020, CBS successfully completed the second phase of the project which entailed the design and development of the RBS framework and associated data models, guidelines/circulars, manuals, and policies, as well as capacity building for supervisors and supervised entities. The initial roll out has been completed and banks have started submitting ICAAP documents as per the requirements under Pillar 2. Work is being finalized to calibrate the risk scores of the banks.

53. Throughout 2020, work remained ongoing to finalize a policy paper for adoption of Basel II Pillar 1. The paper was endorsed by the Cabinet of Ministers in late 2020 and is at the Attorney General's Office for drafting. As regards to Basel II Pillar 3, CBS anticipates finalizing its set of disclosure guidelines by December 2022. Furthermore, the policy paper for the amendment in

the Financial Institutions (Capital Adequacy) Regulations, 2010 to adopt the Basel III capital definition was approved by the Cabinets of Ministers in May 2022 (structural benchmark for end-May 2022).

54. In order to boost financial sector resilience, CBS will enhance the monitoring of the banking system by collecting additional information including for restructured and rescheduled loans. CBS will closely monitor and assess the asset quality of banks in view of the recent unwinding measures including withdrawal of forbearance on asset classification (new structural benchmark for end-September 2022) and take early intervention measures where necessary. To preserve the stability of the financial system while supporting growth, banks are restructuring loans for firms that are viable but have temporary liquidity shortages, on a case-by-case basis. CBS will continue to monitor the relevant reclassification of loans.

55. CBS focuses on strengthening the legal basis of the Financial Stability Committee (FSC). Following the establishment of the FSC in March 2016, work remains ongoing in ensuring that the legal basis of the FSC and its mandate are strengthened. In that regard, CBS prepared a policy paper outlining various policy considerations for the drafting of a financial stability bill with the assistance of a US OTA Financial Stability consultant. As part of the review process comments were also received from the IMF. The proposal was presented at a stakeholders' consultation workshop on April 28, 2022. The policy paper was approved by the Cabinet of Ministers in May 2022 (revised structural benchmark delayed from March 2022). The CBS will, in consultation with IMF staff, submit amendments to the CBS Act to Cabinet by December 2022 to: (i) strengthen governance and oversight; (ii) enhance institutional and personal autonomy; and (iii) safeguard financial autonomy."

56. CBS remains committed to having a robust crisis management and resolution framework. We will take the necessary steps to enhance our macroprudential toolkit as well as the crisis management and bank resolution framework. A policy paper supporting the drafting of an effective resolution framework, aligned with the BCBS recommendations and FSB Key Attributes of Effective Resolution Regimes, was presented to the Cabinet of Ministers and endorsed in December 2018. However, with recent developments, it was deemed necessary to review the policy paper to further enhance the powers of resolution authorities in respect of co-ordination and co-operation mechanisms, as well as instruments to deal with evolving types of crises, such as the recent pandemic whereby aspects of business continuity and operational resilience have received due attention. By end July 2022, CBS will submit the updated policy paper to the Cabinet of Ministers for approval (structural benchmark delayed from end-June 2022). The draft Bank Resolution Bill is expected to be approved by Cabinet by end June 2023 (structural benchmark for end-June 2023).

57. CBS pursues efforts to ensure that its legislative framework for the National Payment System remains aligned with international standards and best practices. A review of the National Payment System Act, 2014, along with supporting regulations, is being undertaken to ensure that deficiencies identified while administering the Act are addressed and its regulatory framework is aligned with international standards and best practices. Policy proposals for

amendments to the legal framework are anticipated to be finalized in June 2022, which will thereafter be subject to stakeholder consultations.

58. CBS continues to pursue its modernization agenda pertaining to the National Payment System with the aim to achieve increased efficiency, convenience and affordable, innovative payment facilities. There is ongoing engagement with regard to the establishment of an entity to manage the payment system platforms. Following technical assistance from the US OTA in April 2022, it was established that further work is required in terms of upgrading current systems and to address the gaps raised from the Principle for Financial Markets Infrastructure (PFMI) assessment. With regards to the Core Banking System, CBS is currently reviewing the submissions for the selection of vendors so as to proceed with the next steps of the procurement process. In relation to the reduction of fees on card transactions, the interchange modifications were effected in February 2022. This reduction has been reflected within the Merchant Service Charge. As part of the modernization plan, CBS aims to phase out the use of cheques as a payment instrument starting 2023 and is in the process of undertaking stakeholder consultations. Furthermore, with the aim of increasing the uptake of digital products and services, the necessary is being done to undertake a study to assess the affordability and reliability of internet and network connection in Seychelles through the procurement of a consultant. The study is expected to commence in the second half of 2022.

59. Work with regard to the formulation of the Regulatory Sandbox is ongoing. With the assistance of the Alliance for Financial Inclusion, the necessary has been done for the recruitment of a consultant to assist CBS with the project which will commence in June 2022. To enhance coordination between stakeholders on the FinTech strategy, CBS is exploring the creation of an innovation hub to enable firms to engage with competent authorities on regulatory issues and seek guidance on the conformity of innovative financial products and services with regulatory requirements.

60. The CBS pursued its efforts in strengthening financial consumer protection and general consumer empowerment. As part of the National Financial Education Strategy and Digital Financial Literacy program, work is ongoing with regard to educating the general public on the benefits, risks and their responsibilities vis-à-vis digital payment products and services. The Financial Consumer Protection Bill was approved by the National Assembly in March 2022 and has been assented by the President. The Act has a transitional period of 6 months as of May 2022. Priority areas that will be covered by initial regulations will include improvement of the complaint handling process, credit granting and debt recovery, charges and fees and digital financial services.

61. The endeavor to implement a new Credit Information System and the supporting legal framework (Credit Reporting Act) to provide for broader coverage of credit information and better credit worthiness assessment is progressing according to plan. The project is expected to be completed in December 2022.

62. Seychelles continue to show progress on its AML/CFT framework. Based on the significant reforms done by Seychelles, the Eastern and Southern Africa Anti-Money Laundering

Group (ESAAMLG) have approved 9 re-ratings for Seychelles so far out of the 20 recommendations which have deficiencies. This was after the 21st Council of Ministers and 42nd ESAAMLG Task Force of Senior Officials Virtual Meetings held in September 2021. Seychelles will be submitting another request for re-rating in October 2022 for upgrades to a further set of 9 recommendations. In regard to the other two remaining recommendations, a new Registration of Associations act has been assented in May 2022 and the Office of the Registrar General is working closely with the Financial Intelligence Unit to undertake a risk assessment on the non-profit organizations sector which has started in April 2022 and expect to complete by September 2022. This is being financed by the European Union. The National AML/CFT Committee in February 2022 launched the risk assessment of Virtual Assets (VAs) and Virtual Assets Service Providers (VASPs). The Financial Services Authority (FSA) has partnered with a qualified and experienced consultant to assist Seychelles in conducting the risk assessment. This is expected to complete by July 2022.

63. We remain committed to ensuring that beneficial ownership information of legal persons and legal arrangements established in Seychelles is adequate, accurate and up to date. The centralized database of beneficial ownership with the Financial Intelligence Unit (FIU) became operational in July 2021. With respect to foreign legal persons and legal arrangements (i.e., International Business Companies, Trust, Foundations etc.) 90 percent of the 59000 registered entities submitted information to the database as of end April 2022. The FIU is working closely with the resident agents to ensure compliance by end-June 2022 of the remaining foreign legal persons and legal arrangements. Those who fail to comply will be referred to the FSA and other competent authorities for the necessary enforcement actions and penalties as per the provisions of the BO Act. As regards domestic legal persons and legal arrangements, the FIU is conducting outreach and awareness raising to increase the current compliance rate of 23% of the 7,781 active entities, given that this is a relatively new concept for them, and response rates have been slow. Moving forward, we will implement the following reform measures.

- **Assessment report and legal reform.** The FSA and Financial Intelligence Unit (FIU) will publish, by July 2022 an assessment report detailing, inter alia, an assessment of the level of compliance of the legal persons and legal arrangements vis-à-vis the applicable provisions of the BO Act including whether the information being populated on the registers and the centralized database is accurate and up to date. In consultation and agreement with IMF staff the authorities will amend the BO Act and regulations by end-July 2022 to address any shortcomings identified in the assessment report.
- **Risk-Based AML/CFT Supervision.** There are currently 60 resident agents licensed to establish international business companies, trusts or foundations for foreign and non-resident clients. Based on the outcome of the 2021 inspections of resident agents, the FSA in January 2022 submitted a risk-based action plan on its supervisory activities for the resident agents and will conduct compliance inspections of 20 percent of all resident agents on the basis of risk profile, for the calendar year 2022. The FSA will publish a summary of its findings for the resident agent sector by end-December 2022, including its findings on compliance with identification and verification of beneficial ownership by resident agents as well as statistics on enforcement

actions and penalties imposed for AML/CFT violations. The Q1 inspections were conducted jointly with inspections to assess the level on compliance with the accounting records requirement for OECD Global Forum purposes which was itself selected on a risk-based approach taking licensees deemed to be of a higher risk. FSA is committed to increasing its sample size of legal persons/ legal arrangements for compliance testing purposes on an ongoing basis as the inspections progress.

- **Verification and Access to Beneficial Ownership Information.** Beginning in end-July, the FIU will submit on a quarterly basis to the National AML/CFT Committee a strategic analysis report on the beneficial ownership database for domestic and foreign legal persons and legal arrangements. The periodic reporting will include statistics on level of compliance by resident agents and international cooperation/exchange of information as well as any identified typologies or red flags of abuse.
- **The Authorities remain committed to validate the accuracy of the information of the BO database.** The FIU will analyse the beneficial ownership information held on the Seychelles BO database for strategic risk analysis function under section 28 (5) (b) of the AML/CFT Act , which relates to identification of ML/TF trends and pattern. A summary of the metrics will be periodically submitted to the National AML CFT Committee. The strategic risk analysis will be used to assist the FSA in the selection process of the IBC that will be part of the inspections during the second half of 2022. Equally through FIU's customary coordination and exchange of information with foreign counterparts such maybe used as a medium to also validate the accuracy of information held in the database.

64. The Republic of Seychelles has been removed from Annex I of the European Union's (EU's) list of non-cooperative jurisdictions for tax purposes (the "EU blacklist") following the Economic and Financial Affairs Council of the EU meeting on the 5th of October 2021. This follows key steps taken in reforming Seychelles' territorial tax regime to address the concerns of the EU, in conjunction with addressing concerns of the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum). The only remaining step needed to enable Seychelles to be removed from Annex II of the list of non-cooperative jurisdictions (the "EU grey list") for criterion 1.2 (tax transparency) is obtaining a Largely Compliant status in the forthcoming Supplementary Review. With the new rules on availability of information now passed, Seychelles is building a track record under the new system, ready to demonstrate the success of the new regime in the on-site visit of the Global Forum. The OECD has advised that the onsite visit will be undertaken during the third quarter of 2022. The Authorities have already started the inspection program since February 2022 when the grace period elapsed.

65. Program monitoring. Program implementation will continue to be monitored through semi-annual reviews, quantitative performance criteria and indicative targets, continuous performance criteria, and structural **benchmarks**. The third review is set for December 2022 based on end-June 2022 quantitative targets and the fourth review is set for June 2023 based on end-December 2022 quantitative targets. The quantitative targets and structural benchmarks are set out in Tables 1 and 2 of the MEFP respectively. Detailed definitions and reporting requirements for all

performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons.

Table 1. Seychelles: Proposed Quantitative Program Targets, 2021-2023¹
(In millions of Seychelles Rupees)

| Performance Criteria | July 31, 2021 | | | September 30, 2021 | | | December 31, 2021 | | | March 31, 2022 | | | June 30, 2022 | | | September 30, 2022 | | | December 31, 2022 | | | March 31, 2023 | | | June 30, 2023 | | | | | |
|--|----------------------|---------|--------|--------------------|------------------|---------|----------------------|---------|--------|------------------|---------|------------|----------------------|---------|--------|--------------------|--------|--------|----------------------|------------|-------|----------------|--------|-------|----------------------|--------|-------|--------|--------|--|
| | Performance Criteria | | | IT | | | Performance Criteria | | | IT | | | Performance Criteria | | | IT | | | Performance Criteria | | | IT | | | Performance Criteria | | | IT | | |
| | Prog. | Actual | Status | Prog. | Adjusted targets | Actual | Status | Prog. | Actual | Adjusted targets | Status | 1st Review | Adjusted targets | Actual | Status | 1st Review | Prog. | Actual | Status | 1st Review | Prog. | Actual | Status | Prog. | Actual | Status | Prog. | Actual | Status | |
| A. Quantitative performance criteria² | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net domestic financing of the government (ceiling) ³ | 2034.0 | 1521.7 | Met | -109.0 | 1385.0 | 917.5 | Met | -555.0 | -27.6 | 1849.3 | Met | 25.0 | 65.5 | 47.5 | Met | 100.0 | 101.3 | | 120.0 | 133.1 | | 163.8 | 397.1 | | 180.1 | | | | | |
| Primary balance of the consolidated government (floor) | -1726.0 | -723.4 | Met | -2026.0 | | -696.9 | Met | -2289.0 | -776.8 | | Met | -700.0 | | 135.7 | Met | -178.0 | -229.6 | | -198.0 | -306.2 | | -382.7 | -376.0 | | -159.0 | | | | | |
| Total revenue (floor) ⁴ | 2217.4 | 3969.6 | Met | 3626.0 | | 5242.4 | Met | 7252.0 | 7666.8 | | Met | 1735.5 | | 1840.2 | Met | 3470.9 | 3470.9 | | 5206.4 | 5206.4 | | 8960.3 | 1761.1 | | 4002.7 | | | | | |
| Net international reserves of the CBS, millions of US dollars (floor) ⁵ | 359.0 | 396.0 | Met | 374.0 | 329.0 | 455.0 | Met | 394.0 | 529.0 | 349.0 | Met | 407.0 | | 518.0 | Met | 410.0 | 416.0 | | 415.0 | 423.0 | | 426.0 | 390.0 | | 400.0 | | | | | |
| B. Continuous quantitative performance criteria (ceilings) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accumulation of new external payments arrears | 0.0 | 0.0 | Met | 0.0 | | 0.0 | Met | 0.0 | 0.0 | | Met | 0.0 | 0.0 | 0.0 | Met | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | | | | | |
| Accumulation of new domestic payments arrears | 0.0 | 0.0 | Met | 0.0 | | 0.0 | Met | 0.0 | 0.0 | | Met | 0.0 | 0.0 | 0.0 | Met | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | | | | | |
| C. IT | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net change in CG guaranteed domestic and external debt | 502.0 | -1880.0 | Met | 604.0 | | -2141.0 | Met | 753.0 | -967.6 | | Met | 990.0 | 1140.9 | -1106.0 | Met | 1226.4 | 792.8 | | 1532.9 | 872.0 | | 951.3 | 115.0 | | 170.0 | | | | | |
| Priority social expenditure (floor) ² | 475.2 | 826.9 | Met | 712.8 | | 1058.2 | Met | 1425.5 | 1414.9 | | Not Met | 287.0 | 226.8 | 338.3 | Met | 574.1 | 574.1 | | 861.1 | 861.1 | | 1527.7 | 250.0 | | 597.0 | | | | | |

Sources: Seychelles authorities; IMF staff estimates and projections.

¹ The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

² The performance criteria are cumulative from the beginning of the calendar year.

³ If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears. The NDF refers to the central government.

⁴ If growth fall short of targets the revenues floor will be adjusted accordingly.

⁵ The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and non-project cash grants exceeds (falls short of) the amounts assumed in the program. The floor will also be adjusted upwards (downwards) by the amount that external debt service payments fall short of (exceed) the amounts assumed in the program. The floors will also be adjusted upwards by the amount of the new SDR allocation to Seychelles if the IMF makes a new allocation of SDRs to its membership.

Table 2. Seychelles: Actual and Proposed Structural Benchmarks Under the EFF, 2021–2023

| Actions | Timing | Objective | Status |
|---|---|---|-----------------------------------|
| Prior Action | | | |
| Publication of the COVID Financial Assistance Audit. | Prior action for second review | Ensure transparency in COVID 19 related spending | |
| Fiscal and Public Financial Management Policy | | | |
| Cabinet approval of all the necessary legislation to ensure Seychelles is fully compliant to be removed from the EU list of non-cooperative jurisdictions. | End-September 2021 | Ensure Seychelles is fully compliant with EU and OECD harmful preferential tax regimes (BEPS Action 5). | Met |
| Ministerial Approval of Circular to reduce the deviation between the forecast and the outcome in the monthly cashflow plan consistent with the 2022 budget, in consultation with IMF staff. | End-June 2022 | Strengthen Treasury cash management. | |
| Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff. | End-September 2022 | Strengthen revenue mobilization. | |
| Cabinet approval of revisions to business tax laws to streamline exemptions, in consultation with IMF staff. | End-November 2021 | Strengthen revenue mobilization. | Met |
| Completing the customs automation project, in consultation with IMF staff. | End-September 2023 | Strengthen revenue mobilization. | |
| Debt Management | | | |
| Publish a new domestic debt management strategy document. | End-March 2022 (revised to September 2022) | Mitigate foreign currency and rollover risks, optimize issuance decisions, and strengthen benchmark pricing through extension of the yield curve. The debt management strategy will guide future borrowing decisions based on cost-risk trade-offs related to the debt portfolio. | Not met, reset for September 2022 |
| Publish an Annual Borrowing Plan along with an auction calendar to help market participants plan their liquidity management and reduce uncertainty. | End-March 2022 (revised to September 2022) | Implement the debt management strategy. | Not met, reset for September 2022 |
| | End-September 2021 and quarterly thereafter | Enhance debt management and transparency. | Met |
| Actions | | | |
| The Ministry of Finance will publish quarterly reports on debt management operations and outstanding debt position as published in the debt bulletin on its website. | End-December 2022 | Implement the debt management strategy. | |
| The National Public Debt Management Committee chaired by the Principal Secretary Ministry of Finance will approve a quarterly borrowing plan on a recurring basis | End-March 2022 and quarterly thereafter | Implement the debt management strategy. | Met |

**Table 2. Seychelles: Actual and Proposed Structural Benchmarks Under the EFF, 2021–2023
(concluded)**

State-Owned Enterprises (SOEs)

Cabinet approval of (1) least cost structure for Air Seychelles, as part of the 2022 budget process; and (2) long-term strategy that lays out long-term options for Air Seychelles, in consultation with IMF/WB staff. End- September 2021 Minimize the fiscal impact on the 2022 budget. Met

Cabinet approval of Amendments on the Public Enterprise Monitoring Committee (PEMC) Act to strengthen the enforcement power of the PEMC, in consultation with IMF staff. End-November 2021 Reduce contingent fiscal risks. Met

Financial Sector Stability

Cabinet approval for policy paper for the draft Financial Stability Bill for empowering the relevant authorities to use macroprudential tools and providing the legal basis for the Financial Stability Committee. End-November 2021-Revised deadline March 2022 Enhance financial stability powers with the aim of safeguarding the stability of the financial system Not Met, implemented with delay

Through expanded bank reporting on forborne and restructured loans, undertake an assessment of the asset quality in the system that also considers the impact of withdrawal of forbearance on asset classification. September 2022 Obtain reliable information on the loan quality and formulate the most appropriate policy responses for management of balance sheet risks and preserve financial stability. New

Cabinet approval of the policy paper for the amendment in the Capital Adequacy Regulation for the CBS to adopt the Basel III Capital Definition End-May 2022 Buttress banking sector soundness and financial sector stability Met

Submit policy paper for the draft Bank Resolution Bill to the Cabinet End-June 2022 (revised to July 2022) Address shortcomings from previously approved cabinet policy paper for bank resolution and to align with ongoing revisions to the Financial Institutions Act, 2004 as amended and Insolvency Law, as well as cater recent developments stemming from the current crisis. Includes identification of consequential amendments in subsidiary legislations, with the objective of providing the regulators the necessary powers to effectively resolve troubled financial institutions.

Financial Sector Stability

Cabinet approval for draft Bank Resolution Bill in alignment with international best practice End-June 2023 Address shortcomings from previously approved cabinet policy paper for bank resolution and to align with ongoing revisions to the Financial Institutions Act, 2004 as amended and Insolvency Law, as well as cater recent developments stemming from the current crisis. Includes identification of consequential amendments in subsidiary legislations, with the objective of providing the regulators the necessary powers to effectively resolve troubled financial institutions.

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Seychelles' economic and financial program supported by the Extended Fund Facility (EFF). It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

I. Definitions

- Unless otherwise indicated, "government" is understood to mean the central government of the Republic of Seychelles and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government's budget.
- Consolidated government debt is understood to mean central government plus public guarantees.
- "External debt" is defined as debt denominated in any currency other than the Seychellois rupee (SCR). (1) The performance criterion or indicative target will include all forms of debt. The definition of "debt" is set out in paragraph 8 (a) of the Guidelines on Public Debt Limits in Fund-Supported Programs attached to the Executive Board Decision No. 16919-(20/103), adopted October 28, 2020. For the purpose of these guidelines, 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:
 - 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);
 - 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
 - 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.

(2) 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.

II. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

1. Net domestic financing (NDF) of the government is defined as the sum of: (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of shares of public enterprises, that is privatizations, Treasury bills, and other securitized obligations issued by the government and listed in rupees in the domestic financial market, and any Central Bank of Seychelles (CBS) credit to the government, including any drawings on the rupees counterpart of the Special Drawing Rights (SDR) allocation.
2. The data deemed valid within the framework of the program will be the amounts for net bank credit to the government and for the net amount of Treasury bills and bonds issued in rupees on the domestic financial market, calculated by the CBS, and the amounts for nonbank financing calculated by the Treasury of Seychelles.
3. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives. Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all public external debt (defined as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external arrears.
4. Adjustors: Net domestic financing of the government will be adjusted downward (upward) if net external budgetary assistance exceeds (falls short of) the program projections.
5. For the purpose of monitoring, data will be provided to the Fund by the authorities on a monthly basis with a lag of no more than four weeks from the end-of-period.

B. Floor on the Primary Balance

6. The primary balance is defined as total revenues and grants minus primary expenditure and covers non-interest government activities as specified in the budget. The primary balance will be measured as cumulative over the fiscal year and it will be monitored from above the line.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds. Revenues will also include grants. Capital revenues will not include any revenues from non-financial asset sales proceeding from divestment operations.
 - Central government primary expenditure is recorded on a cash basis and includes recurrent expenditures and capital spending. Primary expenditure also includes transfers to State-Owned Enterprises (SOEs). All primary expenditures directly settled with bonds or any other form of non-cash liability will be treated as one-off adjustments and recorded as spending above-the-line, financed with debt issuance, and will therefore affect the primary balance.
- 7.** Adjustors: The primary balance target will be adjusted upward (downward) by the surplus (shortfall) in disbursements of grants relative to the baseline projection.
- 8.** For the purpose of monitoring, data will be provided to the Fund by the authorities monthly with a lag of no more than four weeks from the end-of-period.

C. Floor on Total Revenue

- 9.** Total government revenue includes tax and nontax revenue, as shown in the fiscal table, but excludes external grants, revenue of autonomous agencies, and privatization receipts.
- 10.** The government revenue floor will be adjusted downward by the amount equivalent to the shortfall in gross domestic product compared to the program projections.
- 11.** For the purpose of monitoring, data will be provided to the Fund by the authorities on a monthly basis with a lag of no more than four weeks from the end-of-period.

D. Floor on Net International Reserves

- 12.** Net International Reserves (NIR) of the CBS are defined as the difference between reserve assets and reserve liabilities with a maturity of less than one year.
- 13.** Reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBS's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures, forwards, swaps, options et cetera), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.
- 14.** Reserve liabilities are: (1) all foreign exchange liabilities to residents and nonresidents with maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, options, et cetera); and (2) all liabilities outstanding to the IMF (only the total outstanding use of Fund Credit and loans is included in reserve liabilities).

15. Adjustors: 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. The floor will also be adjusted upwards (downwards) by the amount that external debt service payments fall short of (exceed) the amounts assumed in the program. The floors will also be adjusted upwards by the amount of the new SDR allocation to Seychelles if the IMF makes a new allocation of SDRs to its membership.

16. For the purpose of monitoring, 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.

E. Non-Accumulation of New Domestic and External Arrears (continuous)

17. Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period, unless the payment arrangements specify a longer payment period. The Ministry of Finance records and updates the data on the accumulation and reduction of domestic payments arrears.

18. The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program. The accumulation of any new domestic payments arrears will be reported immediately by the government to Fund staff.

19. The government undertakes not to accumulate any new external public payments arrears, with the exception of arrears related to debt that is the subject of rescheduling. External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, including contractual and late interest, on the external debt of the government or external debt guaranteed by the government. The performance criterion on the non-accumulation of new external public payments arrears will be continuously monitored throughout the program. The accumulation of any new external payments arrears will be reported immediately by the government to Fund staff.

20. Standard continuous performance criteria include: 1) prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions; 2) prohibition on the introduction or modification of multiple currency practices; 3) prohibition on the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and 4) prohibition on the imposition or intensification of import restrictions for balance of payments reasons.

III. Indicative Targets

A. Net Change in Consolidated Government Guaranteed Domestic and External Debt

21. The government guaranteed domestic and external debt is defined as the public debt and includes the central government debt plus domestic and external guarantees provided by the government.

B. Floor on Government Social Spending

22. The indicative floor on social spending will apply to the expenditures incurred by the government on the following plans and programs that are intended to have a positive impact on education, health, social protection, housing and community services and recreational activities:

- Social Programs of Government Benefits and approved programs of ASP (Invalidity benefits, disability benefits, post-secondary students bursary, sickness benefits, maternity benefits, orphans' benefits, injury benefits, semi-orphan benefits, apprenticeship scheme, home careers schemes, vulnerable home repair scheme, SPTC travel concessions, inter island transport etc.)

IV. Program Reporting Requirements

23. Performance under the program will be monitored from data supplied to the IMF by the authorities. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement under the EFF.

V. Data and Information

24. 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 auction, primary Treasury bill auctions, and secondary auctions.

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

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

The Ministry of Finance will Report

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

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

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

- Accounts of the public nonbank financial institutions.

25. 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.



SEYCHELLES

June 14, 2022

2022 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

(As of May 31, 2022)

Membership Status: Joined 6/30/1977. Accepted Article VIII obligations since 01/03/1978.

| General Resources Account | <u>SDR Million</u> | <u>% Quota</u> |
|----------------------------------|--------------------|----------------|
| Quota | 22.90 | 100.00 |
| Fund holdings of currency | 100.13 | 437.24 |
| Reserve Position in Fund | 3.53 | 15.41 |

| SDR Department | <u>SDR Million</u> | <u>% Allocations</u> |
|---------------------------|--------------------|----------------------|
| Net cumulative allocation | 30.23 | 100.00 |
| Holdings | 23.59 | 78.03 |

Outstanding Purchases and Loans:

| | | |
|-----------------------|-------|--------|
| Emergency Assistance | 22.90 | 100.00 |
| Extended Arrangements | 57.86 | 252.65 |

Latest Financial Arrangements:

| Type | Arrangement | Expiration | SDR Million | |
|------|--------------|--------------|-----------------|--------------|
| | | | Amount Approved | Amount Drawn |
| EFF | Jul 29, 2021 | Mar 28, 2024 | 74.00 | 48.00 |
| EFF | Jun 04, 2014 | Jun 03, 2017 | 11.45 | 11.45 |
| EFF | Dec 23, 2009 | Dec 22, 2013 | 26.40 | 26.40 |

Latest Outright Loans:

| Type | Commitment | Drawn/Expired | SDR Million | |
|------|--------------|---------------|-----------------|--------------|
| | | | Amount Approved | Amount Drawn |
| RFI | May 08, 2020 | May 12, 2020 | 22.90 | 22.90 |

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

Forthcoming

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|-----------------|-------------|--------------|--------------|-------------|-------------|
| Principal | 2.90 | 8.46 | 13.22 | 6.95 | 8.82 |
| Charge/interest | 1.04 | 1.96 | 1.55 | 1.09 | 0.89 |
| Total | 3.94 | 10.42 | 14.77 | 8.04 | 9.71 |

Implementation of HIPC Initiative: Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable

Implementation of Catastrophe Containment and Relief (CCR): Not applicable

An updated safeguards assessment of the Central Bank of Seychelles (CBS) was finalized in June 2021.

The assessment found that the CBS continues to develop its safeguards framework and has implemented all but one recommendation from the 2018 assessment. External audit arrangements remain robust and financial reporting practices adhere to international standards. While steps have been taken to improve the internal audit function, further efforts and enhanced oversight are needed to strengthen capacity and coverage. Moreover, the CBS will need to reinforce the risk management function to ensure adequate capacity. The CBS' legal framework should be amended to strengthen oversight and autonomy, as also recommended by the previous safeguards assessment. The assessment also recommended that the advances to the government and involvement in COVID-19-related lending to banks and other financial institutions should be revisited to safeguard the CBS' financial autonomy, and the CBS is progressing with the implementation by reducing the limit on advances, charging market interest rate on credit to the government, unwinding the COVID-19-related lending schemes, and revisiting collateral policy.

Exchange Rate Arrangement: The exchange market was liberalized in November 2008, which resulted in the elimination of all restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The de jure exchange rate regime is floating, and the de facto exchange rate regime is also classified as floating. On March 28, 2022, US\$1 = SR 14.33 (mid-rate).

Article IV Consultations: Seychelles is currently under a 24-month consultation cycle. The last Article IV Consultation was concluded on June 14, 2019.

Technical Assistance (November 2016–May 2022):

MCM

Self-assessment of ISOCO principle, November–December 2016

Strengthen non-bank financial supervision, February–March 2017

Diagnostic Mission, March 2017

Tools and procedures for communication and inflation, March 2017

Developing Inflation Forecasting and Monetary Policy Analysis, June 2017

Implementation of Basel II, July 2017

Monetary Policy Implementation, October 2017 F

PAS, October 2017

Central Bank Communication, January 2018

Review Twin Peaks Model and provide training, February 2018

MPIO-Scoping the development of a secondary market for government securities, November 2018

Implementation of IFRS9, December 2018

Guidance on Oversight of Payment Systems, June 2021

Basel II/III - Regulatory Reform, September 2021

Monetary Policy Implementation & Operations, December 2021

Medium-term Debt Management Strategy and Annual Borrowing Plan (MTDS and ABP), January 2022

FAD

Ensure adequate controls to prevent fraud and revenue leakage while facilitating trade, February 2017

Carbon Taxation, March 2017

Follow-up on 2016 diagnostic mission recommendations, April 2017

Assist with developing and implementing SRC collection strategy, September 2017

Follow-up on cash-flow forecast and PFM RBM framework, October 2017

Develop a compliance management framework, November 2017

Strengthening Risk Management and oversight of SOEs, December 2017

Development of operational accounting manual, January 2018

Medium-term macro-fiscal framework and budget documentation, February 2018

SOE Fiscal Risks, March 2018

Cash Management, April 2018

Development of operational accounting manual, May 2018

SRC Compliance Improvement Plan, July 2018

Fiscal Risks Statement, September 2018 Development of operational accounting manual, October 2018

Public Financial Management, Asset and Liability management, September 2021

STA

National Accounts, October 2017

Price Statistics, October 2017

Prices and Index Numbers, February 2018

National Accounts, February 2018

National Accounts, April 2018

Consumer Prices, July 2018

National Accounts, July 2018

National Accounts, July 2019

National Accounts, November 2019

Consumer Prices, November 2019

National Accounts, April 2020

National Accounts, July 2020

National Accounts, October 2020

Consumer Prices, November 2020

Consumer Prices, January 2021

National Accounts, February 2021

National Accounts, July 2021

External Sector Statistics, October 2021

Producer Prices, November 2021

National Accounts, January 2022

LEG

AML/CFT supervision, December 2017

AML/CFT Legal Drafting Mission, April 2018

Resident Representative: Aissatou Diallo

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

As of May 2022, Seychelles collaborates with the World Bank Group and the African Development Bank. Further information may be obtained from the following sources.

<http://www.worldbank.org/en/country/seychelles>

<https://www.afdb.org/en/countries/east-africa/seychelles/>

STATISTICAL ISSUES

SEYCHELLES—STATISTICAL ISSUES APPENDIX

As of June 7, 2022

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but it is broadly adequate for surveillance. Good progress has been achieved in improving statistical capacity, though sustained technical assistance and additional resources will be required for statistical development over the medium term in order to improve the quality of economic statistics.

National accounts: National accounts data are prepared on a calendar-year basis by the National Bureau of Statistics (NBS). The NBS released rebased estimates of the national accounts in 2021, updating the base year from 2006 to 2014. NBS also compiles quarterly national accounts data from 2006 to the present. Further technical assistance is being provided to backcast the annual and quarterly national accounts for the period of 2006 to 2013, compile quarterly national accounts using the expenditure approach, and produce seasonally-adjusted quarterly GDP figures. Tourism statistics are compiled on a weekly and monthly basis while production indicators are compiled quarterly; both are disseminated in a timely manner. Data on average earnings and employment by sector are collected on a quarterly basis by the NBS, but there are no data on unit labor costs.

Price statistics: An updated consumer price index (CPI) was introduced in February 2021 based on expenditure weights derived from the 2018/19 household budget survey. Further technical assistance is being provided to improve and update the producer price index.

Government finance statistics: Seychelles disseminates data primarily based on the *Government Finance Statistics Manual* (GFSM 2014). The last technical assistance mission recommended the authorities to: (i) establish a GFS task force among Treasury, Financial Planning and Control Division (FPC), Debt Management staff, and other relevant agencies to discuss and resolve technical and methodological issues; and (ii) establish a strategic plan that specifies how to address weaknesses in terms of augmenting the cash recording of transactions in the execution of the budget with relevant accrual-based measures and improving data on other economic flows for financial assets and liabilities. While substantial progress has been made, further work will be needed to support a full move to GFSM 2014, including for the broader public sector.

Monetary and financial statistics: Monetary statistics compiled by the Central Bank of Seychelles (CBS) are consistent with the methodology of the 2016 *Monetary and Financial Statistics Manual and Compilation Guide* (MFSMCG). Seychelles reports regular and good quality monetary statistics for the central bank, other depository corporations and for the other financial corporations. The coverage of other financial corporations could be improved. The CBS reports

data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: Seychelles reports financial soundness indicators (FSIs) to the Fund, which are published on the IMF's FSI website. The authorities report thirteen core and six encouraged FSIs for deposit takers to the Fund, on a monthly basis. Work is ongoing to strengthen the recently established macroprudential framework, which includes revisions to the Central Bank Act and migration towards Basel II.

External sector statistics: The authorities have adopted the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual*, and began compiling the international investment position in 2015. Quarterly balance of payments and international investment position (IIP) data are being compiled and made publicly available since 2015. Considerable progress has been made in external sector statistics, including the compilation of cross-border transaction and stock data for special purpose entities and the adoption of a new estimation model for travel services.

II. Data Standards and Quality

A subscriber to the IMF's Special Data Dissemination Standard (SDDS), Seychelles met SDDS specifications on May 1, 2015. Seychelles is currently using a timeliness flexibility option for the producer price index. Seychelles' latest SDDS Annual Observance Report is available on the [Dissemination Standards Bulletin Board](#).

No data ROSC is available.

Seychelles: Table of Common Indicators Required for Surveillance

| | Date of latest observation (For all dates in table, please use format dd/mm/yy) | Date received | Frequency of Data ⁷ | Frequency of Reporting ⁷ | Frequency of Publication ⁷ |
|---|--|---------------|--------------------------------|-------------------------------------|---------------------------------------|
| Exchange Rates | 01/06/22 | 01/06/22 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹ | 21/04/22 | 01/05/2022 | D | W | M |
| Reserve/Base Money | 31/12/21 | 01/05/2022 | D | W | M |
| Broad Money | 31/12/21 | 01/05/2022 | M | M | M |
| Central Bank Balance Sheet | 31/12/21 | 01/05/2022 | D | W | M |
| Consolidated Balance Sheet of the Banking System | 31/12/21 | 01/05/2021 | M | M | M |
| Interest Rates ² | 31/03/22 | 01/05/2022 | M | M | M |
| Consumer Price Index | 31/03/22 | 01/05/2022 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴ | 31/12/21 | 05/20/2022 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government | 31/12/21 | 05/20/2022 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt ⁵ | 31/12/21 | 01/05/2022 | M | M | M |
| External Current Account Balance | 31/12/21 | 01/05/2022 | Q | Q | Q |
| Exports and Imports of Goods and Services | 31/12/21 | 01/05/2022 | Q | Q | Q |
| GDP/GNP | 31/12/21 | 01/05/2022 | Q | Q | Q |
| Gross External Debt | 31/12/21 | 01/05/2022 | Q | Q | Q |
| International Investment Position ⁶ | 31/12/21 | 01/05/2022 | Q | Q | Q |

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

**Statement by Mr. Huh, Executive Director for Seychelles and
Mr. Yoo, Advisor to Executive Director
June 29, 2022**

On behalf of our Seychellois authorities, we thank Executive Directors, Management, and staff for their continued support of Seychelles. We also thank staff for the constructive and candid policy dialogue during their on-ground mission in Victoria, Seychelles and for their well-written report. The Seychellois authorities have made strong, impressive progress in implementing the EFF-supported program and restoring macroeconomic stability. Nevertheless, they gravely note the huge uncertainty surrounding the global economy and the impact of external shocks on Seychelles' economy. They remain committed to prudent macroeconomic policies, strengthening policy frameworks, enhancing the resilience of the economy, and maintaining debt sustainability.

Economic developments, outlook, and risks

Economic recovery in 2021 turned out to be stronger than anticipated at the time of the first review of the program mainly thanks to higher-than-expected tourist arrivals. The real GDP for 2021 increased by 7.9 percent, compared with 6.1 percent forecasted in November 2021. The strong recovery is expected to continue in 2022 driven by further improvement in tourism as well as a pick-up in construction activity. Tourist arrivals during the first four months of 2022 were strong at around 80 percent of those in 2019, an all-time high, and tourism earnings in March 2022 surpassed the 2019 level. Real GDP growth for 2022 is forecasted to reach 7.1 percent, which is roughly the same as what was expected in November 2021 (7.2 percent). This is a remarkable performance when considering that the global growth projection for 2022 was revised down from 4.9 percent in the 2021 October World Economic Outlook (WEO) to 3.5 percent in the 2022 April WEO by 1.4 percentage points.

Likewise, fiscal performance in 2021 was significantly better than projected at the time of the first review. The primary balance deficit (3.0 percent of GDP) outperformed its target for the first review (6.6 percent)—that had already been lower than the original target of 9.1 percent agreed on at the time of program negotiation—by a wide margin. Strengthened revenue collection efforts, robust economic recovery, as well as lower current and capital spending gave rise to this fiscal outperformance, which contributed to partially offset the shortfall in bilateral budget support loans.

Inflationary pressures remained elevated during the first quarter of 2022, despite the downward trajectory partly due to the lagged impact of the currency appreciation last year. In May 2022 the year-on-year inflation rate was 2.1 percent, but the annualized monthly inflation registered at 5.2 percent. In view of the rising commodity and food prices globally, annual inflation is expected to rise to around 6 percent at the end of the year.

The current account balances showed signs of modest improvement with an estimated deficit of about 20 percent of GDP in 2021 compared to about 22 percent in 2020. However, a surge in international fuel and commodity prices is expected to weigh on the external balances this year, with the deficit projected to widen somewhat to 22 percent. Following the significant appreciation of the rupee in 2021, the exchange rate has been stable.

The public debt situation significantly improved, and cost of domestic financing was reduced dramatically thanks to the successful implementation of the liability management operation (LMO) and prudent fiscal consolidation efforts. The public debt level relative to GDP fell from 89.5 percent in 2020 to 76.8 percent in 2021 and is expected to further decline to 75.2 percent in 2022. Now, Seychelles' public debt is assessed to be sustainable, albeit with risks, which has improved from the previous assessment, "sustainable, albeit with *significant* risks."

While the Seychellois authorities welcome the positive economic development and outlook, they noted with concern that the outlook is subject to large risks, including spillovers from the war in Ukraine, the impact of rising commodity and food prices, and pandemic-related travel restrictions and disruptions.

Fiscal policy and public finance management

The keystone of the EFF program remains to attain sustainable fiscal surpluses over the medium term to maintain public debt sustainability. Ambitious fiscal consolidation, together with exchange rate appreciation in 2021 and robust GDP growth, contributed to a big reduction in the public debt to GDP ratio. The primary deficit target in 2022 has been revised up modestly to 1.4 percent of GDP compared to the forecast at the first review partly due to the need to provide targeted, temporary transfers to the most vulnerable households to mitigate the adverse impact of a surge in energy and food prices. Given Seychelles' vulnerabilities to external shocks, the Government remains committed to returning to its pre-COVID level, around 50 percent by 2026.

The authorities have upgraded public expenditure management and improved the efficiency of public spending. They are taking steps to strengthen a medium-term fiscal framework including the integration of a planning and financing process. A new agency, Seychelles Infrastructure Agency, was created in January 2022 to improve the planning and execution of capital projects across the Government. A Public Investment Management Assessment (PIMA – climate change) is planned to be conducted later in 2022.

On the revenue side, the authorities have sought to widen their tax base with revisions of the exemptions under value added taxes, rationalize business tax, limit deductibility provisions, and uniformize tax rates among sectors. Also, reforms to improve customs tax collection by moving to online services and reducing paper transactions and costs are underway.

The Government has taken various actions to strengthen the management of state-owned enterprises (SOEs). The Public Enterprise Monitoring Commission (PEMC) has become the only authority to oversee SOEs and will conduct governance audit and operational assessment of key SOEs through an independent audit firm. On Air Seychelles, fiscal risks have been reduced with the restructuring of its debt. In early October 2021, the government appointed two administrators as per the requirement of the Insolvency Act. The administrators restructured Air Seychelles and settled its debts with no fiscal cost to the Government and without disrupting ground handling operation. In May 2022, an agreement was reached with the bondholders for 66.7 percent haircut on the company's debts. By doing so, Air Seychelles has been placed on a more sustainable financial footing and allowed for the subsequent operational restructuring, including ring-fencing of ground handling operation.

The Government continues to improve public debt management following the successful LMO implementation. It started to publish the quarterly issuance calendar for bonds and is developing a secondary market for government securities in consultation with CBS and other relevant stakeholders.

Monetary and financial sector policies.

Monetary policy has been accommodative with the aim to help the economy surmount challenges brought by the pandemic. That said, the Central Bank of Seychelles (CBS) remains vigilant to monitoring inflation dynamics and stands ready to act if inflationary pressures persist. **CBS is committed to a flexible** exchange rate regime and intervenes only to limit disorderly market conditions and to build external buffers. CBS has made continuing efforts to improve its monetary policy operating framework with several IMF Technical Assistancess.

CBS remains committed to ensuring a stable and well-capitalized banking system by effectively monitoring and supervising the health of the financial system. CBS has started unwinding the COVID-19 related support such as the private sector relief schemes for enterprises and forbearance measures. CBS is cognizant of potential risks from growing nonperforming loans and thus will undertake a bank-level assessment of the asset quality, including the impact of unwinding forbearance measures. To strengthen the legal basis of its financial stability mandate, CBS submitted the policy paper on the Financial Stability Act to the cabinet for approval in May 2022. CBS continues to pursue its modernization agenda pertaining to the National Payment System with the aim to develop efficient, convenient, affordable, and innovative payment facilities.

Structural reforms, economic transformation, and governance

The authorities seek to ensure sustainable and inclusive medium-term growth and thus undertake reforms to diversify the economy, deepen economic linkages among sectors and promote digitalization. Continued efforts have been made to diversify the tourism market geographically and to offer a wide range of services while enhancing local value chains with tourism at the center. Priority is given to improving the business environment and developing a national entrepreneurship framework. In this respect, the authorities push forward hard with the digital economy agenda. It includes improving relevant digital infrastructure, digitizing government services, including launching the digital ID system, introducing digital payment systems, and enhancing digital skills and literacy.

The authorities remain committed to accelerating the drive for energy transition with a long-term goal to achieve a decarbonized economy by 2050. Key implementation targets focus on modernizing the entire electricity sector and boosting electricity generation from renewables. The Government is now undertaking the review of energy policy with the help of the World Bank. Seychelles remains vulnerable to climate risk such as severe erosion, waves crashing on coastal roads, and inundations during rainy seasons. The authorities have expressed great interest in tapping a Resilience and Sustainability Trust, once it is ready.

The authorities continue to show progress in improving governance and transparency. After the centralized database of beneficial ownership (BO) became operational in July 2021, 90 percent of legal persons and legal arrangements in the international financial services sector submitted information to the BO database as of April 2022. The authorities remain committed to validate the accuracy of the BO database, including by submitting a periodic strategic analysis report to the National AML/CFT Committee.